

INNSUITES HOSPITALITY TRUST
Form 10-Q
December 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED October 31, 2011

Commission File Number 1-7062

INNSUITES HOSPITALITY TRUST
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-6647590
(I.R.S. Employer Identification Number)

InnSuites Hotels Centre
1625 E. Northern Avenue, Suite 105
Phoenix, AZ 85020
(Address of principal executive offices)

Registrant's telephone number, including area code: (602) 944-1500

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of outstanding Shares of Beneficial Interest, without par value, as of November 30, 2011: 8,469,626

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	October 31, 2011 (UNAUDITED)	JANUARY 31, 2011 (AUDITED)
Current Assets:		
Cash and Cash Equivalents (\$164,237 and \$10,107 of variable interest entity (VIE), Note 8)	\$ 674,476	\$ 494,844
Restricted Cash	84,695	137,174
Accounts Receivable, including \$563,112 and \$290,232 from related parties and net of Allowance for Doubtful Accounts of \$11,971 and \$41,000, as of October 31, and January 31, 2011, respectively (\$30,114 and \$19,179 of VIE)	700,224	661,024
Prepaid Expenses and Other Current Assets (\$42,062 and \$45,173 of VIE)	215,138	443,043
Total Current Assets	1,674,533	1,736,085
Hotel Properties, net (\$1,437,940 and \$1,458,838 of VIE)	25,234,791	25,917,263
Property, Plant and Equipment, net	133,800	139,887
Deferred Finance Costs and Other Assets (\$16,265 and \$17,485 of VIE)	130,165	141,863
TOTAL ASSETS	\$ 27,173,289	\$ 27,935,098
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses (\$155,645 and \$101,345 of VIE)	\$ 1,554,227	\$ 2,093,228
Notes Payable to Banks	8	—
Current Portion of Mortgage Notes Payable	8,097,658	8,214,759
Current Portion of Other Notes Payable	159,453	172,939
Total Current Liabilities	9,811,346	10,480,926
Mortgage Notes Payable	13,342,104	13,865,957
Other Notes Payable	376,198	307,614
TOTAL LIABILITIES	23,529,648	24,654,497
Commitments and Contingencies (See Note 10)		
SHAREHOLDERS' EQUITY		
	15,405,126	15,412,926

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Shares of Beneficial Interest, without par value; unlimited authorization; 8,483,672 and 8,546,783 shares issued and outstanding at October 31, and January 31, 2011, respectively		
Treasury Stock, 8,303,074 and 8,239,963 shares held at October 31, and January 31, 2011, respectively	(11,607,646)	(11,456,375)
TOTAL TRUST SHAREHOLDERS' EQUITY	3,797,480	3,956,551
NON-CONTROLLING INTEREST	(153,839)	(675,950)
TOTAL EQUITY	3,643,641	3,280,601
TOTAL LIABILITIES AND EQUITY	\$ 27,173,289	\$ 27,935,098

See accompanying notes to unaudited consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED

October 31,

2011

2010

REVENUE			
Room	\$	10,070,389	\$ 8,953,276
Food and Beverage		620,052	601,953
Telecommunications		1,882	13,183
Other		166,504	156,199
Management and Trademark Fees, including \$166,052 and \$179,738 from related parties for the nine months ended October 31, 2011 and 2010, respectively		173,733	184,411
Payroll Reimbursements, Related Party		1,647,584	1,844,845
TOTAL REVENUE		12,680,144	11,753,867
OPERATING EXPENSES			
Room		2,666,947	2,474,675
Food and Beverage		623,699	581,977
Telecommunications		34,466	48,006
General and Administrative		2,243,828	2,177,047
Sales and Marketing		810,870	878,471
Repairs and Maintenance		1,102,434	884,216
Hospitality		577,364	536,457
Utilities		933,011	892,948
Hotel Property Depreciation		1,308,764	1,400,263
Real Estate and Personal Property Taxes, Insurance and Ground Rent		676,070	693,116
Other		10,404	11,990
Payroll Expenses, Related Party		1,647,584	1,844,845
TOTAL OPERATING EXPENSES		12,635,441	12,424,011
OPERATING INCOME (LOSS)		44,703	(670,144)
Interest Income		1,704	1,289
TOTAL OTHER INCOME		1,704	1,289
Interest on Mortgage Notes Payable		1,131,051	1,161,497
Interest on Other Notes Payable		25,941	31,068
TOTAL INTEREST EXPENSE		1,156,992	1,192,565
CONSOLIDATED NET LOSS		(1,110,585)	(1,861,420)
LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		(276,391)	(498,390)
NET LOSS ATTRIBUTABLE TO CONTROLLING INTERESTS	\$	(834,194)	\$ (1,363,030)
NET LOSS PER SHARE – BASIC AND DILUTED	\$	(0.10)	\$ (0.16)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		8,534,627	8,585,841

See accompanying notes to unaudited
consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED

October 31,

2011

2010

REVENUE			
	2011	2010	
Room	\$ 2,856,005	\$ 2,650,583	
Food and Beverage	149,498	124,331	
Telecommunications	55	2,277	
Other	50,960	39,812	
Management and Trademark Fees, including \$50,231 and \$45,551 from related parties for the nine months ended October 31, 2011 and 2010, respectively	57,901	46,923	
Payroll Reimbursements, Related Party	531,503	470,719	
TOTAL REVENUE	3,645,922	3,334,645	
OPERATING EXPENSES			
Room	834,253	793,434	
Food and Beverage	168,142	173,704	
Telecommunications	10,567	9,688	
General and Administrative	637,003	664,492	
Sales and Marketing	261,074	293,422	
Repairs and Maintenance	313,079	259,166	
Hospitality	161,521	165,507	
Utilities	327,099	318,678	
Hotel Property Depreciation	422,214	465,025	
Real Estate and Personal Property Taxes, Insurance and Ground Rent	268,988	213,028	
Other	2,838	1,168	
Payroll Expenses, Related Party	531,503	470,719	
TOTAL OPERATING EXPENSES	3,938,281	3,828,031	
OPERATING LOSS	(292,359)	(493,386)	
Interest Income	1,144	56	
TOTAL OTHER INCOME	1,144	56	
Interest on Mortgage Notes Payable	375,423	390,966	
Interest on Other Notes Payable	10,115	9,639	
TOTAL INTEREST EXPENSE	385,538	400,605	
CONSOLIDATED NET LOSS	(676,753)	(893,935)	
LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(151,439)	(219,113)	
NET LOSS ATTRIBUTABLE TO CONTROLLING INTERESTS	\$ (525,314)	\$ (674,822)	
NET LOSS PER SHARE – BASIC AND DILUTED	\$ (0.06)	\$ (0.08)	
	8,499,442	8,573,949	

WEIGHTED AVERAGE NUMBER OF SHARES
OUTSTANDING - BASIC AND DILUTED

See accompanying notes to unaudited
consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE NINE MONTHS ENDED OCTOBER 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated Net Loss	\$ (1,110,585)	\$ (1,861,420)
Adjustments to Reconcile Consolidated Net Income to Net Cash Provided By (Used In) Operating Activities:		
Provision for Uncollectible Receivables	(29,027)	(12,361)
Stock-Based Compensation	38,880	36,450
Hotel Property Depreciation	1,308,764	1,400,263
Loss on Disposal of Hotel Properties	—	675
Amortization of Deferred Loan Fees	11,698	32,585
Changes in Assets and Liabilities:		
Accounts Receivable	(10,173)	157,774
Prepaid Expenses and Other Assets	227,905	142,704
Accounts Payable and Accrued Expenses	(539,001)	(415,047)
NET CASH USED IN OPERATING ACTIVITIES	(101,539)	(518,377)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Restricted Cash	52,479	14,523
Improvements and Additions to Hotel Properties	(620,205)	(714,335)
NET CASH USED IN INVESTING ACTIVITIES	(567,726)	(699,812)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Deferred Loan Fees	—	(28,948)
Principal Payments on Mortgage Notes Payable	(640,954)	(615,874)
Net Proceeds from Refinancings of Mortgage Notes Payable	—	1,000,000
Payments on Notes Payable to Banks	—	(483,930)
Borrowings on Notes Payable to Banks	8	373,793
Repurchase of Treasury Stock	(115,181)	(63,127)
Proceeds from Sale of Non-Controlling Ownership Interests in Subsidiaries	1,921,824	840,000
Distributions to Non-Controlling Interest	(175,357)	—
Payments on Other Notes Payable	(141,443)	(122,897)
NET CASH PROVIDED BY FINANCING ACTIVITIES	848,897	899,017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	179,632	(319,172)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	494,844	406,385
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 674,476	\$ 87,213

See Supplemental Disclosures at Note 9.

See accompanying notes to unaudited
consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
AS OF OCTOBER 31 AND JANUARY 31, 2011
AND FOR THE THREE AND NINE MONTH PERIODS ENDED OCTOBER 31, 2011 AND 2010

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

InnSuites Hospitality Trust (the “Trust”) is an unincorporated real estate investment trust in the State of Ohio that at October 31, 2011 owned three hotels through a partnership interest in RRF Limited Partnership (the “Partnership”), one hotel (Albuquerque) through both direct ownership and its interest in the Partnership, and one hotel (Yuma Hospitality LP) wholly and directly (the “Hotels”) with an aggregate of 843 suites in Arizona, southern California and New Mexico. The Trust is the sole general partner in the Partnership. The Hotels are managed by InnSuites Hotels, Inc. (“InnSuites Hotels”), which is a wholly-owned subsidiary of the Trust.

InnSuites Hotels holds management contracts under which it provides hotel management services to the Hotels, as well as three hotels with an aggregate of 439 suites owned by affiliates of James F. Wirth (“Mr. Wirth”), the Trust’s Chairman, President and Chief Executive Officer. Under the management agreements, InnSuites Hotels provides the personnel at the hotels, the expenses of which are reimbursed at cost, and manages the hotels’ daily operations, for which it receives a percentage of revenue from the hotels and an accounting fee. InnSuites Hotels also holds licensing agreements and the “InnSuites” trademarks and provides licensing services to the Hotels, as well as the three hotels owned by affiliates of Mr. Wirth with an aggregate of 439 suites. Under the licensing agreements with affiliates of Mr. Wirth, InnSuites Hotels receives a fixed monthly fee based on the number of units in the hotel properties in exchange for use of the “InnSuites” trademark. Additionally, InnSuites Hotels provides trademark and reservation services to 47 unrelated hotel properties with an aggregate of 4,485 rooms and suites. Under these licensing agreements with unrelated properties, InnSuites Hotels receives variable monthly fees based on the number of reservations processed for the hotel property and, in certain cases, the gross room revenue of the hotel property.

The Trust’s general partnership interest in the Partnership was 71.91% and 71.41% as of October 31 and January 31, 2011, respectively. The weighted average for the nine months ended October 31, 2011 and 2010 was 71.64% and 71.41%, respectively. On February 1, 2011, the Trust acquired a direct interest in the Albuquerque hotel, which was 3.75% as of October 31, 2011. The weighted average for the nine months ended October 31, 2011 was 3.79%. The Partnership’s interest in the Albuquerque hotel was 28.50% and 33.32% as of October 31 and January 31, 2011, respectively. In fiscal year 2012, Tucson Hospitality Properties, LLP (Foothills) received subscriptions from external investors and retired a portion of the Partnership’s interest. Thus, the Partnership’s interest in the Tucson Foothills hotel was 65.77% and 100% as of October 31, 2011 and January 31, 2011, respectively. The weighted average for the nine months ended October 31, 2011 was 84.60%. The Ontario and Tucson St. Mary’s hotels are wholly-owned by the Partnership.

PARTNERSHIP AGREEMENT

The Partnership Agreement of the Partnership (the “Partnership Agreement”) provides for the issuance of two classes of limited partnership units, Class A and Class B. Such classes are identical in all respects, except that each Class A limited partnership unit is convertible into a like number of Shares of Beneficial Interest of the Trust at any time at the option of the limited partner. A total of 303,568 and 369,391 Class A limited partnership units were issued and

outstanding as of October 31 and January 31, 2011, respectively. Additionally, as of October 31 and January 31, 2011, a total of 3,407,938 Class B limited partnership units were held by Mr. Wirth and his affiliates, in lieu of the issuance of Class A limited partnership units. Each Class B limited partnership unit is identical to Class A limited partnership units in all respects, except that Class B limited partnership units are convertible only with the approval of the Board of Trustees of the Trust, in its sole discretion. If all of the Class A and B limited partnership units were converted, the limited partners in the Partnership would receive 3,711,506 Shares of Beneficial Interest of the Trust as of October 31, 2011. The Trust held 9,500,011 and 9,434,188 General Partner Units as of October 31 and January 31, 2011, respectively.

BASIS OF PRESENTATION

The financial statements of the Partnership, InnSuites Hotels and Yuma Hospitality LP are consolidated with the Trust, and all significant intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended October 31, 2011 are not necessarily indicative of the results that may be expected for the year ended January 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Trust's Annual Report on Form 10-K as of and for the year ended January 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies that the Trust believes are most critical and involve the most subjective judgments include estimates and assumptions of future revenue and expenditures used to project cash flows. Future cash flows are used to determine the recoverability (or impairment) of the carrying values of the Trust's assets in the event management is required to test an asset for recoverability of carrying value under FASB authoritative guidance related to the impairment or disposal of long-lived assets. For hotel properties held for use, if the carrying value of an asset exceeds the estimated future undiscounted cash flows over its estimated remaining life, the Trust recognizes an impairment expense to reduce the asset's carrying value to its fair value. Fair value is determined by either the most current third-party property appraisal, if available, or the present value of future undiscounted cash flows over the remaining life of the asset. In cases where the Trust does not expect to recover the carrying cost of hotel properties held for sale, it will reduce the carrying value to the estimated sales price less costs to sell. The Trust's evaluation of future cash flows is based on historical experience and other factors, including certain economic conditions and committed future bookings. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows.

LIQUIDITY

The Trust's principal source of cash to meet its cash requirements, including distributions to its shareholders, is the Trust's share of the Partnership's cash flow and its direct ownership of the Yuma, Arizona property. The Partnership's principal source of revenue is hotel operations for the four hotel properties in which it owns interests. The Trust's liquidity, including its ability to make distributions to its shareholders, will depend upon the Trust's ability and the Partnership's ability to generate sufficient cash flow from hotel operations.

Hotel operations are significantly affected by occupancy and room rates. Occupancy increased from the first nine months of fiscal year 2011 to the first nine months of fiscal year 2012, while rates decreased. Results are also significantly impacted by overall economic conditions and conditions in the travel industry. Unfavorable changes in these factors could negatively impact hotel room demand and pricing, which would reduce the Trust's profit margins on rented suites.

The Trust has principal of \$7.6 million due and payable for the remainder of fiscal year 2012 under mortgage notes payable, including the amount due upon the Ontario mortgage's maturity. For the period between November 1, 2011 and October 31, 2012, the Trust has principal of \$8.1 million due and payable under mortgage notes payable.

The non-recourse mortgage note payable relating to our Ontario, California property, which is secured by the property and the rents, revenues and profits from the property, matured on May 11, 2011, at which time a final principal payment of approximately \$7.5 million was due. The lender under the note currently has the option to declare the note due and payable in full. We have been in discussion with the lender over the last six to nine months regarding the modification, restructure and/or extension of this single asset non-recourse hotel loan. We did not make the October or November 2011 payments on the monthly principal and interest since we are awaiting a response from the lender. The note includes default interest of five percent above the interest rate in effect under the note. For the three

months ended October 31, 2011, accrued late fees were \$14,228. To date, the lender in our negotiations has not required us to pay any additional default interest or penalties. In the event we are unable to reach an agreement with the lender, we will explore alternative solutions including, but not limited to, alternative sources of financing.

We anticipate that current cash balances, future cash flows from operations, proceeds from sales of non-controlling interests in the Tucson Foothills subsidiary, and available credit will be sufficient to satisfy our obligations as they become due, assuming the extension or refinancing of the Ontario mortgage note. In the event cash flows from operations are insufficient to satisfy these obligations as they become due, we may seek to refinance properties, negotiate additional credit facilities or issue debt instruments.

In past years, the Trust has relied on cash flows from operations to meet its financial obligations as they come due. However, for the remainder of fiscal year 2012 (November 1, 2011 through January 31, 2012), the Trust's management has projected that cash flows from operations alone may not be sufficient to meet all of its financial obligations as they come due. Based on this projection, the Trust extended its \$500,000 bank line of credit to May 2012 and continues selling non-controlling ownership interests in its Tucson Foothills subsidiary, providing enough available liquidity for management to believe that the Trust will meet all of its financial obligations as they come due during fiscal year 2012, assuming the extension or refinancing of the Ontario mortgage note. See Note 5 – "Note Payable to Bank".

REVENUE RECOGNITION

Room, food and beverage, telecommunications, management and licensing fees and other revenue are recognized as earned as services are provided and items are sold. Payroll reimbursements are recorded as the Trust provides its personnel to the hotels under management and are not netted with the corresponding payroll expense.

INCOME PER SHARE

Basic and diluted loss per share have been computed based on the weighted-average number of Shares of Beneficial Interest outstanding during the periods and potentially dilutive securities.

For the three- and nine-month periods ended October 31, 2011 and 2010, there were Class A and Class B limited partnership units outstanding, which are convertible to Shares of Beneficial Interest of the Trust. Assuming conversion, the aggregate weighted-average incremental increase of the Shares of Beneficial Interest would have been 3,711,506 and 3,777,329 for the third quarter of fiscal year 2012 and 2011, respectively. The aggregate weighted-average incremental increase of the Shares of Beneficial Interest would have been 3,746,830 and 3,777,329 for the first nine months of fiscal year 2012 and 2011, respectively. For the periods ended October 31, 2010 and 2011, the Class A and Class B limited partnership units were antidilutive. Therefore, a reconciliation of basic and diluted loss per share is not included.

3. STOCK-BASED COMPENSATION

For the nine months ended October 31, 2011, the Trust recognized expenses of \$38,880 related to stock-based compensation. During the nine months ended October 31, 2010, the Trust recognized expenses of \$36,450. The Trust issued 36,000 restricted shares with a total market value of \$51,840 in January 2011 as compensation to its three outside Trustees for fiscal year 2012.

The following table summarizes restricted share activity during the nine months ended October 31, 2011:

	Shares	Restricted Shares Weighted-Average Per Share Grant Date Fair Value
Balance at January 31, 2011	—	—
Granted	36,000	\$1.44
Vested	(27,000)	\$1.44
Forfeited	—	—
Balance of unvested awards at October 31, 2011	9,000	\$1.44

No cash was paid out or received by the Trust relating to restricted share awards during the nine months ended October 31, 2011 or 2010.

4. RELATED PARTY TRANSACTIONS

As of October 31, 2011 and 2010, Mr. Wirth and his affiliates held 3,407,938 Class B limited partnership units in the Partnership. As of October 31, 2011 and 2010, Mr. Wirth and his affiliates held 5,573,624 Shares of Beneficial Interest of the Trust.

The Trust recognized related party payroll reimbursement revenue and related payroll expense to Mr. Wirth and his affiliates in the amounts of \$1.6 million and \$1.8 million for the nine months ended October 31, 2011 and 2010, respectively. The Trust recognized related party payroll reimbursement revenue and related payroll expense to Mr. Wirth and his affiliates in the amounts of \$531,500 and \$471,000 for the three months ended October 31, 2011 and 2010, respectively.

See Note 6 – “Sale of Membership Interests in Albuquerque Suite Hospitality, LLC” and Note 7 – “Sale of Partnership Interests in Tucson Hospitality Properties, LP” for additional information on related party transactions.

5. NOTE PAYABLE TO BANK

On November 23, 2010, the Trust established a revolving bank line of credit, with a credit limit of \$500,000. The line of credit bears interest at the prime rate plus 1.0% per annum with a 6.0% rate floor and has no financial covenants. The line was scheduled to mature on May 23, 2011 but was extended to May 23, 2012 subsequent to the end of the first quarter. The line is secured by a junior security interest in the Yuma, Arizona property and by the Trust’s trade receivables. Mr. Wirth is a guarantor on the line of credit. There were \$8 drawn from the line of credit as of October 31, 2011, and no funds were drawn under the line of credit as of January 31, 2011.

6. SALE OF MEMBERSHIP INTERESTS IN ALBUQUERQUE SUITE HOSPITALITY, LLC

On July 22, 2010, the Board of Trustees unanimously approved, with Mr. Wirth abstaining, for the Partnership to enter into an agreement with Rare Earth Financial, LLC (“Rare Earth”), an affiliate of Mr. Wirth, to sell additional units in Albuquerque Suite Hospitality, LLC, the Trust’s subsidiary (the “Albuquerque entity”), which owns and operates the Albuquerque, New Mexico hotel property. Under the agreement, Rare Earth agreed to either purchase or bring in other investors to purchase at least 51% of the membership interests in the Albuquerque entity and the parties agreed to restructure the operating agreement of the Albuquerque entity. A total of 400 units were available for sale for \$10,000 per unit, with a two-unit minimum subscription. On October 29, 2010, the parties revised the operating agreement.

Under the new operating agreement, Rare Earth became the administrative member of the Albuquerque entity, in charge of the day-to-day management of the company. Additionally, the membership interests in the Albuquerque entity were allocated to three classes with differing cumulative priority distribution rights. Class A units are owned by unrelated third parties and have first priority for distributions, Class B units are owned by the Trust and/or the Partnership and have second priority for distributions, and Class C units are owned by Rare Earth or other affiliates of Mr. Wirth and have the lowest priority for distributions from the Albuquerque entity. Priority distributions are cumulative for five years. Rare Earth also earned a formation fee equal to \$320,000, payable in either cash or units in the Albuquerque entity, which was intended for 32 Class C units in the Albuquerque entity after the sale of at least 160 units. If certain triggering events related the Albuquerque entity occur prior to the payment of all accumulated distributions to its members, such accumulated distributions will be paid out of any proceeds of the event before general distribution to the members. In the event that the proceeds generated from a triggering event are insufficient to pay the total amount of all such accumulated distributions owed to the members, all Class A members will participate pro rata in the funds available for distribution to them until paid in full, then Class B, then Class C. After all investors have received their initial capital plus a 7% per annum simple return, any additional profits will be allocated 50% to Rare Earth, with the remaining 50% allocated proportionately to all unit classes. Priority distributions to all Classes for the remainder of fiscal year 2012 are \$70,000 and are \$280,000 each year for fiscal years 2013 through 2016. The Albuquerque entity is required to use its best efforts to pay the cumulative priority distributions. The Trust does not guarantee or is not otherwise obligated to pay the priority distributions. InnSuites Hotels will continue to provide management, licensing and reservation services to the property.

During the nine months ended October 31, 2011, the Partnership sold approximately 22 units of membership interest to unrelated third parties (for a total 199 units of membership interest held by unrelated third parties). The Trust holds 15 units. The transactions were a reduction in the Partnership’s controlling interest (see Note 8 – “Variable Interest Entity”); therefore, no gain or loss was reflected in the statements of operations and funds received in excess of cost basis were recorded to equity. As of October 31, 2011, the Partnership holds a 28.50% ownership interest in the Albuquerque entity, the Trust holds a 3.75% interest, Mr. Wirth and his affiliates hold an 18.00% interest, and other parties hold a 49.75% interest.

7. SALE OF PARTNERSHIP INTERESTS IN TUCSON HOSPITALITY PROPERTIES, LP

On February 17, 2011, the Trust and Partnership entered into a restructuring agreement with Rare Earth to allow for the sale of minority interest units in Tucson Hospitality Properties, LP (the “Tucson entity”), which operates the Tucson Foothills hotel property and was then wholly-owned by the Partnership. Under the agreement, Rare Earth agreed to purchase or bring in other investors to purchase up to 250 units, which represents approximately 41% of the outstanding partnership units in the Tucson entity, on a post transaction basis, and the parties agreed to restructure the limited partnership agreement of the Tucson entity.

Under the restructured limited partnership agreement, Rare Earth became a general partner of the Tucson entity along with the Partnership. The partnership interests in the Tucson entity were allocated to three classes with differing cumulative priority distribution rights. Class A units are owned by unrelated third parties and have first priority for distributions, Class B units are owned by the Trust and/or the Partnership and have second priority for distributions, and Class C units are owned by Rare Earth or other affiliates of Mr. Wirth and have the lowest priority for distributions from the Tucson entity. Priority distributions are cumulative for five years. Rare Earth also received a formation fee of \$320,000, conditioned upon and arising from the sale of the first 160 units in the Tucson entity. Sales are ongoing in the fiscal fourth quarter. If certain triggering events related to the Tucson entity occur prior to the payment of all accumulated distributions to its members, such accumulated distributions will be paid out of any proceeds of the event before general distribution of the proceeds to the members. In the event that funds generated from a triggering event are insufficient to pay the total amount of all such accumulated distributions owed to the members, all Class A members will participate pro rata in the funds available for distribution to them until paid in full, then Class B, then Class C. After all investors have received their initial capital plus a 7% per annum simple return, any additional profits will be allocated 50% to Rare Earth, with the remaining 50% allocated proportionately to all unit classes. Priority distributions to all Classes for the remainder of fiscal year 2012 are projected to be \$107,100 and \$428,400 each year for fiscal years 2013 through 2017. The Tucson entity is required to use its best efforts to pay the priority distributions. The Trust does not guarantee or is not otherwise obligated to pay the cumulative priority distributions. InnSuites Hotels will continue to provide management, licensing and reservation services to the property.

During the nine months ended October 31, 2011, the Partnership sold approximately one third of its membership interests to unrelated third parties. The transactions were a reduction in the Partnership's controlling interest; therefore, no gain or loss was reflected in the statements of operations and funds received in excess of cost basis were recorded to equity. As of October 31, 2011, the Partnership holds a 65.77% ownership interest in the Tucson Foothills entity, Mr. Wirth and his affiliates hold a 0.65% interest, and other parties hold a 33.42% interest.

8. VARIABLE INTEREST ENTITY

Management evaluates the Trust's explicit and implicit variable interests to determine if they have any variable interests in VIEs. Variable interests are contractual, ownership, or other pecuniary interests in an entity whose value changes with changes in the fair value of the entity's net assets, exclusive of variable interests. Explicit variable interests are those which directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity, its organizational structure, including decision making ability over the activities that most significantly impact the VIE's economic performance. Generally accepted accounting principles require a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interest, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE.

The Partnership has determined that the Albuquerque entity is a variable interest entity with the Partnership as the primary beneficiary. In its determination, management considered the following qualitative and quantitative factors:

- a) The Partnership, Trust and their related parties, which share common ownership and management, have guaranteed material financial obligations of the Albuquerque entity, including its mortgage note payable and distribution obligations, which, based on the capital structure of the Albuquerque entity, management believes could potentially be significant.
- b) The Partnership, Trust and their related parties have maintained, as a group, a controlling ownership interest in the Albuquerque entity, with the largest ownership belonging to the Partnership.
- c) The Partnership, Trust and their related parties have maintained control over the decisions which most impact the financial performance of the Albuquerque entity, including providing the personnel to operate the property on a daily basis.

During the nine months ended October 31, 2011 and 2010, neither the Trust nor the Partnership has provided any implicit or explicit financial support for which they were not previously contracted.

9. STATEMENTS OF CASH FLOWS, SUPPLEMENTAL DISCLOSURES

The Trust paid \$1,135,038 and \$1,155,651 in cash for interest for the nine months ended October 31, 2011 and 2010, respectively.

During the first quarter of fiscal year 2012, the Trust issued a promissory note for \$15,500 to an unrelated third party for the purchase of 10,000 limited partnership units in the Partnership. The note is due in 36 monthly principal and interest installments of \$479 and matures on April 14, 2014.

During the first quarter of fiscal year 2012, the Trust issued a promissory note for \$43,072 to an unrelated third party for the purchase of 19,578 Shares of Beneficial Interest in the Trust. The note is due in 60 monthly principal and interest installments of \$1,031 and matures in June 2016.

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During the first quarter of fiscal year 2012, the Trust issued a promissory note for \$43,072 to an unrelated third party for the purchase of 19,578 Shares of Beneficial Interest in the Trust. The note is due in 60 monthly principal and interest installments of \$1,031 and matures in June 2016.

During the second quarter of fiscal year 2012, the Trust issued a promissory note for \$94,899 to an unrelated third party for the purchase of 55,823 limited partnership units in the Partnership. The note is due in 60 monthly principal and interest installments of \$1,875 and matures in August 2016.

10. COMMITMENTS AND CONTINGENCIES

Two of the Hotels are subject to non-cancelable ground leases expiring in 2033 and 2050. Total expense associated with the non-cancelable ground leases for the nine months ended October 31, 2011 was \$123,750, plus a variable component based on gross revenues of each property that totaled approximately \$68,600.

During the second quarter of fiscal year 2010, the Trust entered into a five-year office lease for its corporate headquarters. The Trust recorded \$20,993 and \$17,647 of general and administrative expense related to the lease during the nine-month period ended October 31, 2011 and 2010, respectively. The lease includes a base rent charge of \$24,000 for the first lease year with annual increases to a final year base rent of \$39,600. The Trust has the option to cancel the lease after each lease year for penalties of four months rent after the first year with the penalty decreasing by one month's rent each successive lease year. It is the Trust's intention to remain in the office for the duration of the five-year lease period.

Future minimum lease payments under the non-cancelable ground leases and office lease are as follows:

Fiscal Year Ending		
Remainder of 2012	\$	46,640
2013		239,760
2014		247,760
2015		228,160
2016		206,560
Thereafter		5,134,333
Total	\$	6,103,213

The Trust is obligated under loan agreements relating to four of its Hotels to deposit 4% of the individual Hotel's room revenue into an escrow account to be used for capital expenditures. The escrow funds applicable to the four Hotel properties for which a mortgage lender escrow exists are reported on the Trust's Consolidated Balance Sheet as "Restricted Cash."

InnSuites Hotels has entered into franchise arrangements with Best Western International for four of the Hotel properties. These agreements provide for fees to be paid by the Hotels based on revenue and reservations received, and contain no minimum payment provisions.

The nature of the operations of the Hotels exposes them to risks of claims and litigation in the normal course of their business. Although the outcome of these matters cannot be determined, management does not expect that the ultimate resolution of these matters will have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Trust.

The Trust is involved from time to time in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Trust's consolidated financial position, results of operations or liquidity.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q.

We own the sole general partner's interest in the Partnership. Our principal source of cash flows is from the operations of the Hotels and management and licensing contracts with affiliated and third-party hotels.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our Annual Report on Form 10-K for the year ended January 31, 2011, we identified the critical accounting policies that affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We believe that the policies we follow for the valuation of our hotel properties, which constitute the majority of our assets, are our most critical policies. Those policies include methods used to recognize and measure any identified impairment of our hotel properties assets. There have been no material changes to our critical accounting policies since January 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of cash to meet our cash requirements, including distributions to our shareholders, is our share of the Partnership's cash flow, our direct ownership of the Yuma, Arizona property and our management and licensing contracts. The Partnership's principal source of revenue is hotel operations for the four hotel properties in which it owns interests. Our liquidity, including our ability to make distributions to our shareholders, will depend upon our ability and the Partnership's ability to generate sufficient cash flow from hotel operations.

Hotel operations are significantly affected by occupancy and room rates. Occupancy increased from the first nine months of fiscal year 2011 to the nine months of fiscal year 2012, while rates decreased. Results are also significantly impacted by overall economic conditions and conditions in the travel industry. Unfavorable changes in these factors could negatively impact hotel room demand and pricing, which would reduce our profit margins on rented suites.

The Trust has principal of \$7.6 million due and payable for the remainder of fiscal year 2012 under mortgage notes payable, including the amount due upon the Ontario mortgage's maturity. For the period between November 1, 2011 and October 31, 2012, the Trust has principal of \$8.1 million due and payable under mortgage notes payable.

The non-recourse mortgage note payable relating to our Ontario, California property, which is secured by the property and the rents, revenues and profits from the property, matured on May 11, 2011, at which time a final principal payment of approximately \$7.5 million was due. The lender under the note currently has the option to declare the note due and payable in full. We have been in discussion with the lender over the last six to nine months regarding the modification, restructure and/or extension of this single asset non-recourse hotel loan. We did not make the October or November 2011 payments on the monthly principal and interest since we are awaiting a response from the lender. The note includes default interest of five percent above the interest rate in effect under the note. For the three months ended October 31, 2011, accrued late fees were \$14,228. To date, the lender in our negotiations has not required us to pay any additional default interest or penalties. In the event we are unable to reach an agreement with the lender, we will explore alternative solutions including, but not limited to, alternative sources of financing.

In past years, we have relied on cash flows from operations to meet financial obligations as they come due. However, for the remainder of fiscal year 2012 (November 1, 2011 through January 31, 2012), our management has projected that cash flows from operations alone may not be sufficient to meet all of our financial obligations as they come due.

In the event cash flows from operations are insufficient to satisfy these obligations as they become due, we may seek to refinance properties, negotiate additional credit facilities or issue debt instruments.

We anticipate that current cash balances, future cash flows from operations, proceeds from sales of non-controlling interests in the Tucson Foothills subsidiary, and available credit, collectively, will be sufficient to satisfy our obligations as they become due, assuming the extension or refinancing of the Ontario mortgage note.

On November 23, 2010, the Trust established a revolving bank line of credit, with a credit limit of \$500,000. The line of credit bears interest at the prime rate plus 1.0% per annum with a 6.0% rate floor and has no financial covenants. The line matured on May 23, 2011 and was extended to May 23, 2012. The line is secured by a junior security interest in the Yuma, Arizona property and by the Trust's trade receivables. Mr. Wirth is a guarantor on the line of credit. There were \$8 drawn from the line of credit as of October 31, 2011, and no funds were drawn under the line of credit as of January 31, 2011.

We may seek to negotiate additional credit facilities or issue debt instruments. Any debt incurred or issued by us may be secured or unsecured, long-term, medium-term or short-term, bear interest at a fixed or variable rate and be subject to such other terms as we consider prudent.

We continue to contribute to a Capital Expenditures Fund (the "Fund") an amount equal to 4% of the Hotels' room revenues. The Fund is restricted by the mortgage lender for four of our properties. As of October 31, 2011, \$84,695 was held in restricted capital expenditure funds and is included on our Balance Sheet as "Restricted Cash." The Fund is intended to be used for capital improvements to the Hotels and for refurbishment and replacement of furniture, fixtures and equipment, in addition to other uses of amounts in the Fund considered appropriate from time to time. During the nine months ended October 31, 2011, the Hotels spent \$620,205 for capital expenditures. We consider the majority of these improvements to be revenue producing. Therefore, these amounts have been capitalized and are being depreciated over their estimated useful lives. The Hotels also spent \$1.1 million and \$884,000 during the nine-month periods ended October 31, 2011 and 2010, respectively, on repairs and maintenance. These amounts have been charged to expense as incurred.

As of October 31, 2011, we have no commitments for capital expenditures beyond the 4% reserve for refurbishment and replacements set aside annually for each hotel property.

The Tucson and Albuquerque entities are required to use its best efforts to pay the priority distributions referenced in notes 6 and 7. The Trust does not guarantee or is not otherwise obligated to pay the cumulative priority distributions.

COMPLIANCE WITH CONTINUED LISTING STANDARDS OF NYSE AMEX

On September 30, 2010, the Trust received a letter from the NYSE Amex LLC (the "NYSE Amex") informing the Trust that the staff of the NYSE Amex's Corporate Compliance Department has determined that the Trust is not in compliance with Section 1003(a)(ii) of the NYSE Amex Company Guide due to the Trust having stockholders' equity of less than \$4.0 million.

The NYSE Amex's letter informed the Trust that, to maintain its listing, it was required to submit a plan of compliance by November 1, 2010, addressing how it intended to regain compliance with the NYSE Amex's continued listing standards within a maximum of 18 months. The NYSE Amex's letter provided that if the plan submitted by the Trust were accepted by the NYSE Amex, the Trust would likely be able to continue its listing during the 18-month plan period, during which time it would be subject to periodic review to determine whether it was making progress consistent with the Trust's plan.

The Trust submitted its plan on November 1, 2010. The plan includes expected improvement in hotel operating profits as the economy and hospitality industry continue to recover, the sale of membership interests in the Albuquerque entity above carrying value, and the potential sale of membership interests in other hotel properties owned by the Trust and Partnership above carrying value. (The sale of membership units in the Tucson Foothills entity began in April and continues into the fiscal fourth quarter.) The Trust expects to regain compliance within the 18-month plan period.

RESULTS OF OPERATIONS

Our expenses consist primarily of hotel operating expenses, property taxes, insurance, corporate overhead, interest on mortgage debt, professional fees and depreciation of the Hotels. Our operating performance is principally related to the performance of the Hotels. Therefore, management believes that a review of the historical performance of the operations of the Hotels, particularly with respect to occupancy, calculated as rooms sold divided by the number of rooms available, average daily rate (“ADR”), calculated as total room revenue divided by number of rooms sold, and revenue per available room (“REVPAR”), calculated as total room revenue divided by the number of rooms available, is appropriate for understanding revenue from the Hotels. Occupancy was 61.76% for the nine months ended October 31, 2011, an increase of 7.2% from the prior year same period. ADR decreased \$0.57, or 0.80%, to \$70.84. The moderate decrease in ADR and increased occupancy resulted in an increase of \$4.84, or 12.45%, in REVPAR to \$43.75 from \$38.90 in the prior year period. We believe the increase in occupancy is due to the moderately improving trend in our economy, which caused more vacation and business travelers.

The following table shows occupancy, ADR and REVPAR for the periods indicated:

	FOR THE NINE MONTHS ENDED	
	October 31,	
	2011	2010
OCCUPANCY	61.76%	54.48%
AVERAGE DAILY RATE (ADR)	\$ 70.84	\$ 71.41
REVENUE PER AVAILABLE ROOM (REVPAR)	\$ 43.75	\$ 38.90

No assurance can be given that the trends reflected in this data will be maintained or improve or that occupancy, ADR or REVPAR will not decrease as a result of changes in national or local economic or hospitality industry conditions. We expect the improving economic conditions to positively affect our business levels for the remainder of this current fiscal year.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED OCTOBER 31, 2011 COMPARED TO THE NINE MONTHS ENDED OCTOBER 31, 2010

A summary of the operating results for the nine months ended October 31, 2011 and 2010 is:

	2011	2010	Change	% Change
Revenue	\$ 12,680,144	\$ 11,753,867	\$ 926,277	7.9%
Operating Income (Loss)	\$ 44,703	\$ (670,144)	\$ 714,848	>100.0%
Total Expenses	\$ 13,792,433	\$ 13,616,576	\$ 175,857	1.3%
Net Loss Attributable to				
Controlling Interest	\$ (834,194)	\$ (1,363,030)	\$ 528,836	38.8%
Net Loss Per Share – Basic	\$ (0.10)	\$ (0.16)	\$ 0.06	37.5%

For the nine months ended October 31, 2011, our total revenue was \$12.7 million, an increase of \$926,000, or 7.9%, compared with the prior year period total of \$11.8 million. Revenues from hotel operations, which include Room, Food and Beverage, Telecommunications and Other revenues, increased 11.7% to \$10.9 million for the nine months ended October 31, 2011, from \$9.7 million for the nine months ended October 31, 2010. Hotel room revenue increased 12.5% while Food and Beverage operations experienced an increase of 3.0%, primarily due to higher occupancy as a result of what we believe are improving economic conditions.

Total expenses were \$13.8 million for the nine months ended October 31, 2011, an increase of \$176,000, or 1.3%, from the prior year period total of \$13.6 million. Total operating expenses of \$12.6 million for the nine months ended October 31, 2011, an increase of \$211,000, or 1.7%, from the prior year period total of \$12.4 million. The majority of the hotel operating expenses increased due to higher occupancy.

General and administrative expense increased \$67,000, or 3.1%, to \$2.24 million for the nine months ended October 31, 2011 from \$2.18 million for the prior year period. The increase was primarily due to increased occupancy.

Repairs and maintenance expense was \$1.1 million for the nine months ended October 31, 2011, an increase of \$218,000, or 24.7%, over the prior year period total of \$884,000. The increase was primarily due to higher maintenance labor and operating expenses at the Yuma and Tucson St. Mary's, Arizona locations due to significant maintenance projects at the property.

Total interest expense was \$1.2 million for the nine months ended October 31, 2011 and was consistent with the prior year period.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2011 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2010

A summary of the operating results for the three months ended October 31, 2011 and 2010 is:

	2011	2010	Change	% Change
Revenue	\$ 3,645,922	\$ 3,334,645	\$ 311,277	9.3%
Operating Loss	\$ (292,359)	\$ (493,386)	\$ 201,027	40.7%
Total Expenses	\$ 4,323,818	\$ 4,228,636	\$ 95,182	2.3%
	\$ (525,314)			

Net Loss Attributable to Controlling
Interest