INNSUITES HOSPITALITY TRUST
Form 10-K/A
May 12, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2006.

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File No. 1-7062

InnSuites Hospitality Trust
(Exact Name of Registrant as Specified in Its Charter)

Ohio	**34-6647590**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
InnSuites Hotels Centre, 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona	**85020**
(Address of Principal Executive Offices)	(ZIP Code)

Registrant's Telephone Number, including area code: **(602) 944-1500**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Shares of Beneficial Interest, without par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Aggregate market value of voting stock held by non-affiliates of the registrant as of July 31, 2005: $3,929,092.

Number of shares of voting stock outstanding as of April 21, 2006: 9,271,114.

EXPLANATORY NOTE

InnSuites Hospitality Trust (the “Registrant”) is filing this Amendment No. 1 on Form 10-K/A to amend our Annual Report on Form 10-K for the year ended January 31, 2006, filed with the Securities and Exchange Commission on May 1, 2006. This amendment is being filed (a) to update the Report of Independent Registered Public Accounting Firm issued by our former accountant, McGladrey & Pullen, LLP, in order to remove the reference therein to the Trust’s consolidated balance sheet as of January 31, 2004, which is not included in our Form 10-K, (b) to delete the Report of Independent Registered Public Accounting Firm relating to the financial statement schedules issued by our former accountant, McGladrey & Pullen, LLP, and (c) to reclassify the fees of $78,130 for professional services rendered by McGladrey & Pullen, LLP for the Registrant's annual proxy statement and the related audit of the Registrant's Yuma hotel financial statements for the fiscal year ended January 31, 2005, as disclosed under Item 14 - Principal Accountant Fees and Services, from Audit Fees to Audit - Related Fees.

There have been no changes from the originally filed Form 10-K other than as described above. This Amendment No. 1 does not reflect events occurring after the original filing of the Form 10-K, or modify or update in any way disclosures made in the Form 10-K.

PART I

Item 1. BUSINESS

INTRODUCTION TO OUR BUSINESS

InnSuites Hospitality Trust (the “Trust”) is headquartered in Phoenix, Arizona and is an unincorporated Ohio real estate investment trust. The Trust, with its affiliates RRF Limited Partnership, a Delaware limited partnership (the “Partnership”), and InnSuites Hotels, Inc., a Nevada corporation (“InnSuites Hotels”), owns and operates five hotels, provides management services for ten hotels, and provides trademark license services for eleven hotels. On January 31, 2006, the Trust owned a 69.14% sole general partner interest in the Partnership, which owned four InnSuites® hotels located in Arizona, New Mexico and southern California. The Trust also owned one InnSuites® hotel located in Yuma, Arizona (all five InnSuites® hotels are hereinafter referred to as the “Hotels”). InnSuites Hotels, a wholly owned subsidiary of the Trust, provides management services for the Hotels, four hotels owned by affiliates of James F. Wirth, the Trust’s Chairman, President and Chief Executive Officer, and one unrelated hotel property. InnSuites Hotels also provides trademark and licensing services to the Hotels, four hotels owned by affiliates of Mr. Wirth and two unrelated hotel properties. The Trust has 446 employees.

The Hotels have an aggregate of 843 hotel suites and operate as moderate and full-service hotels, which apply a value studio and two-room suite operating philosophy formulated in 1980 by Mr. Wirth. The Trust owns and operates hotels as studio and two-room suite hotels that offer services such as free hot breakfast buffets and complimentary afternoon social hours plus amenities, such as microwave ovens, refrigerators, free high speed internet access and coffee makers in each studio or two-room suite.

The Trust believes that a significant opportunity for revenue growth and profitability will arise from the skillful management and repositioning of the Trust’s Hotels or managed hotel properties for both increased occupancy and rates. The Trust’s primary business objectives are to maximize returns to its shareholders through increases in asset value and long-term total returns to shareholders. The Trust seeks to achieve these objectives through participation in increased revenues from the Hotels as a result of intensive management and marketing of the InnSuites® hotels brand in the southwestern region of the United States. At this time, however, the Trust does not plan to acquire any additional hotels.

The Trust has a single class of Shares of Beneficial Interest, without par value, that are traded on the American Stock Exchange under the symbol “IHT.” The Partnership has two outstanding classes of limited partnership interests, Class A and Class B, which are identical in all respects. Each Class A limited partnership unit is convertible, at the option of the Class A holder, into one newly-issued Share of Beneficial Interest of the Trust and each Class B limited partnership unit is convertible, upon approval of the Board of Trustees of the Trust, into one newly-issued Share of Beneficial Interest of the Trust. The Partnership Agreement of the Partnership subjects both general and limited partner units to certain restrictions on transfer.

Until February 1, 2004, the Trust elected to be taxed as a real estate investment trust (“REIT”), as that term is defined and used in the Internal Revenue Code of 1986, and the regulations thereunder (all as amended, the “Code”). Effective February 1, 2004, the Trust relinquished its REIT tax status - enabling greater operating flexibility - and is now taxed as a C corporation under the Code.

ACQUISITION OF INNSUITES HOTELS BY THE TRUST

Effective February 1, 2001, the Trust acquired all of the issued and outstanding common and preferred equity stock of InnSuites Hotels for $11,531 in cash and the assumption of approximately $1.6 million of net liabilities. Prior to the acquisition, InnSuites Hotels was owned 23% by Marc E. Berg, Executive Vice President, Secretary, Treasurer and Trustee of the Trust, 9.8% by InnSuites Innternational Hotels, Inc., a wholly owned affiliate of Mr. Wirth and his spouse, and 67.2% by unrelated parties.

The acquisition of InnSuites Hotels by the Trust resulted in the following benefits: (1) a more direct relationship between the Hotels and the Trust, (2) the inclusion of InnSuites Hotels' revenues in excess of required rent payments in the Trust's consolidated financial reports, (3) the elimination of potential conflicts of interest, and (4) the reduction of certain administrative costs relative to the operation of the Hotels.

MANAGEMENT AND LICENSING CONTRACTS

As a REIT, through January 31, 2004, the Trust was prohibited from operating its properties other than through an independent management company or a taxable REIT subsidiary. Following the acquisition of InnSuites Hotels by the Trust effective February 1, 2001, InnSuites Hotels operated and managed the Hotels with the assistance of Suite Hospitality Management, Inc. (the "Management Company"), an entity in which Mr. Wirth, until July 1, 2003, held a 9.8% ownership interest, pursuant to management agreements that provided for an annual management fee of 2.5% of gross revenues. On December 31, 2003, the Trust agreed to extend the current management agreements through January 31, 2008 in exchange for the Management Company forgiving $183,248 of accrued but unpaid fees. The Trust incurred management fee expenses related to these contracts of $177,742 and $440,530 for the twelve months ended January 31, 2005 and 2004, respectively. The Trust incurred no expense related to these contracts for the twelve months ended January 31, 2006. Due to the adoption of Financial Accounting Standards Board Interpretation No. 46R ("FIN 46R"), which resulted in the consolidation of the Management Company with the Trust, these expenses have been eliminated in the consolidation for the twelve months ended January 31, 2005.

Prior to June 8, 2004, InnSuites Hotels paid InnSuites Licensing Corp. (the "Licensing Corp."), an entity owned by Mr. Wirth and his spouse until February 2, 2004, an annual licensing fee of 2.0% of gross room revenues (1.0% for those hotel properties which also carried a third-party franchise, such as Best Western® or Holiday Inn®) for trademark and licensing services relating to the use of the InnSuites® name and marks. On December 31, 2003, the Trust agreed to extend the trademark and licensing services agreements through January 31, 2007 in exchange for the Licensing Corp. forgiving $347,473 of accrued but unpaid fees. The Management Company purchased the Licensing Corp. from Mr. and Mrs. Wirth on February 2, 2004. The Trust incurred licensing fees of $94,703 and $301,007 for the twelve months ended January 31, 2005 and 2004, respectively. The Trust incurred no expense related to these contracts for the twelve months ended January 31, 2006. Due to the adoption of FIN 46R, which resulted in the consolidation of the Licensing Corp. with the Trust, these expenses have been eliminated in the consolidation for the twelve months ended January 31, 2005.

In connection with the Trust's relinquishment of its REIT status, the Trust no longer required the services of a separate management company. The Trust determined it was in its best interest to buy out the management contracts and licensing agreements and directly manage the Hotels through the Trust's wholly owned subsidiary, InnSuites Hotels. As a result of this buy out, the Management Company (which was the Trust's variable interest entity under FIN 46R) was no longer consolidated subsequent to the second quarter of fiscal year 2005.

Effective June 8, 2004, InnSuites Hotels acquired the management agreements under which the Management Company provided management services to the Hotels. In consideration of the acquisition, the stockholder of the Management Company received $20,000 and 90,000 Shares of Beneficial Interest of the Trust, reflecting a transaction value of approximately $159,500 in the aggregate. Following the acquisition, InnSuites Hotels now self-manages the Hotels. InnSuites Hotels also manages one unrelated hotel in San Diego, California and four hotels owned by affiliates of Mr. Wirth.

Under the management agreements, InnSuites Hotels provides the personnel for the hotels, the expenses of which are reimbursed at cost, and manages the hotels' daily operations. All such expenses and reimbursements between InnSuites Hotels and the Partnership have been eliminated in consolidation. InnSuites Hotels received 2.5% of gross revenue from the Hotels owned by the Partnership and the Trust in exchange for management services during fiscal year 2006, and 2.0% of room revenue during fiscal year 2005. All expenses and reimbursements relating to these agreements have been eliminated in consolidation. These agreements expire on January 31, 2008. InnSuites Hotels received between 1% and 2% of room revenue (depending on results) from the four hotels owned by affiliates of Mr. Wirth in exchange for management services during fiscal years 2006 and 2005, and an additional monthly accounting fee of between $1,000- $2,000 during fiscal year 2006. These agreements require these four hotels to pay 2% of room revenue, unless these hotels fail to reach 80% of their budgeted profit, at which point the fees are reduced to 1% of room revenue. Beginning February 1, 2006, the management fees for these four hotels are set at 2% of room revenue and the monthly accounting fee is set at $2,000 per month. These agreements expire on February 1, 2007 and may be cancelled by either party with 90-days written notice, or 30-days written notice in the event the property changes ownership. InnSuites Hotels received 5% of total revenue for managing the unrelated hotel in San Diego, California during fiscal year 2006. This agreement expires on March 31, 2007, and may be cancelled by either party with 90-days written notice or 30-days written notice in the event the property changes ownership.

Effective June 8, 2004, InnSuites Hotels acquired the license agreements under which Licensing Corp. provided licensing services to the Hotels, and the related registered and unregistered InnSuites trademarks and tradenames. In consideration of the acquisitions, the Management Company (as the sole stockholder of Licensing Corp.) received $60,000 and 10,000 Shares of Beneficial Interest of the Trust and InnSuites Hotels satisfied Licensing Corp.'s line of credit in the amount of $459,000, reflecting a transaction value of approximately $534,500 in the aggregate. The Shares of Beneficial Interest issued by the Trust for both the management contracts and the licensing agreements were valued at $155,000, which amount was recorded as an expense. Following the acquisition, the Trust provides licensing services to the Hotels and two unrelated hotels in San Diego and Buena Park, California and four hotels owned by affiliates of Mr. Wirth.

InnSuites hotels received 1.25% (2.50% for the hotel which does not carry a third-party franchise) of total revenue from the Hotels owned by the Partnership and the Trust in exchange for use of the "InnSuites" trademark during fiscal year 2006 and 1.0% (2.0% for the hotel which does not carry a third-party franchise) of room revenue in fiscal year 2005. The revenue and expenses related to these contracts have been eliminated in consolidation. These agreements expire on January 31, 2007. InnSuites Hotels received between 1% and 2% of room revenue (depending on results) from the four hotels owned by affiliates of Mr. Wirth in exchange for use of the "InnSuites" trademark during fiscal years 2006 and 2005. These agreements require that these hotels pay 2% of room revenue, unless these hotels fail to reach 80% of their budgeted profit, at which point the fees are reduced to 1% of room revenue. Effective February 1, 2006, these fees are fixed at 1.25% of room revenue . These agreements have no expiration date and may be cancelled by either party with 12-months written notice, or 90-days written notice in the event the property changes ownership. InnSuites Hotels received 2% of total revenue from the unrelated hotel in San Diego, California in exchange for licensing services during fiscal year 2006. This agreement may be cancelled by either party with 90-days written notice. InnSuites Hotels received 0.5% of room revenue from the unrelated hotel in Buena Park, California in exchange for licensing services during fiscal year 2006. This agreement has no expiration date and may be cancelled by either party with 30-days written notice.

FRANCHISE AGREEMENTS

InnSuites Hotels has entered into franchise arrangements with Best Western International with respect to four of the Hotels. In exchange for use of the Best Western name, trademark and reservation system, the participating Hotels pay fees to Best Western International based on reservations received through the use of the Best Western reservation system and the number of available suites at the participating Hotels. The agreements with Best Western have no specific expiration terms and are cancelable at the option of either party. Best Western requires that the participating Hotels meet certain requirements for room quality, and such Hotels are subject to removal from its reservation system if these requirements are not met. The Hotels with third-party franchise agreements received significant reservations through the Best Western reservation system. Until February 2005, InnSuites Hotels also had a franchise agreement with Holiday Inn relating to its Ontario, California hotel. InnSuites Hotels terminated this agreement and the property now holds a franchise agreement with Best Western. The Trust incurred $355,266, $553,883 and $628,521 in total fees related to these agreements for the twelve months ended January 31, 2006, 2005 and 2004, respectively.

SALE OF HOTEL PROPERTIES

On March 21, 2003, the Trust sold its Scottsdale, Arizona property to Eldorado Resort, L.L.C. ("Eldorado"), an affiliate of Mr. Wirth, for its appraised and carrying value of $3.1 million. During fiscal year 2003, the Trust recorded a loss on impairment of $590,000 on the property. The property's decrease in value was due to changes in the economic condition, and decreased prospects for future development, in its immediate area. Eldorado paid for the hotel by assuming $1.1 million of the Trust's notes payable to Rare Earth Financial, L.L.C. ("Rare Earth Financial"), an affiliate of Mr. Wirth, assuming $500,000 of the Partnership's notes payable to Capital Resource Lenders-I, L.L.C., an affiliate of Mr. Wirth, and paying the Trust's term loan of $1,500,000 to the lender in full.

On August 21, 2003, the Trust sold its Flagstaff, Arizona property to Flagstaff Grand Canyon Resort, LLC ("Flagstaff Resort"), an affiliate of Mr. Wirth, for a cash payment equal to its appraised value of $2,775,000. The Trust used the proceeds to fully satisfy its $1.5 million bank line of credit and to reduce its notes payable to Rare Earth Financial by $1,275,000. The purchase price exceeded the carrying value of the property by $377,330, which was recorded as a capital contribution to the Partnership, and which resulted in a net increase in shareholder equity in the amount of $192,080, net of minority interest.

On October 16, 2003, the Trust sold its Buena Park, California property to CVTI, LLC, an unrelated third party ("CVTI"), for $6.5 million. The purchase price was satisfied with $6.3 million in cash and a $200,000 promissory note issued by CVTI to the Trust. The Trust subsequently assigned the $200,000 promissory note to Rare Earth Financial to satisfy $200,000 of a certain note payable held by Rare Earth Financial. The Trust used the cash proceeds to fully satisfy the bank mortgage note on the property in the amount of $3,082,574, to reduce certain notes payable to Mr. Wirth and his affiliates and Steven S. Robson, a Trustee of the Trust, in the aggregate amount of $1.5 million and to reduce trade accounts payable. In connection with this sale, the Trust recorded a loss of $29,000. During the second quarter of fiscal year 2004, the Trust recorded a loss on impairment of $328,976 related to the Buena Park property. The loss was recorded to reduce the asset's carrying value to the sales price. The decrease in value was due to a slowdown in leisure travel to the southern California area caused by global terror concerns and an overall sluggish economic environment.

On March 25, 2004, the Trust sold its Tempe, Arizona hotel to Tempe/Phoenix Airport Resort LLC ("Tempe Resort"), an affiliate of Mr. Wirth, for its appraised value of $6.8 million, which was also its carrying value. The purchase price was satisfied by Tempe Resort assuming the Trust's mortgage note payable on the property of $1.7 million and assuming notes payable to Mr. Wirth and his affiliates of $5.1 million.

On April 1, 2004, the Trust sold its San Diego, California hotel to an unrelated third party for $9.7 million, which the Trust received in cash. The Trust used $4.8 million of the proceeds to satisfy its mortgage note payable on the property, $1.4 million to satisfy notes and interest payable to related parties, and retained the remaining proceeds to reduce trade payables and to fund future operations and capital improvements.

On July 27, 2005, the Trust sold its Phoenix, Arizona hotel to Phoenix Northern Resort LLC, an affiliate of Mr. Wirth, for its appraised value of $5.1 million. The buyer satisfied the purchase price by assuming the Trust's $3.2 million mortgage note payable secured by the property, paying $1.7 million in cash prior to the closing, and paying $192,000 in cash at the closing. The sale resulted in a gain of $1.8 million, with $1.3 million of the gain attributable to holders of Shares of Beneficial Interest.

COMPETITION IN THE HOTEL INDUSTRY

The hotel industry is highly competitive. Each of the Hotels experiences competition primarily from other mid-market hotels located in its immediate vicinity, but also competes with hotel properties located in other geographic markets. While none of the Hotels' competitors dominate any of the Trust's geographic markets, some of those competitors have greater marketing and financial resources than the Trust.

Certain additional hotel property developments have been announced or have recently been completed by competitors in a number of the Hotels' markets, and additional hotel property developments may be built in the future. Such hotel developments have had, and could continue to have, an adverse effect on the revenue of the Hotels in their respective markets.

The Trust has chosen to focus its hotel investments in the southwest region of the United States. The Trust has a concentration of assets in the southern Arizona market. In the markets in which the Trust operates, supply and demand rates have generally been balanced.

The Trust may also compete for investment opportunities with other entities that have greater financial resources. These entities also may generally accept more risk than the Trust can prudently manage. Competition may generally reduce the number of suitable future investment opportunities available to the Trust and increase the bargaining power of owners seeking to sell their properties.

SEASONALITY OF THE HOTEL BUSINESS

The Hotels’ operations historically have been seasonal. The three southern Arizona hotels experience their highest occupancy in the first fiscal quarter and, to a lesser extent, the fourth fiscal quarter. The second fiscal quarter tends to be the lowest occupancy period at those three southern Arizona hotels. This seasonality pattern can be expected to cause fluctuations in the Trust’s quarterly revenues. The two hotels located in California and New Mexico historically experience their most profitable periods during the second and third fiscal quarters (the summer season), providing some balance to the general seasonality of the hotel business.

FINANCIAL INFORMATION

See “Item 6 - Selected Financial Data” herein for information regarding the Trust’s revenues, net income and losses, dividends, total assets, notes and advances payable to banks and others and notes and advances payable to related parties.

OTHER AVAILABLE INFORMATION

We also make available, free of charge, on our Internet website at www.innsuitestrust.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (the “Commission”). The public may read and copy any materials that we file with the Commission at the Commission’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 and may obtain information on the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission (http://www.sec.gov).

Item 1A. RISK FACTORS

The material risks and uncertainties that management believes affect us are described below. You should consider carefully the risks and uncertainties described below together with all of the other information included or incorporated by reference in this annual report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This annual report on Form 10-K is qualified in its entirety by these risk factors.

If any of the following risks actually occur to any significant extent, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our Shares of Beneficial Interest could decline, perhaps significantly, and you could lose part or all of your investment.

We are subject to operating risks common in the hospitality industry.

Our business is subject, directly or through our franchisors, to the following risks common in the hospitality industry, among others:

- changes in occupancy and room rates achieved by our hotels and by competitive area hotels;
- desirability of a hotel's geographic location and changes in traffic patterns;
- changes in general and local economic and market conditions, which can adversely affect the level of business and leisure travel, and therefore the demand for lodging and related services;
- changes in the number of hotels operating under specific franchised brands;
- increases in costs due to inflation may not be able to be totally offset by increases in room rates;
- over-building in one or more sectors of the hotel industry and/or in one or more geographic regions, could lead to excess supply compared to demand, and to decreases in hotel occupancy and/or room rates;
- changes in travel patterns and travel costs affected by fuel prices;
- changes in governmental regulations that influence or determine wages, prices or construction costs;
- other unpredictable external factors, such as natural disasters, war, terrorist attacks, epidemics, airline strikes, transportation and fuel price increases and severe weather, may reduce business and leisure travel;

- the need to periodically repair and renovate our hotels at a cost in excess of our standard 4% reserve;

- increases in the cost of labor, energy, healthcare, insurance and other operating expenses resulting in lower operating margins;
- the financial condition of franchisors and travel related companies;
- our ability to develop and maintain positive relations with current and potential franchisors; and
- our ability to develop our own regional "InnSuites" brand.

Changes in any of these conditions could adversely impact hotel room demand and pricing and result in reduced occupancy and revenue which could adversely affect our results of operations and financial condition. We have a limited ability to pass through increased operating costs in the form of higher room rates, so that such increased costs could result in lower operating margins.

The hotel industry is highly competitive.

Each of the Hotels experiences competition primarily from other mid-market hotels in its immediate vicinity, but also competes with other hotel properties in its geographic market. Some of the competitors of the Hotels have substantially greater marketing and financial resources than us. A number of additional hotel rooms have been added, are under development or have been announced in a number of our markets, and additional hotel rooms may be developed in the future. Such additional hotel rooms have had, and may continue to have, an adverse effect on the revenues of the Hotels in such markets.

We may be competing for investment opportunities with entities that have substantially greater financial resources than us. These entities may generally be able to accept more risk than we prudently can manage. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell hotel properties.

We have concentrated our marketing resources on the InnSuites Hotels® brand.

All of the Hotels are marketed as InnSuites Hotels®, a southwestern U.S. regional brand owned by the Trust. Accordingly, we are subject to risks inherent in concentrating our investments in the InnSuites Hotels brand, such as a reduction in business following adverse publicity related to the brand, which could have an adverse effect on our results of operations. In addition, many of our Hotels are co-branded as Best Western® hotels. This brand is owned by its members and faces the same risks on an international scale.

We may not have sufficient resources to pursue our current growth strategy.

We may pursue a growth strategy, which includes acquiring, repositioning and improving hotel properties. We plan to pursue a strategy of converting some of our Hotels into condo-hotel units, and increased licensing of the InnSuites Hotels® brand. There is a risk that, due to market and other conditions beyond our control, we will not have access to sufficient equity or debt capital to pursue our growth strategies. Since the term and amount of our credit arrangements are limited, our ability to continue to pursue our growth strategy may depend on our ability to obtain additional private or public equity or debt financing. There can be no assurance that such financing is or will be available on acceptable terms when necessary.

We have engaged in, and may continue to engage in, transactions involving Mr. Wirth. These transactions pose conflict of interest issues for us.

A number of our prior transactions have involved dealings with Mr. Wirth, our founder, largest shareholder and Chief Executive Officer. We may also engage in similar transactions with Mr. Wirth in the future. Because of the direct and indirect ownership interests of Mr. Wirth in, and his positions with, the Trust and its affiliates, there were, and will continue to be, inherent conflicts of interest in connection with our acquisition or disposition of hotels from or to Mr.

Wirth or other transactions, such as loans from Rare Earth Financial L.L.C., an affiliate of Mr. Wirth, or the condo-hotel conversions, in which Mr. Wirth has a significant interest. Accordingly, our management may have considered, and may in the future consider, their own interests above the interests of our other shareholders while negotiating these transactions.

Except as specifically provided in our governing documents or in certain provisions of Ohio law, nothing prohibits our officers and trustees from engaging in business activities for their own account. As a general principle of law, however, officers and trustees owe fiduciary duties to the shareholders of each company they represent. Those duties require them to deal with each company fairly. Additionally, all decisions involving the potential for conflict must be approved by a majority of trustees who do not have an interest in the transaction. We cannot guarantee, however, that the independent trustees will resolve all decisions involving conflict in favor of the Trust.

Certain affiliates of the Trust, including Mr. Wirth, may have unrealized gain in their investments in certain hotels acquired by us on January 31, 1998. A subsequent sale of these hotels by us may cause adverse tax consequences to such persons. Therefore, the interests of the Trust and certain of its affiliates, including Mr. Wirth, could be in opposition in connection with the disposition of any of these hotels. However, decisions with respect to the disposition of any of these hotels must be approved by a majority of the independent trustees.

We have significant debt obligations.

At January 31, 2006, our outstanding debt consisted of approximately $21.3 million in principal amount outstanding. There can be no assurance that the we will be able to meet our present or future debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure. Adverse economic conditions could cause the terms on which borrowings become available to become unfavorable to us. In such circumstances, if we are in need of capital to repay indebtedness in accordance with its terms or otherwise, we could be required to liquidate one or more investments in the Hotels at times that may not permit realization of the maximum return on our investments.

We rely on key personnel.

Our future success is substantially dependent on the active participation of our executive officers, Mr. Wirth, Mr. Waters and Mr. Berg. In addition, Mr. Mazakis, Controller, and Mr. Green, Director of Operations, hold key positions with the Trust. The loss of the services of any of these individuals could have a material adverse effect on us.

Under certain circumstances, our franchisors may terminate our franchise contracts.

The continuation of our franchise contracts for the Hotels is subject to the maintenance of specified operating standards and other terms and conditions, and our Best Western franchise agreements are renewable annually. Our failure to maintain those operating standards or adhere to the other terms and conditions of the franchise contracts could result in the loss or cancellation of such franchise contracts. It is possible that a franchisor could condition the continuation of a franchise contract upon the completion of substantial capital improvements, which the Board of Trustees may determine to be too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected Hotel. Failure to complete improvements, when required, in a manner satisfactory to the franchisor could result in the cancellation of one or more franchise contracts. In any case, if a franchise contract is terminated, we may seek to obtain a suitable replacement franchise, or to operate the affected Hotel independent of a franchise contract. In addition, we may desire to operate additional hotels under franchise contracts, and such franchisors may require that significant capital expenditures be made at such hotels as a condition of granting a franchise contract. The loss or lack of a franchise contract could have a material adverse effect upon the operations or the underlying value of the Hotel covered by such contract because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. The loss of a number of the franchise contracts for the Hotels could have a material adverse effect on our results of operations.

Due to the geographic concentration of the hotels in our system, our results of operations and financial condition are subject to fluctuations in regional economic conditions.

All of our Hotels are located in the southwestern United States. Therefore, our results of operations and financial condition may be significantly affected by the economy of this region. Other adverse events affecting the southwestern United States, such as economic recessions or natural disasters, could cause a loss of revenues for our Hotels in this region, which may be greater as a result of our concentration of assets in these areas.

Our expenses may remain constant even if revenues decline.

The expenses of owning property have some flexibility but are not necessarily materially reduced when circumstances such as market factors and competition cause a reduction in income from a hotel. Accordingly, a decrease in our revenues could result in a disproportionately higher decrease in our earnings because our expenses are unlikely to decrease proportionately or as rapidly. In such instances, our financial condition and results of operations could be adversely affected, not only by changes in occupancy rates, but also by:

- fixed labor costs;
- interest rate levels;
- the availability of financing;
- increases in real property tax rates;
- the cost of compliance with government regulations, including zoning and tax laws; and
- changes in government regulations, including those governing usage, zoning and taxes.

Our inability to sell real estate if and when desired may adversely affect our financial condition.

Real estate assets generally cannot be sold quickly. In general, we may not be able to vary our portfolio of hotels or other real estate promptly in response to economic or other conditions. This inability to respond promptly to changes in the performance of our assets could adversely affect our financial condition. In addition, sales of appreciated real property could generate material adverse tax consequences, which may make it disadvantageous for us to sell certain of our Hotels.

We are subject to governmental regulations affecting the hospitality industry; the costs of complying with governmental regulations, or our failure to comply with such regulations, could affect our financial condition and results of operations.

We are subject to numerous federal, state and local government laws and regulations affecting the hospitality industry, including usage, building and zoning requirements. A violation of any of those laws and regulations or increased government regulation could require us to make unplanned expenditures and result in higher operating costs. In addition, our success in expanding our hotel operations or engaging in condo-hotel conversions depends upon our ability to obtain necessary building permits and zoning variances from local authorities. Compliance with these laws is time intensive and costly and may reduce our revenues and operating income.

Under the Americans with Disabilities Act of 1990 (the “ADA”), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. In addition to ADA work to date, we may be required to remove access barriers or make unplanned, substantial modifications to our Hotels to comply with the ADA or to comply with other changes in governmental rules and regulations, which could reduce the number of total available rooms, increase operating costs and have a negative impact on our results of operations. Any failure to comply with ADA requirements or other governmental regulations could result in the U.S. government imposing fines or in private litigants winning damage awards against us.

Our Hotels, like all real property, are subject to governmental regulations designed to protect the environment. However, if we fail to comply with such laws and regulations, we may become subject to significant liabilities, fines and/or penalties, which could adversely affect our financial condition and results of operations.

We are also subject to laws governing our relationship with employees, including minimum or living wage requirements, overtime, working conditions and work permit requirements. An increase in the state or federal minimum wage rate, employee benefit costs or other costs associated with employees could increase expenses and result in lower operating margins. Although none of our employees are currently represented by labor unions, labor union organizing activities may take place at our existing Hotels or at any new hotel property we open. A lengthy strike or other work stoppage at one of our Hotels, or the threat of such activity, could have an adverse effect on our business and results of operations.

If we fail to comply with privacy regulations, we could be subject to fines or other restrictions on our business.

We collect and maintain information relating to our guests for various business purposes, including maintaining guest preferences to enhance our customer service and for marketing and promotion purposes. The collection and use of personal data are governed by privacy laws and regulations. Compliance with applicable privacy regulations may increase our operating costs and/or adversely impact our ability to service our guests and market our products, properties and services to our guests. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third parties engaged by us) could result in fines or restrictions on our use or transfer of data.

Increasing use of internet reservation channels may decrease loyalty to our brands or otherwise adversely affect us.

As is the case with many other hotel operators, a growing percentage of our hotel rooms are booked through internet travel intermediaries. If such bookings continue to increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from our franchisors or us. Moreover, some of these internet travel intermediaries are attempting to commoditize hotel rooms, by increasing the importance of price and general indicators of quality at the expense of brand identification. These intermediaries hope that consumers will eventually develop brand loyalties to their reservations systems rather than to our lodging brands. If this happens our business and profitability may be significantly harmed.

Our business is seasonal in nature, and we are likely to experience fluctuations in our results of operations and financial condition.

Our business is seasonal in nature, with the first and fourth fiscal quarters generally accounting for a greater portion of annual revenues than the second and third fiscal quarters. Therefore, our results for any quarter may not be indicative of the results that may be achieved for the full fiscal year. The seasonal nature of our business increases our vulnerability to risks such as labor force shortages and cash flow problems. Further, if an adverse event such as an actual or threatened terrorist attack, international conflict, regional economic downturn or poor weather conditions should occur during the first or fourth fiscal quarters, the adverse impact to our revenues could likely be greater as a result of our southern Arizona seasonal business.

Our properties are subject to risks relating to natural disasters, terrorist activity and war and any such event could materially adversely affect our operating results.

Our financial and operating performance may be adversely affected by natural disasters particularly in locations where we own significant properties. Some types of losses, such as those from earthquake, wild fires, terrorism or environmental hazards, may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any financial obligations related to the property. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impractical to rely on insurance proceeds to replace property after that property has been damaged or destroyed. Under those circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to such property.

Similarly, war (including the potential for war) and terrorist activity (including threats of terrorist activity), epidemics (such as SARs and bird flu), travel-related accidents, as well as geopolitical uncertainty and international conflict, which impact domestic and international travel, may cause our results to differ materially from anticipated results. Terrorism incidents such as the events of September 11, 2001 and wars such as the ongoing Iraq war significantly impact travel and tourism and consequently the demand for hotel rooms.

Hospitality companies have been the target of class actions and other lawsuits alleging violations of federal and state law.

Our operating income and profits may be reduced by legal or governmental proceedings brought by or on behalf of our employees or customers. In recent years, a number of hospitality companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. We cannot assure you that we will not incur substantial damages and expenses resulting from lawsuits of this type, which could have a material adverse effect on our business.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

The Trust maintains its administrative offices at the InnSuites Hotels Centre in Phoenix, Arizona. On January 31, 2006, the Partnership owned four Hotels and the Trust owned one Hotel. All of the Hotels are operated as InnSuites® Hotels, while four are also marketed as Best Western® Hotels. All of the Hotels operate in the following locations:

PROPERTY	**NUMBER OF SUITES**	**YEAR OF CONSTRUCTION/ ADDITION**	**MOST RECENT RENOVATION (1)**
InnSuites Hotel and Suites Airport Albuquerque Best Western	101	1975/1985	2004
InnSuites Hotel and Suites Tucson, Catalina Foothills Best Western	159	1981/1983	2005
InnSuites Hotels and Suites Yuma Best Western	166	1982/1984	2003
InnSuites Hotel and Suites Ontario Airport Best Western	150	1990	2005
InnSuites Hotels and Suites Tucson St. Mary’s	267	1960/1971	2004
Total suites	843		

(1) The Trust defines a renovation as the remodeling of more than 10% of a property’s available suites.

See “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - General” herein for a discussion of occupancy rates at the Hotels.

See Note 5 to the Trust’s Consolidated Financial Statements - “Mortgage Notes Payable” herein for a discussion of mortgages encumbering the Hotels.

Item 3. LEGAL PROCEEDINGS

The Trust is not a party to, nor are any of its properties subject to, any material litigation or environmental regulatory proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Trust held its 2005 Annual Meeting of Shareholders on August 25, 2005. The nominees listed below were elected as Trustees of the Trust to hold office for a term expiring at the 2007 Annual Meeting of Shareholders and until their successors have been duly elected and qualified. Tabulated below is the number of Shares of Beneficial Interest cast for and withheld with respect to the election of the Trustee nominees:

Name	For	Against
Steven Robson	8,121,714	33,551
Larry Pelegrin	8,121,714	33,551

In addition to the election of Trustees, the security holders voted on the following matters at the Annual Meeting:

• Granting the Board of Trustees the authority to implement a reverse stock split up to a maximum ratio of 1-for-4:

For	Against	Abstain
7,065,769	1,044,674	44,822

The Trust has not taken any action and currently is not planning to take any action regarding a reverse stock split, although the possibility continues to be reviewed by the Board of Trustees.

PART II

Item 5. MARKET FOR THE TRUST'S SHARES, RELATED SHAREHOLDER MATTERS AND TRUST PURCHASES OF SHARES

The Trust's Shares of Beneficial Interest are traded on the American Stock Exchange under the symbol "IHT." On April 21, 2006, the Trust had 9,271,114 shares outstanding and 519 holders of record.

The following table sets forth, for the periods indicated, the high and low sales prices of the Trust's Shares of Beneficial Interest, as quoted by the American Stock Exchange, as well as dividends declared thereon:

Fiscal Year 2006	High	Low	Dividends
First Quarter	1.52	1.11	—
Second Quarter	1.75	1.23	—
Third Quarter	1.50	1.24	—
Fourth Quarter	1.50	1.20	.01

Fiscal Year 2005	High	Low	Dividends
First Quarter	2.25	1.60	—
Second Quarter	2.25	1.48	—
Third Quarter	1.63	1.49	—
Fourth Quarter	1.95	1.12	.01

The Trust intends to maintain a conservative dividend policy to facilitate the reduction of debt and internal growth. In fiscal years 2006 and 2005, the Trust paid dividends of $0.01 per share in the fourth quarter of each year.

On January 2, 2001, the Board of Trustees approved a share repurchase program under Rule 10b-18 of the Securities Exchange Act of 1934, as amended, for the purchase of up to 250,000 limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Additionally, on September 10, 2002, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. On August 18, 2005, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Acquired Shares of Beneficial Interest will be held in treasury and will be available for future acquisitions and financings and/or for awards granted under the InnSuites Hospitality Trust 1997 Stock Incentive and Option Plan. During the three months ended January 31, 2006, the Trust acquired 107,184 Shares of Beneficial Interest in open market transactions at an average price of $1.32 per share. The Trust intends to continue repurchasing Shares of Beneficial Interest in compliance with applicable legal and American Stock Exchange requirements. The Trust remains authorized to repurchase an additional 214,112 limited partnership units and/or Shares of Beneficial Interest pursuant to the share repurchase program, which has no expiration date.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Be Yet Purchased Under the Plans
November 1 - November 30, 2005	43,606	$ 1.33	43,606	285,322
December 1 - December 31, 2005	62,378	$ 1.31	62,378	222,944
January 1 - January 31, 2006	1,200	$ 1.43	1,200	214,112 *

*During the January 2006, the Trust repurchased 7,632 Class A Units in the Partnership under the Plans at a price of $1.40.

See Part III, Item 12 for a description of our equity compensation plans.

Item 6. SELECTED FINANCIAL DATA

The following selected financial data of the Trust as of and for the five fiscal years ended January 31, 2006, has been derived from the audited consolidated financial statements of the Trust. The consolidated financial statements of the Trust as of and for the fiscal years ended January 31, 2006 and 2005 were audited by Epstein, Weber & Conover, P.L.C., independent public accountants. The consolidated financial statements of the Trust as of and for the two fiscal years ended January 31, 2004 and 2003 were audited by McGladrey & Pullen, LLP, independent public accountants. The consolidated financial statements of the Trust as of and for the fiscal year ended January 31, 2002 were audited by KPMG, LLP, independent public accountants.

	Year Ended January 31,				
	2006	2005	2004	2003	2002
Total revenue	$ 21,248,839	$ 22,875,187	$ 24,211,328	$ 26,940,473	$ 27,656,009
Net income (loss) attributable to Shares of Beneficial Interest	$ 541,578	$ 240,442	$ (2,594,317)	$ (3,445,948)	$ (3,539,402)
Income (loss) per share - basic	$ 0.06	$ 0.10	$ (1.27)	$ (1.67)	$ (1.66)
Income (loss) per share - diluted	$ 0.02	$ 0.10	$ (1.27)	$ (1.67)	$ (1.66)
Cash dividends paid and declared per share	$ 0.01	$ 0.01	$ 0.02	$ 0.01	$ 0.01

Total assets	$ 31,952,358	$ 36,455,521	$ 47,961,594	$ 61,494,579	$ 64,264,516
Notes and advances payable to banks and others	$ 20,736,859	$ 24,755,858	$ 31,974,992	$ 38,922,408	$ 38,598,106
Notes and advances payable to related parties	$ 514,706	$ 93,512	$ 6,852,241	$ 9,901,153	$ 8,666,360

See "Item 1 - Business" herein for a discussion of the change in the nature of the business of the Trust over the course of the years presented above. As a result, the information presented above is not comparative from year to year.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Trust is engaged in the ownership and operation of hotel properties. At January 31, 2006, the InnSuites system included five moderate and full-service hotels with 843 hotel suites. Four of our Hotels are branded through franchise agreements with Best Western. All five Hotels are trademarked as InnSuites Hotels. We are also involved in various operations incidental to the operation of hotels, such as the operation of restaurants and meeting/banquet room rentals.