

INNSUITES HOSPITALITY TRUST
Form 10-K
May 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT

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

For the fiscal year ended January 31, 2018.

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

Commission File Number 1-7062

INNSUITES HOSPITALITY TRUST

(Exact name of registrant as specified in its charter)

Ohio **34-6647590**
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

InnSuites Hotels Centre **85020**

1730 E. Northern Avenue, Suite 122

Phoenix, AZ

(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 | NYSE AMERICAN |

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 No

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Aggregate market value of Shares of Beneficial Interest held by non-affiliates of the registrant as of July 31, 2017, based upon the closing sales price of the registrant’s Shares of Beneficial Interest on that date, as reported on the NYSE AMERICAN: \$5,258,184

Number of Shares of Beneficial Interest outstanding as of May 1, 2018: 9,764,907

Documents incorporated by reference: None.

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 formed on June 21, 1979; however, the Trust is not a real estate investment trust for federal taxation purposes. The Trust, with its affiliates RRF Limited Partnership, a Delaware limited partnership (the “Partnership”), and InnSuites® Hotels, Inc., a Nevada corporation (“InnSuites Hotels”), owns interests in and operates four hotels, provides management services for a total of four hotels, and provides trademark license services for a total of six hotels. At January 31, 2018, the Trust owned a 74.80% sole general partner interest in the Partnership, which controlled a 51.01% interest in one InnSuites hotel located in Tucson, Arizona. We anticipate to sell one or more of our hotels by January 31, 2019.

The Trust also own a direct 12.79% interest in one InnSuites hotel located in Yuma, Arizona and owned a direct 22.83% interest in one InnSuites® hotel located in Albuquerque, New Mexico (all three InnSuites hotels are hereinafter referred to as the “Hotels”).

InnSuites Hotels, a wholly-owned subsidiary of the Trust, provides management services for the Hotels and one hotel owned by affiliates of James F. Wirth, the Trust’s Chairman and Chief Executive Officer. InnSuites Hotels also provides trademark and licensing services to the Hotels, one hotel owned by affiliates of Mr. Wirth and one unrelated hotel property. The Trust has approximately 150 full-time employees and 50 part-time employees.

The Hotels have an aggregate of 424 hotel suites and operate as moderate and full-service hotels that 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 hard wired and wireless 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 of the Trust’s Hotels or managed hotel properties for both increased occupancy and rates. The Trust’s primary business objective is to maximize returns to its shareholders through increases in asset value and long-term total returns to shareholders. The Trust seeks to achieve this objective through participation in increased revenues

from the Hotels as a result of intensive management and marketing of the InnSuites® hotels and the “InnSuites Boutique Collection” brands in the southwestern region of the United States. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Future Positioning” for a more detailed discussion of the Trust’s strategic objectives.

The Trust has a single class of Shares of Beneficial Interest, without par value, that are traded on the NYSE AMERICAN 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. However, each Class A 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 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.

IBC Hospitality Technologies:

InnDependent Boutique Collection (“IBC”, “IBC Hotels”, “IBC Hotels, LLC”, “IBC Hospitality” or “IBC Hospitality Technologies”), a wholly owned subsidiary of InnSuites Hospitality Trust, has a network of approximately 2,000 unrelated hospitality properties with proprietary software, exclusive marketing distribution, and services as well as brand-like cost savings solutions to independent boutique hotels and alternative lodging (serviced apartments, B&B’s, villas and multi-unit ownership/management of luxury private residences). Additionally, IBC provides software and solutions to a variety of branded hotels looking to increase direct bookings and receive full guest information IBC’s patent-pending loyalty program allows consumers to book discounted travel when logged in and shopping for lodging on www.ivhtravel.com while also earning cash back, e-gift cards and free nights globally. IVHTravel.com and its proprietary booking engine has over 1.1 million lodging choices globally and provides add-on capability for activities, rental car and cancellation protection with airfare on its roadmap in 2019.

IBC was born out of independent hotelier frustration over being denied cost-effective access to enterprise hospitality services and software that served their large corporate competitors coupled with the inability to secure a global and robust guest loyalty program. Instead of giving up independence, the founders of IBC negotiated large procurement discounts hired a development team to create the patent-pending InnDependent InnCentives guest loyalty program and integrated software design to manage supply and demand. With the success of the patent-pending InnCentives loyalty program IBC began adding hotel services and software specifically for independent and boutique hotels. These solutions address the following challenges: RevPAR and Profitability Optimization, Operational Management and Soft Brand Benefits. RevPAR, or revenue per available room, is a hospitality performance metric that is calculated by dividing a hotels total guestroom revenue by the room count and the number of days in the period being measured or by multiplying the average daily rate by the occupancy.

Our technology division is broken into two business lines, International Vacation Hotels Travel (“IVH”) and IBC Hospitality Technologies. Each of these divisions customer base is very different, and the services provided to each customer base ranges dramatically.

MANAGEMENT AND LICENSING CONTRACTS

The Trust directly manages the Hotels through the Trust’s wholly-owned subsidiary, InnSuites Hotels, Inc. Under the management agreements, InnSuites Hotels manages the daily operations of the three Hotels and one hotel owned by affiliates of Mr. Wirth. All Trust managed Hotel expenses, revenues and reimbursements among the Trust, InnSuites Hotels and the Partnership have been eliminated in consolidation. The management fees for the Hotels and the hotel owned by affiliates of Mr. Wirth are 5% of room revenue and a monthly accounting fee of \$2,000 per hotel. These agreements have no expiration date and may be cancelled by either party with 90-days written notice in the event the property changes ownership.

The Trust also provides the use of the “InnSuites” trademark to the Hotels and the hotel owned by affiliates of Mr. Wirth through the Trust’s wholly-owned subsidiary, InnSuites Hotels, Inc. at no additional charge. The trademark expires in January 2027.

These revenues are included in the management and trademark fees revenues in the consolidated statement of operations of our financial statements.

MEMBERSHIP AGREEMENTS

InnSuites Hotels has entered into membership agreements with Best Western International, Inc. (“Best Western”) with respect to all three of the Hotels. In exchange for use of the Best Western name, trademark and reservation system, the Hotels pays marketing and reservation fees to Best Western based on reservations received through the use of the Best Western reservation system, a marketing fee based upon the monthly room revenues, and the number of available suites at the Hotels. The agreements with Best Western have no specific expiration terms and may be cancelled by either party. Best Western requires that the Hotels meet certain requirements for room quality, and the Hotels are subject to removal from its reservation system if these requirements are not met. The Hotels with third-party membership agreements received significant reservations through the Best Western reservation system. Under these arrangements, fees paid for membership fees and reservations were approximately \$286,000 and \$483,000, for fiscal years ended January 31, 2018 and 2017, respectively.

COMPETITION IN THE HOTEL INDUSTRY

The hotel industry is highly competitive. We expect the major challenge for the fiscal year ending January 31, 2019 (“fiscal year 2019”) to be the continuation of competition for corporate leisure group and government business in the markets in which we operate, which may affect our ability to increase room rates while maintaining market share. 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 may have greater marketing and financial resources than the Trust.

Certain additional hotel property developments and/or hotel refurbishments 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 our Hotels in their respective markets.

The Trust has chosen to focus its hotel investments in Arizona and New Mexico. With the renovations at our Yuma, Arizona, Tucson, Arizona and Albuquerque, New Mexico hotel properties, the Trust has seen additional demand as supply has been steady in that respective markets. Either an increase in supply or a decline in demand could result in increased competition, which could have an adverse effect on the revenue of our Hotels in their respective markets.

IBC Hotels provides a variety of brand-like hotel and technology services to independent hotels without the cost or hassle of a brand for a month-to-month agreement to independent hotels, which make up approximately one-half of the world's hotels (not including B&Bs and rentals). These services include but are not limited to: web/mobile site presence, hotel app, booking engine, loyalty program along with strategic partnerships that provide metasite channels, fast-tracked financing, purchasing, IT services, training and education and integrations to a variety of service providers including rental cars and tours as well as property management and additional distribution.

While the travel landscape is competitive in itself, each one of the services provided by IBC Hotels has its own competitive landscape. Online travel agencies (OTAs) continue to fight for the customer looking for the occasional booking and hotels to push excess inventory. Brands have historically had solid demand due to their loyalty programs and consistent product offerings along with education and training programs. Technology and tourism companies have operated in their segment without much cross-over. Independent hotels have historically had trouble getting financing and purchasing power without a large brand or management contract. IBC assists the hospitality owners and operators in these areas with a complete market place.

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.

REGULATION

The Trust is subject to numerous federal, state and local government laws and regulations affecting the hospitality industry, including usage, building and zoning requirements and the laws and regulations related to the preparation and sale of food and beverage such as health and liquor license laws. A violation of any of those laws and regulations or increased government regulation could require the Trust to make unplanned expenditures which may result in

higher operating costs. In addition, the Trust's success in expanding our hotel operations depends upon its ability to obtain necessary building permits and zoning variances from local authorities. Compliance with these laws is time intensive and costly and may reduce the Trust's revenues and operating income.

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations are required to meet certain readily achievable federal requirements related to access and use by disabled persons. In addition to ADA work completed to date, the Trust may be required to remove additional access barriers or make unplanned, substantial modifications to its Hotels to comply with the ADA or to comply with other changes in governmental rules and regulations, or become subject to claims, fines and damage awards, any of which could reduce the number of total available rooms, increase operating costs and have a negative impact on the Trust's results of operations.

Our hotel properties are subject to various federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current or former owner of the property, to perform or pay for the clean-up of contamination (including swimming pool chemicals or hazardous substances or biological waste) at or emanating from the property and to pay for natural resource damage arising from contamination. These laws often impose liability without regard to whether the owner or operator knew of or caused the contamination. Such liability can be joint and several, so that each covered person can be responsible for all of the costs involved, even if more than one person may have been responsible for the contamination. We can also be liable to private parties for costs of remediation, personal injury, death and/or property damage resulting from contamination at or emanating from our hotel properties. Moreover, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

The Trust is also subject to laws governing our relationship with employees, including minimum or living wage requirements, overtime, working conditions and work permit requirements. There are frequent proposals under consideration, at the federal and state levels, to increase the minimum wage. Additional increases to the state or federal minimum wage rate, and employee benefit costs including health care or other costs associated with employees could increase expenses and result in lower operating margins.

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

SEASONALITY OF THE HOTEL BUSINESS

The Hotels' operations historically have been somewhat seasonal. The 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 the southern Arizona hotels. This seasonality pattern can be expected to cause fluctuations in the Trust's quarterly revenues. The hotel located in 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 Trust's hotel business.

The seasonal nature of the Trust's business increases its vulnerability to risks such as labor force shortages and cash flow issues. Further, if an adverse event such as an actual or threatened terrorist attack, international conflict, data breach, regional economic downturn or poor weather conditions should occur during the first or fourth fiscal quarters, the adverse impact to the Trust's revenues could likely be greater as a result of its southern Arizona seasonal business.

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 amended, as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). Information on our Internet website shall not be deemed incorporated into, or be part of, this report.

Item 1A. RISK FACTORS

Not required for smaller reporting companies.

Item 1B. UNRESOLVED STAFF COMMENTS

Not required for smaller reporting companies.

Item 2. PROPERTIES

The Trust maintains its administrative offices at the InnSuites Hotels Centre, at 1730 E. Northern Avenue, Suite 122, Phoenix, Arizona 85020 in a space leased by the Trust from a third party. All of the Hotels are operated as InnSuites® Hotels, while all Hotels 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) | PERCENT OWNERSHIP BY THE TRUST | |
|---|------------------------|--------------------------------------|-------------------------------------|---|----------|
| InnSuites Hotel and Suites Airport Albuquerque Best Western Hotel | 100 (5) | 1975/1985 | 2017 | 22.83 | % (2) |
| InnSuites Hotel and Suites Tucson Oracle Best Western Hotel | 158 | 1981/1983 | 2017 | 51.01 | % (3) |
| InnSuites Hotels and Suites Yuma Best Western Hotel | 166 | 1982/1984 | 2016 | 12.79 | % (4) |
| Total Suites | 424 | | | | |

(1) The Trust defines a renovation as the remodeling of more than 20% of a property's available suites in a fiscal year.

(2) The Trust owns a direct 22.83% interest in the InnSuites Hotel and Suites Airport Albuquerque Best Western Hotel.

(3) The Partnership owns a 51.01% interest in the InnSuites Hotel and Suites Tucson Oracle Best Western Hotel. The Trust owns a 74.80% general partner interest in the Partnership.

(4) The Trust holds a direct 12.79% ownership interest in the InnSuites Hotels and Suites Yuma Best Western Hotel.

(5) Our InnSuites Hotel and Suites Airport Albuquerque Best Western Hotel added six additional suites during the fiscal quarter ending April 30, 2018 by splitting several two room suites into individual 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 11 to the Trust's Consolidated Financial Statements – "Mortgage Notes Payable" herein for a discussion of mortgages encumbering the Hotels.

See Note 21 to the Trust's Consolidated Financial Statements – "Commitments and Contingencies" for a discussion of the lease for our corporate headquarters and the non-cancellable ground lease to which our Albuquerque Hotel is subject.

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. See Note 21 to Trust's Consolidated Financial Statements – "Commitments and Contingencies".

Item 4. MINE SAFETY DISCLOSURES

None.

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PART IIItem 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Trust's Shares of Beneficial Interest are traded on the NYSE American under the symbol "IHT." On May 1, 2018, the Trust had 9,764,907 shares outstanding. As of April 24, 2018, there were 353 holders of record of our Shares of Beneficial Interest not including holders who hold their asset positions with banks and brokers.

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

| Fiscal Year 2018 | High | Low | Dividends |
|------------------|--------|--------|-----------|
| First Quarter | \$2.21 | \$1.71 | - |
| Second Quarter | \$2.20 | \$1.65 | \$ 0.01 |
| Third Quarter | \$2.00 | \$1.50 | - |
| Fourth Quarter | \$1.87 | \$1.50 | \$ 0.01 |

| Fiscal Year 2017 | High | Low | Dividends |
|------------------|--------|--------|-----------|
| First Quarter | \$2.56 | \$2.08 | - |
| Second Quarter | \$3.09 | \$2.09 | - |
| Third Quarter | \$2.45 | \$2.10 | - |
| Fourth Quarter | \$2.29 | \$2.03 | \$ 0.01 |

The Trust intends to maintain a conservative dividend policy to facilitate the reduction of debt and internal growth currently \$0.02 per share per fiscal year. In the fiscal years ended January 31, 2018 and 2017, the Trust paid dividends of \$0.01 per share in the fourth quarter of each year. In addition, during the fiscal year ended January 31, 2018, the Trust paid an additional dividend of \$0.01 per share at the end of the second quarter. The Trust has paid dividends

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each fiscal year since its inception in 1971 and the Trust expects comparable cash dividends will continue to be paid in the future.

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 Partnership units and/or Shares of Beneficial Interest in open market or privately negotiated transactions. On September 10, 2002, August 18, 2005 and September 10, 2007, the Board of Trustees approved the purchase of up to 350,000 additional Partnership units and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Additionally, on January 5, 2009, September 15, 2009 and January 31, 2010, the Board of Trustees approved the purchase of up to 300,000, 250,000 and 350,000, respectively, additional Partnership units 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 Trusts' equity compensation plans/programs. During the fiscal year ended January 31, 2018, the Trust acquired 150,973 Shares of Beneficial Interest in open market transactions at an average price of \$1.99 per share. The average price paid includes brokerage commissions. The Trust intends to continue repurchasing Shares of Beneficial Interest in compliance with applicable legal and NYSE AMERICAN requirements. The Trust remains authorized to repurchase an additional 662,117 Partnership units and/or Shares of Beneficial Interest pursuant to the publicly announced share repurchase program, which has no expiration date.

| Period | Issuer Purchases of Equity Securities | | | |
|--------------------------------|---------------------------------------|------------------------------|--|--|
| | 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 Yet Be Purchased Under the Plans |
| November 1 - November 30, 2017 | 13,463 | \$ 1.57 | 21,204 | 672,960 |
| December 1 - December 31, 2017 | 1,799 | \$ 1.85 | 3,327 | 671,161 |
| January 1 - January 31, 2018 | 9,044 | \$ 1.91 | 17,233 | 662,117 |
| Total | 24,306 | | 41,764 | |

See Part III, Item 12 for information about our equity compensation plans.

See Note 2 to our Consolidated Financial Statements – “Summary of Significant Accounting Policies” for information related to grants of restricted shares made to members of our Board of Trustees during fiscal year 2018. These grants were made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), pursuant to Section 4(a)(2).

For stock option grants during fiscal 2018, see Note 26 to our Consolidated Financial Statements - "Stock Options."

For the issuance of Shares of Beneficial Interest by the Trust in connection with the acquisition of International Vacation Hotels, see Note 9 to our Consolidated Financial Statements – “Intangible Assets, Goodwill and Impairment”. This issuance was made in reliance upon the exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2).

For the issuance of Shares of Beneficial Interest by the Trust to Rare Earth Financial, LLC, see Note 18 to our Consolidated Financial Statements – “Other Related Party Transactions.” These issuances were made in reliance upon the exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2).

Item 6. SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

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

OVERVIEW

We are engaged in the ownership and operation of hotel properties. At January 31, 2018, the Trust had three moderate and full-service hotels with 424 hotel suites. All of our Hotels are branded through membership agreements with Best Western. All 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, meeting/banquet room rentals and the operation of a reservation system.

Our operations consist of two reportable segments, hotel ownership, which derives its revenue from the operation of the Hotels and technology reservation services for approximately 2,000 unrelated hotel properties. We provide management services for the Hotels and a hotel owned by affiliates of James F. Wirth, the Trust’s Chairman and Chief Executive Officer. One of the affiliate hotels owned by James F. Wirth was sold in February 2017. We also provide trademark and licensing services to the Hotels, one hotel owned by affiliates of Mr. Wirth and one unrelated hotel property.

Our results are significantly affected by occupancy and room rates at the Hotels, our ability to manage costs, and changes in the number of available suites caused by acquisition and disposition activities. 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. Additionally, our ability to manage costs could be adversely impacted by significant increases in operating expenses, resulting in lower operating margins. Management expects greater demand and steady supply to continue. However, either a further increase in supply or a further decline in demand could result in increased competition, which could have an adverse effect on the revenue of the Hotels in their respective markets.

Although we experienced stronger economic conditions during fiscal year 2018, we anticipate that a steady economy will exist during all of 2019. We expect the major challenge for fiscal year 2018 to be the continuation of strong competition for corporate leisure group and government business in the markets in which we operate, which may affect our ability to increase room rates while maintaining market share. We believe that we have positioned the Hotels to remain competitive through selective refurbishment, by offering a relatively large number of two-room suites at each location and by maintaining a robust complementary guest Internet access system.

Our strategic plan is to obtain the full benefit of our real estate equity and to migrate our focus from a hotel owner to a hospitality service company by expanding our trademark license, management, reservation, and advertising services, through IBC Hotels. For more information on our strategic plan, including information on our progress in disposing of our hotel properties, see “Future Positioning” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

IBC HOSPITALITY TECHNOLOGIES

InnDependent Boutique Collection (“IBC”, “IBC Hotels”, “IBC Hotels, LLC”, “IBC Hospitality” or “IBC Hospitality Technologies”), a wholly owned subsidiary of InnSuites Hospitality Trust, has a network of approximately 2,000 unrelated hospitality properties with proprietary software exclusive marketing distribution and services as well as brand-like cost savings solutions to independent boutique hotels and alternative lodging (serviced apartments, B&B’s, villas and multi-unit ownership/management of luxury private residences). Additionally, IBC provides software and solutions to a variety of branded hotels looking to increase direct bookings and receive full guest information IBC’s patent-pending loyalty program allows consumers to book highly discounted travel when logged in and shopping for lodging on www.ivhtravel.com. IVHTravel.com and its proprietary booking engine has over 1.1 million lodging choices globally and provides add-on capability for activities, rental car and cancellation protection with airfare, all on the technologically developed roadmap in 2019.

IBC was born out of an independent hotelier’s frustration over being denied cost-effective access to enterprise hospitality services and software that served their large corporate competitors coupled with the inability to secure a global and robust guest loyalty program. Instead of giving up independence, the founders of IBC hired a development team to create the patent-pending InnDependent InnCentives guest loyalty program. With the success of the patent-pending InnCentives loyalty program IBC began adding hotel services and software specifically for independent and boutique hotels. These solutions address the following challenges: RevPAR and Profitability Optimization, Operational Management and Soft Brand Benefits. RevPAR, or revenue per available room, is a hospitality performance metric that is calculated by dividing a hotels total guestroom revenue by the room count and the number of days in the period being measured or by multiplying the average daily rate by the occupancy.

Our technology division is broken into two business lines, International Vacation Hotels Travel (“IVH”) and IBC Hospitality Technologies. Each of these divisions customer base is very different, and the services provided to each customer base ranges dramatically.

International Vacation Hotels Travel (“IVH”) Transactional Business to Consumer (“B-to-C”)

- IVH Collect – IVH will charge the guests in full on booking and remit the payments to the Hotel for all completed stays for rates contracted less the agreed upon commission. Wire and ACH fees will be paid by the hotel as applicable.
- A. stays for rates contracted less the agreed upon commission. Wire and ACH fees will be paid by the hotel as applicable.
 - B. Hotel Collect – the hotel will charge the guests in full upon arrival and IVH will invoice the hotel at the end of each month the agreed upon commission for the hotel guest stays completed.
 - C. Split – Guest pays deposit to IVH equal to the commission, provides credit card details and pays the balance to the Member upon arrival.

In each of the above B-to-C revenue streams, IVH provides a proprietary internet website or customized proprietary internet landing pages for each of the hotel properties. IVH's customer base is the Guests who are booking the reservations, not the hotels that are contracted with IBC. Guests go to IBC's managed webpages to ultimately purchase their hotel accommodations using the proprietary IBC booking engine or visit www.ivhtravel.com or www.ibcincentives.com. IVH obtains the guests from a variety of demand channels including direct marketing, retargeting, meta sites and direct internet searches. Guests typically book their travel accommodations on either the home page of www.ivhtravel.com or www.ibcincentives.com a customized landing page for meta-mid funnel reservations.

When guests book using the proprietary IBC booking engine either directly on ivhtravel.com or a customized landing page or website or www.ibcincentives.com or white label solution, IVH is the merchant of record. A merchant of record is the organization that assumes the overall liability and risk of the transaction and the financial institution holds the merchant of record liable to process the payments correctly from our guests. Per the network requirements, guests must be well aware that they are purchasing from IVH as our website branding, customized guest confirmations, reminder guest email communications, logos, privacy information, terms of use all must be clearly describing IBC/IVH policies including 24-hour reservations support.

Additionally, fraud is a significant issue in the online hospitality industry. Fraud primarily occurs when a person uses a stolen credit card or in a card not present environment. People often take time between losing a card or having one stolen, often thinking it will be found shortly. This vulnerable period gives thieves an opportunity to make several purchases before the card is cancelled. Especially in a card not present environment similar to IVH/IBC's environment, this is when a criminal uses the phone or an online website and manually gives the credit card information. This type of transaction is more vulnerable as there is no physical identification verification.

In addition, as a value-added service, IVH provides a 24/7/365 reservation service line (602-870-6929) where guests can call, email or chat via their website with a reservations agent to answer any questions about the accommodations or reservation. Inquiries are generated from either the confirmation details provided to the guest or our website which lists our phone number, email and chat services. These inquiries go directly to our IVH reservation service line, not the individual hotel properties.

IBC Business to Business (“B-to-B”)

IBC is a technology solutions provider to the global travel and tourism industry. IBC spans the breadth of the global travel ecosystem, providing key software and services to a broad range of travel suppliers and travel buyers. One of the main significant differences between our IBC Technologies division and our IVH business is that IBC Technology division’s customer is the hotel property and not the guest. IBC’s customer base is the Hotel Properties, not the guests who are staying at the hotel properties.

A summary of our IBC Hospitality Technologies and Services includes:

Business to Business – recurring proprietary software services revenues (central reservation system “CRS”, channel manager, reseller to white-label IBC software and aggregator switch)
Digital Marketing Services-Retargeting, Search Engine Marketing (“SEM”) (Management plus a % of advertisement spend), Email Marketing, Social Media
Meta services – official listings on meta including transactional and % of advertisement spend along with IVH meta channel on various providers and optimization of digital marketing budgets
Patent-pending Loyalty rewards services sold to hotels as a % of bookings
Website creation – either monthly fee or one-time expenses plus monthly hosting fees

For an independent hotel property who does not have the technical staff or skills, marketing their hotel property on the internet can be a daunting task. IBC Hospitality Technologies provides the property a proven marketing system that will grow their online presence and drive direct reservations to the hotels website and booking engine. Online search is the most popular way for travelers to find hotels with 80% of all hotel bookings beginning with Google and other providers. IBC Digital Marketing Services provides member hotels an opportunity to be in front of travelers needing to book their hotel accommodations. The Software as a Service (“SaaS”) revenues which include CRS and digital marketing services, are billed on a monthly basis and paid for by the individual hotel properties the following month services are provided. In most cases, the full amount is collected by IBC Technologies and then a fraction is paid to the online distributor. From the hotels perspective, IBC Technologies is being paid for the online spend. How IBC Technologies fulfills this request is solely up to IBC Technologies and not up to the individual hotels.

SaaS monthly revenues include website, proprietary booking engine, loyalty rewards and a CRS. Also, these hotels receive a small amount of digital marketing retargeting and meta services included in their monthly revenue fees, when appropriate and when we can determine that an appropriate return on investment (“ROI”) will be provided.

IBC provides digital marketing services to hundreds of member hotels and growing quickly. Digital marketing services includes retargeting advertising as an example. Retargeting, also known as remarketing, is a form of online advertising that assists the IBC member hotel who has signed up for this service additional revenues by keeping the hotel in front of bounced traffic after they leave our website. For most websites, only 2% of the web traffic converts on the first visit. Retargeting is a tool designed to help hotels reach 98% of guests who don’t book their hotel accommodations on their first visit. IBC, on behalf of the contracted member hotel, purchases “clicks” from various online resources to generate additional demand for the hotel property. IBC reviews complex demographic data to target and accurately pinpoint potential guests to advertise to; thus IBC not only purchases advertising space, but also provides a value added service thru various marketing optimization methods.

IBC COMPETITION

We operate in highly competitive markets. IBC competes with several other regional and global travel marketplace providers, including other local distribution systems and direct distribution by travel suppliers. In addition to other GDSs and direct distributors, there are a number of other competitors in the travel distribution marketplace, including new entrants in the travel space that offer metasearch capabilities that direct shoppers to supplier websites and/or OTAs, third party aggregators and peer-to-peer options for travel services.

GENERAL

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

At January 31, 2018, we owned through our sole general partner's interest in the Partnership a direct 22.83% interest in the Albuquerque, New Mexico Hotel, a 12.79% direct interest in the Yuma, Arizona Hotel. At January 31, 2017, we owned through our sole general partner's interest in the Partnership a direct 50.91% interest in the Albuquerque, New Mexico Hotel, and a 50.24% direct interest in the Yuma, Arizona Hotel. Additionally, and at January 31, 2017, we, together with the Partnership, owned a 51.01% interest in a hotel located in Tucson, Arizona. On June 2, 2017, the Trust sold its Ontario, California hotel to an unrelated third party for approximately \$17.5 million. For more information about the disposition of the Ontario, California hotel, see Note 24 of our Consolidated Financial Statements - "Sale of Ontario Hospitality Properties, LP".

Our expenses consist primarily of property taxes, insurance, corporate overhead, interest on mortgage debt, professional fees, depreciation of the Hotels and hotel operating expenses. Hotel operating expenses consist primarily of payroll, guest and maintenance supplies, marketing and utilities expenses. Under the terms of its Partnership Agreement, the Partnership is required to reimburse us for all such expenses. Accordingly, management believes that a review of the historical performance of the operations of the Hotels, particularly with respect to occupancy, which is calculated as rooms sold divided by total 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 number of rooms available, is appropriate for understanding revenue from the Hotels. In fiscal year 2018, occupancy increased 4.45% to 74.81% from 71.62% in the prior fiscal year. ADR increased by \$7.39 or 10.17% to \$80.07 in fiscal year 2018 from \$72.68 in fiscal year 2017. The increased occupancy and ADR resulted in an increase in REVPAR of \$7.74 or 14.79% to \$60.07 in fiscal year 2018 from \$52.33 in fiscal year 2017. The increased occupancy and increased rates reflect an improved product and improved economy which has allowed us to increase our rates while increasing our occupancy, especially in our Yuma, Arizona and Tucson, Arizona properties. We anticipate in the next few fiscal years that steady demand will exist with a significant increase in hotel room supply resulting in additional pressure on the hotel industry to lower rates to maintain current occupancy levels.

The following table shows certain historical financial and other information for the periods indicated:

| | For the Twelve Months Ended January 31, | |
|-------------------------------------|---|---------|
| | 2018 | 2017 |
| Occupancy | 74.81% | 71.62% |
| Average Daily Rate (ADR) | \$80.07 | \$72.68 |
| Revenue Per Available Room (REVPAR) | \$60.07 | \$52.33 |

No assurance can be given that occupancy, ADR and REVPAR will not increase or decrease as a result of changes in national or local economic or hospitality industry conditions.

We enter into transactions with certain related parties from time to time. For information relating to such related party transactions see the following:

For a discussion of management and licensing agreements with certain related parties, see “Item 1 – Business – Management and Licensing Contracts.”

For a discussion of guarantees of our mortgage notes payable by certain related parties, see Note 11 to our Consolidated Financial Statements – “Mortgage Notes Payable.”

For a discussion of our equity sales and restructuring agreements involving certain related parties, see Notes 3, 4 and 5 to our Consolidated Financial Statements – “Sale of Ownership Interests in Albuquerque Subsidiary,” “Sale of Ownership Interests in Tucson Hospitality Properties Subsidiary,” and “Sale of Ownership Interests in Yuma Hospitality Properties Subsidiary,” respectively.

For a discussion of other related party transactions, see Note 18 to our Consolidated Financial Statements – “Other Related Party Transactions.”

Results of operations of the Trust for the fiscal year ended January 31, 2018 compared to the fiscal year ended January 31, 2017.

Overview

A summary of total Trust operating results for the fiscal years ended January 31, 2018 and 2017 is as follows:

| | 2018 | 2017 | Change | % Change |
|--|--------------|--------------|-------------|-------------|
| Total Revenue from Continuing Operations | \$10,767,592 | \$9,197,179 | \$1,570,413 | 17.1 % |
| Operating Expenses from Continuing Operations | (13,882,399) | (11,552,646) | (2,329,753) | (20.2 %) |
| Operating Loss from Continuing Operations | (3,114,807) | (2,355,467) | (759,340) | (32.2 %) |
| Other Income from Continuing Operations | 79,999 | 30,269 | 49,730 | 164.3 % |
| Interest Expense from Continuing Operations | (656,810) | (489,792) | (167,018) | (34.1 %) |
| Income Tax Provision from Continuing Operations | (341,000) | 227,568 | (568,568) | (249.8 %) |
| Consolidated Net Loss from Continuing Operations | (4,032,618) | (2,587,422) | (1,445,196) | (55.9 %) |

A summary of operating results by segment for the fiscal years ended January 31, 2018 and 2017 is as follows:

| | 2018 Hotel Operations & Corporate | 2017 Hotel Operations & | Change | % Change |
|--|--|----------------------------------|--------|-------------|
|--|--|----------------------------------|--------|-------------|

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| | Overhead | Corporate Overhead | | | |
|---|----------------|-----------------------|-------------|---------|---|
| Total Revenue from Continuing Operations | \$9,319,467 | \$8,488,387 | \$831,080 | 9.8 | % |
| Operating Expenses from Continuing Operations | (10,051,355) | (9,653,941) | (397,414) | (4.1) | % |
| Operating Loss from Continuing Operations | (731,888) | (1,165,554) | 433,666 | 37.2 | % |
| Other Income from Continuing Operations | 79,999 | 30,269 | 49,730 | 164.3 | % |
| Interest Expense from Continuing Operations | (638,502) | (459,824) | (178,678) | (38.9) | % |
| Income Tax Provision from Continuing Operations | (341,000) | 227,568 | (568,568) | (249.8) | % |
| Net Loss from Continuing Operations | \$(1,631,391) | \$(1,367,541) | \$(263,850) | (19.3) | % |

| | 2018 IBC Hospitality | 2017 IBC Hospitality | Change | % Change |
|--------------------|----------------------------|----------------------------|---------------|-------------|
| Total Revenue | \$1,448,125 | \$708,792 | \$739,333 | 104.3 % |
| Operating Expenses | (3,831,044) | (1,898,705) | (1,932,339) | (101.8 %) |
| Operating Loss | (2,382,919) | (1,189,913) | (1,193,006) | (100.3 %) |
| Interest Expense | (18,308) | (29,968) | 11,660 | 38.9 % |
| Net Loss | \$(2,401,227) | \$(1,219,881) | \$(1,181,346) | (96.8 %) |

Our overall results in fiscal year 2018 were positively affected by a significant increase in room revenues and sale of our Ontario, California hotel property which was reduced by an increase in net operating expenses which included our growing IBC Hotels division and an increase in our income tax provision. Results were adversely affected by the write-off and impairment of IBC intangible assets.

REVENUE – CONTINUING OPERATIONS:

Hotel Operations & Corporate Overhead Segment

For the twelve months ended January 31, 2018, we had total revenue of approximately \$10,768,000 compared to approximately \$9,197,000 for the twelve months ended January 31, 2017, an increase of approximately \$1,571,000. In the prior fiscal years ending January 31, 2017 and 2016, we made significant improvements to our Yuma, Arizona and Tucson, Arizona properties which allowed us to increase rates with increased occupancy. For comparability purposes, the revenues do not include our Ontario, California property which was sold June 2, 2017. We realized a 14.2% increase in room revenues during fiscal year 2018 as room revenues were approximately \$9,282,000 for the fiscal year ending January 31, 2018 as compared to approximately \$8,125,000 for the fiscal year ending January 31, 2017. With additional hotel occupancy and change in our food and beverage offerings, our food and beverage revenue increased by 50% to approximately \$63,000 for fiscal year 2018 as compared to approximately \$32,000 during fiscal year 2017, an increase of approximately \$31,000. During fiscal year 2019, we expect improvements in occupancy, modest improvements in rates and steady food and beverage revenues. We also realized an approximate 32% decrease in management and trademark fee revenues during fiscal year 2018 to approximately \$200,000 as compared to approximately \$296,000 during fiscal year 2017. Management and trademark fee revenues decreased during fiscal year 2018 as a result of the sale of one of the hotels owned by affiliates of Mr. Wirth in February 2017 partially offset by increased revenues in the remaining hotel owned by affiliates of Mr. Wirth. On May 1, 2017, the Trust increased the management fees charged from 3% to 5%. Management anticipated this loss of revenues as one of the two hotels owned by affiliates of Mr. Wirth was sold to a third party so the management fees relating to the hotel property that was sold did not continue throughout the fiscal year ending January 31, 2018. Management is working on looking for other third-party management contracts. During fiscal year 2018, we expect management and trademark fee revenues to be relatively flat and comparable to fiscal year 2019 management and trademark fee revenues. We realized an approximate 48% increase in other revenues from the hotel properties during fiscal year 2018 to approximately \$111,000 as compared to approximately \$75,000 during fiscal year 2017.

IBC Technology Division

For the fiscal year ended January 31, 2018, we had total revenue of approximately \$1,112,000 compared to approximately \$670,000 for the fiscal year ended January 31, 2017, an increase of approximately \$739,000 or 204%. Our IBC Technologies Division provides marketing and reservation services to our hotel properties. We have continued to make significant sales, marketing and technology investment in this segment. Included in the total revenue of approximately \$1,112,000 for the fiscal year ended January 31, 2018, we included approximately \$234,000 of reservation acquisition costs relating to our prepaid reservations between August 2017 – January 2018. Starting February 1, 2018, we will account for IBC revenues on a “net” basis and not include the reservations acquisition costs in revenues. We anticipate strong growth in this segment over the next several fiscal years but can provide no assurance regarding such growth.

EXPENSES – CONTINUING OPERATIONS:

Hotel Operations & Corporate Overhead Segment

Total expenses net of interest expense and income tax provision was approximately \$14,880,000 for the twelve months ended January 31, 2018 reflects an increase of approximately \$3,065,000 compared to total expenses net of interest expense and income tax provision of approximately \$11,815,000 for the twelve months ended January 31, 2017. The increase was primarily due to an increase in operating expenses due to increased occupancy at the hotel properties.

Room expenses consisting of salaries and related employment taxes for property management, front office, housekeeping personnel, reservation fees and room supplies were approximately \$2,733,000 for the fiscal year ended January 31, 2018 compared to approximately \$2,422,000 in the prior year period for an increase of approximately \$311,000, or 12.8%, increase in costs. Room expenses increased as occupancy at the hotels increased and management elected to deep clean the hotel property rooms and additional expenses were incurred with the increased occupancy.

Food and beverage expenses included food and beverage costs, personnel and miscellaneous costs to provide banquet events. For the fiscal year ended January 31, 2018, food and beverage expenses were flat at approximately \$91,000 as compared to approximately \$91,000 for the fiscal year ended January 31, 2017. While food and beverage income doubled as we expanded our available products, management sourced its food from cheaper vendors and in some cases, reevaluated the hotel property's limited food offerings to provide a better, more efficient menu.

Telecommunications expense, consisting of telephone and Internet costs, increased 55% for the fiscal year ended January 31, 2018 which were approximately \$37,000 as compared to the prior fiscal year ended January 31, 2017 which were approximately \$24,000. Best Western International required additional Internet bandwidth which increased our expenses and Management anticipates this will be consistent for the fiscal year ending January 31, 2019.

General and administrative expenses include overhead charges for management, accounting, shareholder and legal services. General and administrative expenses of approximately \$3,001,000 for the twelve months ended January 31, 2018 increased approximately \$133,000 from approximately \$2,868,000 for the twelve months ended January 31, 2017 primarily due to increased bad debt expenses, credit card expenses and professional fees at our hotel properties.

Sales and marketing expense increased approximately \$108,000, or 16.9%, to approximately \$747,000 for the twelve months ended January 31, 2018 from approximately \$639,000 for the twelve months ended January 31, 2017. Management added some additional sales and marketing resources at our properties to increase the marketing exposure in the local community which resulted in additional hotel room revenues.

Repairs and maintenance expense slightly increased by approximately \$6,000 from approximately \$690,000 reported for the twelve months ended January 31, 2017 compared with approximately \$696,000 for the twelve months ended January 31, 2018. We completed significant property improvements at our Yuma, Arizona and Tucson, Arizona properties during the fiscal year ended January 31, 2018. We anticipate that these expenses will decrease during the fiscal year ending January 31, 2019 as Management completes repair and maintenance initiatives to ensure guests' satisfaction which complies with the increasing Best Western standards.

Hospitality expense increased by approximately \$55,000, or 9.4%, from \$583,000 for the twelve months ended January 31, 2017 to approximately \$639,000 for the twelve months ended January 31, 2018. The increase was primarily due to the additional occupancy at the hotel properties and the additional product mix provided during the Hotels' complimentary breakfast and happy hour required by Best Western.

Utility expenses increased approximately \$4,000 to approximately \$565,000 reported for the twelve months ended January 31, 2018 compared with approximately \$561,000 for the twelve months ended January 31, 2017. Increased utility costs occurred as a result of increased occupancy levels at our hotel properties offset by our continued focus to

decrease air-conditioning costs on vacant suites by having our housekeepers raise the temperature in vacant suites.

Hotel property depreciation expense decreased significantly as we sold our Ontario, California property during the fiscal year ended January 31, 2018. Hotel property depreciation expenses decreased by approximately \$130,000 from approximately \$1,187,000 reported for the twelve months ended January 31, 2018 compared with approximately \$1,317,000 for the twelve months ended January 31, 2017. In the fiscal year ending January 31, 2018, the Trust recaptured the depreciation not recognized while the hotel properties were in the Discontinued Operations – Assets Held for Sale reporting classification.

Real estate and personal property taxes, insurance ground rent expense decreased slightly by approximately \$21,000, or 4.1%, to approximately \$488,000 for the twelve months ended January 31, 2018 compared to approximately \$509,000 for the twelve months ended January 31, 2017.

Interest expenses increased as we refinanced one of our hotel property mortgages and added debt to purchase IHT stock and Partnership units from related and third parties. Interest expense increased by \$167,000 to approximately \$657,000 during the fiscal year ended January 31, 2018 compared with approximately \$490,000 during the fiscal year ended January 31, 2017.

Income tax expenses was approximately \$341,000 for the twelve months ended January 31, 2018, an increase of approximately \$569,000 from the prior fiscal year income tax benefit of approximately \$228,000. Increases in the income tax expense was due to the overall increased consolidated net income from continued and discontinued operations net of sales of ownership interests in our properties primarily based on the taxable profits derived from the sale of our Ontario, California property. Sales of ownership interests in our properties for tax purposes are considered income but under generally accepted accounting principles (“GAAP”), they are considered an increase in the Trusts’ equity.

IBC Development Segment

General and administrative expenses include overhead charges for management, accounting, reservations support staff and hotel onboarding. General and administrative expenses of approximately \$1,348,000 for the twelve months ended January 31, 2018 increased approximately \$265,000 from approximately \$1,083,000 for the twelve months ended January 31, 2017 primarily due to increased bad debt expenses, credit card expenses, support staff and hotel onboarding costs significantly increased.

Sales and marketing expense includes consultants, internet advertising, tradeshow and sales commissions expenses which increased by approximately \$410,000, from approximately \$639,000 for the twelve months ended January 31, 2017 to approximately \$1,049,000 for the twelve months ended January 31, 2018. As reservations income increases, sales and marketing expenses increase in order to acquire additional guests to book on our website. In addition, Management added significant amount of sales and marketing resources.

Reservation acquisition costs included amounts owed to hotels for prepaid reservations from August 2017 – January 2018 and were approximately \$234,000. Since we changed our accounting policy starting August 1, 2017 to record prepaid reservations on a gross basis, no reservation acquisition costs are included in the fiscal year ending January 31, 2017 and for the first six months of the fiscal year ending January 31, 2018. Starting February 1, 2018, we plan on recording prepaid reservations on a net basis.

Depreciation expenses increased by \$25,000 to approximately \$104,000 for the fiscal year ended January 31, 2018 as compared with approximately \$79,000 for the fiscal year ended January 31, 2017. As the IBC Technologies division develops and adds additional fixed assets, depreciation expenses increased.

Over the past several fiscal years, the Trust has made significant investment in IBC Hotels, including its investment in the purchase of International Vacation Hotels for \$1 million in January 2016. In the fiscal year ending January 31, 2017, the Trust incurred approximately \$1 million net operating loss from IBC Hotels. In the fiscal year ending January 31, 2018, IBC Hotels lost approximately \$1.6 million excluding the write-off of the intangible assets. After

assessing the totality of events and circumstances including the historical losses and projected losses, the Trust determined that it is more likely than not that the fair value of IBC Hotels is less than its carrying value. Accordingly, Management has decided to write down the entire amount of \$500,000 of goodwill as of January 31, 2018.

Amortization expenses primarily consists of amortization of intangibles related to our purchase of International Vacation Hotels in January 2016. Amortization expense significantly increased as management determined that assets were impaired as of January 31, 2018 as the Trust determined that it is more likely than not that the fair value of the intangibles was significantly less than its carrying value. For the fiscal year ended January 31, 2018, we had approximately \$433,000 of amortization expense compared with \$67,000 of amortization expense for the fiscal year ended January 31, 2017.

REVENUE – DISCONTINUING OPERATIONS

Hotel Operations & Corporate Overhead Segment

On June 2, 2017, the Trust sold its Ontario, California hotel to an unrelated third party for approximately \$17.5 million, which the Trust received in cash. Total gain on sale was approximately \$11.4 million. For the fiscal year ended January 31, 2018, our Ontario, California hotel had approximately \$1,471,000 of revenue consisting of approximately \$1.4 million of room and other revenues and approximately \$65,000 of food and beverage revenues. For the fiscal year ended January 31, 2017, our Ontario, California hotel had approximately \$3.85 million in room and other revenues and approximately \$164,000 of food and beverage revenues. We anticipated exceeding our room and food and beverage revenues for the fiscal year ended January 31, 2018 as compared to the fiscal year ended January 31, 2017 if we owned the hotel property for the entire fiscal year.

EXPENSES – DISCONTINUING OPERATIONS

Hotel Operations & Corporate Overhead Segment

For the twelve months ended January 31, 2018, we had approximately \$2,160,000 of total expenses compared to approximately \$4,058,000 of total expenses for the fiscal year ended January 31, 2017. For the fiscal year ended January 31, 2018, our Ontario, California hotel was owned and operated by the Trust for approximately 4 months and incurred normal routine operating expenses including approximately \$942,000 rooms expenses, approximately \$66,000 food and beverage expenses, approximately \$360,000 general and administrative expenses, approximately \$123,000 of sales and marketing expenses, approximately \$100,000 of repairs and maintenance expenses, approximately \$122,000 of hospitality expenses, approximately \$75,000 utilities, approximately \$178,000 of depreciation, approximately \$56,000 of taxes and insurance and approximately \$129,000 interest. The fiscal year ended January 31, 2017, we had approximately \$4,058,000 of total expenses for the Ontario, California hotel which included approximately \$1,258,000 rooms expenses, approximately \$195,000 food and beverage expenses, approximately \$458,000 of general and administrative expenses, approximately \$298,000 of sales and marketing expenses, approximately \$290,000 of repairs and maintenance expense, approximately \$217,000 of hospitality expenses, approximately \$246,000 of utility expenses, approximately \$130,000 of property insurance and taxes expenses and approximately \$699,000 of depreciation expenses.

LIQUIDITY AND CAPITAL RESOURCES

Overview – Hotel Operations & Corporate Overhead and IBC Development Segments

Our principal source of cash to meet our cash requirements, including distributions to our shareholders, is our share of the Partnership's cash flow, quarterly distributions from the Albuquerque, New Mexico and Yuma, Arizona properties and more recently, sales of non-controlling interests in certain of our Hotels and the sale of hotel properties. The Partnership's principal source of revenue is hotel operations for the one hotel property it owns in Tucson, Arizona and the proceeds from the sale of the Ontario, California property. 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 and to service our debt.

Hotel operations are significantly affected by occupancy and room rates at the Hotels. We anticipate occupancy and ADR will be steady during this coming year; capital improvements are expected to decrease from the prior year.

With approximately \$5,775,000 of cash and short term investments as of January 31, 2018 and the availability of a \$1,000,000 related party Demand/Revolving Line of Credit/Promissory Note and the availability of our two available Advances to Affiliate credit facilities for a total of \$1,000,000 maximum borrowing capacity, we believe that we will have enough cash on hand to meet all of our financial obligations as they become due for at least the next twelve months from the issuance date of the these consolidated financial statements. In addition, our management is analyzing other strategic options available to us, including raising additional funds through additional non-controlling interest sales; however, such transactions may not be available on terms that are favorable to us, or at all.

There can be no assurance that we will be successful in refinancing debt or raising additional or replacement funds, or that these funds may be available on terms that are favorable to us. If we are unable to raise additional or replacement funds, we may be required to sell certain of our assets to meet our liquidity needs, which may not be on terms that are favorable.

We anticipate some additional new-build hotel supply during fiscal year 2019. In fiscal year 2019, we anticipate additional pressure on revenues and operating margins. We expect the major challenge for fiscal year 2019 to be the continuation of strong competition for corporate leisure group and government business in the markets in which we operate, which may affect our ability to increase room rates while maintaining market share.

Net cash used in operating activities totaled approximately \$1,551,000 during fiscal year 2018 as compared to approximately \$871,000 during the prior fiscal year. Consolidated net income was approximately \$6,808,000 for the year ended January 31, 2018 as compared to consolidated net loss for the fiscal year ended January 31, 2017 of approximately \$2,627,000. Explanation of the differences between these fiscal years are explained above in the results of operations of the Trust.

Changes in the adjustments to reconcile net loss and net income for the years ended January 31, 2018 and 2017, respectively, consist primarily of gain on disposal of assets, hotel property depreciation, gain on disposal of assets, and changes in assets and liabilities. Hotel property depreciation was approximately \$1,469,000 during fiscal year 2018 compared to approximately \$2,094,000 during fiscal year 2017, a decrease of \$625,000 as the Trust recognized less depreciation as one of the hotel properties was sold during the fiscal year 2018. Amortization of intangibles was approximately \$933,000 during fiscal year 2018 compared to approximately \$67,000 during fiscal year 2017, an increase of \$866,000 as an impairment of goodwill and intangibles in its technology division existed.

Changes in assets and liabilities for accounts receivable, prepaid expenses and other assets and accounts payable and accrued expenses totaled approximately \$547,000 and approximately (\$553,000) for the fiscal years ended January 31, 2018 and 2017, respectively. This significant increase in changes in assets and liabilities for the fiscal year ended January 31, 2018 compared to the fiscal year ended January 31, 2017 was due to increased accounts receivables generated by IBC Hotels offset by our paydown of our accounts payable and accrued expenses.

Net cash provided by investing activities totaled approximately \$4,475,000 for the year ended January 31, 2018 compared to net cash used in investing activities of approximately \$903,000 for the year ended January 31, 2017. The increase in net cash provided by investing activities during fiscal year 2018 was due to the cash received from the sale of our Ontario, California hotel property offset by the lendings on advances to affiliates – related party of approximately \$1,956,000 during the fiscal year 2018 as compared to approximately \$880,000 for the fiscal year 2017. In addition, a significant decrease in net cash provided by investing activities occurred in fiscal year 2018 as we purchased \$1.0 million of marketable securities in fiscal year 2018 and increased by \$525,000 our improvements and additions to hotel properties of approximately \$2,779,000 during fiscal year 2018 compared to approximately \$2,254,000 during fiscal year 2017.

Net cash provided by financing activities totaled approximately \$1,284,000 and \$385,000 for the years ended January 31, 2018 and 2017, respectively. The significant increase of approximately \$991,000 was primarily due to an increase in borrowings on mortgage notes payable, borrowings on line of credit – related party, borrowings on notes payable – related party, borrowing on other notes payable, proceeds from sale of non-controlling ownership interest in subsidiaries, and sale of shares of beneficial interest offset by increases in payments on notes payable to banks, payments on line of credit – related party, payments on notes payable – related party, payments on other notes payable, payment of dividends, distributions to non-controlling interest holders and repurchase of treasury stock.

Principal payments on mortgage notes payables was approximately \$682,000 and approximately \$492,000 during the fiscal years ended January 31, 2018 and 2017, respectively. Payments on notes payable to banks was approximately \$2,429,000 and approximately \$1,471,000 during the fiscal years ended January 31, 2018 and 2017, respectively as we paid off our mortgage on our Ontario, California property as that asset was sold. Borrowings on Mortgage Notes Payable was \$5,000,000 and \$0 during the fiscal years ended January 31, 2018 and 2017, respectively. We refinanced our mortgage on our Tucson, Arizona property.

For the fiscal year ended January 31, 2018, payments on line of credit – related party netted against borrowings on line of credit – related party was approximately \$143,000 of net cash used by financing activities as compared to approximately \$169,000 of net cash provided by in financing activities for the fiscal year ended January 31, 2017.

Payments on notes payables – related party netted against borrowings on note payable – related party was approximately \$23,000 and approximately \$18,000 of net cash provided by financing activities during the fiscal years ended January 31, 2018 and 2017, respectively. During the fiscal year ended January 31, 2018, we continued to pay off American

Express merchant processing loans.

Payments on other notes payables netted against borrowings on other note payable was approximately \$591,000 and \$518,000 of net cash provided by financing activities during the fiscal years ended January 31, 2018 and 2017, respectively. During the fiscal year ended January 31, 2018, we increased our debt to finance our operations.

Proceeds from sales of non-controlling ownership interests in subsidiaries increased significantly by approximately \$3,454,000 as sales of non-controlling ownership interest was approximately \$3,548,000 for the fiscal year ended January 31, 2018 and approximately \$55,000 for the year ended January 31, 2017. During the fiscal year ended January 31, 2017, we primarily sold additional non-controlling interests in our Yuma, Arizona and Albuquerque, New Mexico property subsidiaries. In addition, we had sale of IHT stock of \$400,000 in the fiscal year ending January 31, 2018 and no sales of our IHT stock for the fiscal year ended January 31, 2017.

During the fiscal year ended January 31, 2018, our distributions to non-controlling interest holders was approximately \$5,758,000 compared with approximately \$697,000 for the fiscal year ended January 31, 2017. The Trust provided additional distributions to the Ontario, California non-controlling interest holders after the sale of the Ontario, California hotel property was sold.

We continue to contribute to a Capital Expenditures Fund (the “Fund”) an amount equal to 4% of the InnSuites Hotels’ revenues from operation of the Hotels. The Fund is restricted by the mortgage lender for one of our properties. As of January 31, 2018 and 2017, there were no monies held in these accounts reported on our Consolidated Balance Sheet as “Restricted Cash.” The Fund is intended to be used for capital improvements to the Hotels and refurbishment and replacement of furniture, fixtures and equipment. During the fiscal year ended January 31, 2018 and 2017, the Hotels spent approximately \$2,779,000 and \$2,255,000, respectively, for capital expenditures. We consider the majority of these improvements to be revenue producing. Therefore, these amounts are capitalized and depreciated over their estimated useful lives. For fiscal year 2018 capital expenditures, we plan on spending less on capital improvements as we have sold our oldest and largest hotel which required significant amounts of capital improvements and our Ontario, California property completed a renovation during the fiscal year ending January 31, 2017. Repairs and maintenance were charged to expense as incurred and approximated \$696,000 and \$690,000 for fiscal years 2018 and 2017, respectively.

We have minimum debt payments, net of debt discounts, of approximately \$1,754,000 and approximately \$668,000 due during fiscal years 2019 and 2020, respectively. Minimum debt payments due during fiscal year 2019 include approximately \$254,000 of mortgage notes payable, approximately \$144,000 notes payable to bank, approximately \$1,356,000 of other notes payable secured promissory notes outstanding to unrelated third parties arising from the Shares of Beneficial Interest and Partnership unit repurchases.

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.

SALE OF OWNERSHIP INTERESTS IN ALBUQUERQUE, ONTARIO, YUMA AND TUCSON SUBSIDIARIES

See Notes 3, 4 and 5 of the Trust’s Consolidated Financial Statements for a detailed discussion of the sale of ownership interests in the Trust’s subsidiaries.

COMPLIANCE WITH CONTINUED LISTING STANDARDS OF NYSE AMERICAN

On September 19, 2014, the NYSE AMERICAN notified the Trust that it was not in compliance with Section 1003(a)(i) of the NYSE AMERICAN Company Guide since it reported Shareholders' equity of less than \$2.0 million at July 31, 2014 and had incurred losses in two of its three fiscal years ended January 31, 2014. The NYSE AMERICAN previously accepted the Trust's equity expansion compliance plan and granted the Trust an extension of time until December 29, 2015 to comply with Sections 1003(a)(i), 1003(a)(ii) and 1003(a)(iii) of the NYSE AMERICAN Company Guide.

On January 18, 2016, we received a letter from the NYSE AMERICAN informing us that we are no longer out of compliance with the NYSE AMERICAN continued listed standards. Specifically, we had resolved the continued listing deficiencies with respect to Sections 1003(a)(i), 1003(a)(ii) and 1003(a)(iii) of the NYSE AMERICAN Company Guide. Our shareholders equity as of December 31, 2015 met the NYSE AMERICAN's minimum requirement of \$6 million.

On January 19, 2017, the Trust received a letter from the NYSE AMERICAN informing the Trust that the staff of the NYSE AMERICAN's Corporate Compliance Department had determined that the Trust is not in compliance with Section 1003(a)(iii) of the NYSE AMERICAN Company Guide due to the Trust having stockholders' equity of less than \$6.0 million and net losses from continuing operations in its five most recent fiscal years ended January 31, 2017.

The NYSE AMERICAN's letter informed the Trust that, to maintain its listing, it must submit a plan of compliance by February 20, 2017, addressing how it intends to regain compliance with the NYSE AMERICAN's continued listing standards within the maximum potential 18-month plan period available (the "Plan Period"). Elements of the compliance plan may include the sale of one or more of its assets (management believes IHT hotels have a much lower book value than market value), sale of additional Trust stock at market value, sale of minority interest in specific hotel properties and/or anticipated continuation of the current operational upward current trends in hotel gross operating profits.

On June 2, 2017, the Trust sold its Ontario, California hotel to an unrelated third party for approximately \$17.5 million, which the Trust received in cash. The Trust has recognized a gain of approximately \$11.4 million on its consolidated statement of operations for the fiscal year ended January 31, 2018. As of January 31, 2018, the Trust Shareholders' Equity was approximately \$8.2 million which exceeds the minimum requirements of the NYSE American Company Guide. The Trust believes that IHT will regain compliance with the NYSE American Exchange prior to the end of the current fiscal year as the third fiscal quarter financial results reported herein show two consecutive fiscal quarters of shareholders equity exceeding \$6.0 million.

On January 11, 2018, the Trust received a letter from the NYSE American LLC informing us that the Trust is back in compliance with all of the NYSE American LLC continued listing standards set forth in Part 10 of the NYSE American LLC Company Guide. Specifically, the Trust has resolved the continued listing deficiencies with respect to Section 1003(a)(iii) of the Company Guide reference in the Exchange's letters dated January 19, 2017. The Trust's shareholders equity as of January 31, 2018, October 31, 2017, and July 31, 2017 exceeded \$8.2 million which met the minimum requirement of \$6 million. The Trust will be subject to ongoing review for compliance with NYSE American LLC requirements as part of the Exchange's routine monitoring.

NON-GAAP FINANCIAL MEASURES

The following non-GAAP presentations of earnings before interest, taxes, depreciation and amortization ("EBITDA") and funds from operations ("FFO") are made to assist our investors in evaluating our operating performance.

Adjusted EBITDA is defined as earnings before interest expense, amortization of loan costs, interest income, income taxes, depreciation and amortization, and non-controlling interests in the Trust. We present Adjusted EBITDA because we believe these measurements (a) more accurately reflect the ongoing performance of our hotel assets and other investments, (b) provide more useful information to investors as indicators of our ability to meet our future debt payments and working capital requirements, and (c) provide an overall evaluation of our financial condition. Adjusted EBITDA as calculated by us may not be comparable to Adjusted EBITDA reported by other companies that do not define Adjusted EBITDA exactly as we define the term. Adjusted EBITDA does not represent cash generated from operating activities determined in accordance with GAAP and should not be considered as an alternative to (a) GAAP net income or loss as an indication of our financial performance or (b) GAAP cash flows from operating activities as a

measure of our liquidity.

A reconciliation of Adjusted EBITDA to net loss attributable to controlling interests for the fiscal years ended January 31, 2018 and 2017 follows:

| | Years Ended January 31, | |
|---|-------------------------|---------------|
| | 2018 | 2017 |
| Net income (loss) attributable to controlling interests | \$6,801,348 | \$(2,191,972) |
| Add back: | | |
| Depreciation from Continuing Operations | 1,291,371 | 1,395,572 |
| Goodwill impairment from Continuing Operations | 500,000 | - |
| Intangible Amortization from Continuing Operations | 433,000 | 67,000 |
| Interest expense from Continuing Operations | 656,810 | 489,792 |
| Taxes from Continuing Operations | 341,000 | (227,568) |
| Less: | | |
| Gain on Disposal of Discontinued Operations | (11,445,879) | - |
| Interest income from Continuing Operations | (79,999) | (30,269) |
| Adjusted EBITDA | \$(1,502,349) | \$(497,445) |

FFO is calculated on the basis defined by the National Association of Real Estate Investment Trusts (“NAREIT”), which is net income (loss) attributable to common shareholders, computed in accordance with GAAP, excluding gains or losses on sales of properties, asset impairment adjustments, and extraordinary items as defined by GAAP, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated joint ventures and non-controlling interests in the operating partnership. NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined by GAAP. The Trust is an unincorporated Ohio real estate investment trust; however, the Trust is not a real estate investment trust for federal taxation purposes. Management uses this measurement to compare itself to REITs with similar depreciable assets. We consider FFO to be an appropriate measure of our ongoing normalized operating performance. We compute FFO in accordance with our interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other companies that either do not define the term in accordance with the current NAREIT definition or interpret the NAREIT definition differently than us. FFO does not represent cash generated from operating activities as determined by GAAP and should not be considered as an alternative to (a) GAAP net income or loss as an indication of our financial performance or (b) GAAP cash flows from operating activities as a measure of our liquidity, nor is it indicative of funds available to satisfy our cash needs, including our ability to make cash distributions. However, to facilitate a clear understanding of our historical operating results, we believe that FFO should be considered along with our net income or loss and cash flows reported in the consolidated financial statements.

A reconciliation of FFO to net income (loss) attributable to controlling interests for fiscal year ended January 31, 2018 and 2017 follows:

| | Years Ended January 31, | |
|---|-------------------------|---------------|
| | 2018 | 2017 |
| Net income (loss) attributable to controlling interests | \$6,801,348 | \$(2,191,972) |
| Add back: | | |
| Depreciation from Continuing Operations | 1,291,371 | 1,395,572 |
| Goodwill impairment from Continuing Operations | 500,000 | - |
| Intangible Amortization from Continuing Operations | 433,000 | 67,000 |
| Non-controlling interest from Continuing Operations | (6,553) | 434,782 |
| Less: | | |
| Gain on Disposal of Discontinued Operations | (11,445,879) | - |
| FFO | \$(2,426,713) | \$(294,618) |

The Trust reported Consolidated Net Income of approximately \$6,808,000 for the fiscal year ended January 31, 2018 (“FY 2018”) compared to Consolidated Net Loss of approximately \$2,627,000 for the fiscal year ended January 31, 2017 (“FY 2017”), an improvement of approximately \$9,435,000. FY 2018 Consolidated Net Income and FY 2017 Consolidated Net Loss included non-cash depreciation, amortization and goodwill impairment of approximately \$2,224,000 and approximately \$1,463,000, respectively. FY 2018 Consolidated Net Income before non-cash depreciation, amortization and impairment of goodwill and intangible assets was approximately \$9,032,000. FY 2017 Consolidated Net Revenues jumped approximately \$1,571,000 as FY 2018 Revenues were approximately \$10,768,000 compared with FY 2017 Revenues of approximately \$9,197,000. FY 2018 Net Income Per Share was \$0.71 as compared to FY 2017 Net Loss Per Share of (\$0.27) for an increase of \$0.98 per Share.

FUTURE POSITIONING

In viewing the hotel industry cycles, the Board of Trustees determined that 2008 may have been the high point of the current hotel industry cycle and further determined it was appropriate to actively seek buyers for our properties. We engaged the services of several hotel brokers and began independently advertising our Hotels for sale. We continue to independently advertise our Hotels for sale, including on our website (www.suitehotelsrealty.com).

The table below provides book values, mortgage balances and listed asking price for the Hotels.

| Hotel Property | Book Value | Mortgage Balance | Listed Asking Price |
|----------------|--------------|------------------|---------------------|
| Albuquerque | \$1,998,693 | \$- | \$7,000,000 |
| Tucson Oracle | 7,630,663 | 4,927,075 | 14,100,000 |
| Yuma | 4,815,664 | 4,827,259 | 15,950,000 |
| | \$14,445,020 | \$9,754,334 | \$37,050,000 |

The listed asking price is the amount at which we would sell each of the Hotels and is based on the original listed selling price adjusted to reflect recent hotel sales in the Hotels' areas of operation and current earnings of each of the Hotels. The listed asking price is not based on appraisals of the properties.

On August 1, 2015, we finalized and committed to a plan to sell over time our hotel properties. We listed each of the properties with a local real estate hotel broker and we believe that each of the assets are being marketed at a price that is reasonable in relation to its current fair value. We believe that the plan to sell these assets will not likely be withdrawn. We are hopeful that the sale of these hotel properties will occur within the next couple of years based on feedback received by our local hotel real estate property professional brokers and we have engaged hotel real estate brokers who specialize in the selling/buying hotel real estate properties for the sale of our Yuma, Arizona hotel property. We can provide no assurance that we will be able to sell any or all of the hotel properties on terms favorable to us or within our expected time frame, or at all.

On June 2, 2017, the Trust sold its Ontario, California hotel to an unrelated third party for approximately \$17.5 million, which the Trust received in cash. We used \$7.2 million of the proceeds to satisfy its mortgage note payable on the property, approximately \$263,000 to reduce accruals and payables, and retained the remaining proceeds to fund future operations and capital improvements on our remaining hotels.

Although we believe it is probable, we may be unable to realize the listed sales price for the individual Hotel properties or to sell them at all. However, we believe that the listed values are reasonable based on local market conditions and comparable sales. Changes in market conditions have in part resulted, and may in the future result, in our changing one or all of the listed asking prices.

Our long-term strategic plan is to obtain the full benefit of our real estate equity and to migrate our focus from a hotel owner to a hospitality technology service company by expanding our trademark license, management, reservation, and advertising services, through InnDependent Boutique Collection (“IBC Hotels”), a wholly owned subsidiary of the Trust. As of January 31, 2018, IBC Hotels provided services to approximately 2,000 hotels.

We are planning expansion of IBC Hotels during the next couple of fiscal years as we continue to expand and develop our production and sales and marketing efforts. Specifically, IBC Hotels’ product development roadmap includes integration of more hotel software systems to simply use and simplify adoption of our product by the hotels, improve retention with better onboarding techniques, grow digital marketing services capabilities and revenues and continue to develop our product to meet the needs of our hotel partners. We anticipate significant expansion of our sales and marketing efforts by hiring additional personnel, seek out partnerships and acquisitions to grow our hotel user base and further monetize our loyalty program and consumer site. In addition, we paid to explore financial and strategic options for this division and hired an investment banker to assist. We anticipate the IBC Hotels sales and marketing efforts to increase our revenues and decrease our consolidated net loss over the coming fiscal years. For each reservation, IBC Hotels receives a 10% or more transactional fee plus reimbursement of our credit card processing fees associated with the reservation. We cannot provide any assurance that our plans will be successful or in line with our expectations.

This plan is similar to strategies followed by internationally diversified hotel industry leaders, which over the last several years have reduced real estate holdings and concentrated on hospitality services. We began our long-term corporate strategy when we relinquished our REIT income tax status in January 2004, which had previously prevented us from providing management and other hospitality services to hotels. In June 2004, we acquired our trademark license and management agreements and began providing management, trademark and reservations services to our Hotels.

SHARE REPURCHASE PROGRAM

For information on the Trust's Share Repurchase Program, see Part II, Item 5. "Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

OFF-BALANCE SHEET ARRANGEMENTS

Other than lease commitments and legal contingencies incurred in the normal course of business, we do not have any off-balance sheet financing arrangements or liabilities. We do not have any majority-owned or controlled subsidiaries that are not included in our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Asset Impairment

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. The Financial Accounting Standards Board (“FASB”) has issued authoritative guidance related to the impairment or disposal of long-lived assets, codified in ASC Topic 360-10-35, which we apply to determine when it is necessary to test an asset for recoverability. On an events and circumstances basis, we review the carrying value of our hotel properties. We will record an impairment loss and reduce the carrying value of a property when anticipated undiscounted future cash flows and the current market value of the property do not support its carrying value. In cases where we do not expect to recover the carrying cost of hotel properties held for use, we will reduce the carrying value to the fair value of the hotel, as determined by a current appraisal or other acceptable valuation methods. We did not recognize a hotel properties impairment loss in fiscal years 2018 or 2017. As of January 31, 2018, our management does not believe that the carrying values of any of our hotel properties are impaired.

Over the past several fiscal years, the Trust has made significant investment in IBC Hotels, including its investment in the purchase of International Vacation Hotels for \$1 million in January 2016. In the fiscal year ended January 31, 2017, the Trust incurred approximately \$1 million net operating loss from IBC Hotels. In the fiscal year ended January 31, 2018, IBC Hotels lost approximately \$1.6 million excluding the write-off of the intangible assets. After assessing the totality of events and circumstances such as those described above, including the historical losses and projected losses, the Trust determined that it is more likely than not that the fair value of IBC Hotels is less than its carrying value. Accordingly, Management has decided to write down the entire amount of goodwill and intangible assets as of January 31, 2018, as such amounts are not considered recoverable.

Sale of Hotel Assets

On August 1, 2015, the Trust finalized and committed to a plan to sell Hotel properties. As of May 1, 2017, the Trust has listed Hotel properties with a local real estate hotel broker, and management believes that each of the assets is at a price that is reasonable in relation to its current fair value. The Trust believes that the plan to sell these assets will not be withdrawn. Through the Trust’s Form 10-Q for the quarter ended July 31, 2017 filed with the SEC on September 14, 2017, the Trust classified all the Hotel properties as Assets Held for Sale. As of October 31, 2017, the Trust has decided to reclassify these assets back into operations as many of these assets have been marketed for sale for more than one year. At this time, the Trust is unable to predict when, and if, any of these Hotel properties will be sold and the Trust no longer deems a sale to be probable. The Trust continues to list these properties with local real estate hotel brokers and, we believe, that each of the assets is being marketed at a price that is reasonable in relation to its current fair value. There have been no other material changes to our basis of presentation since October 31, 2017.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The core principle of Topic 606 is the recognition of revenue for the transfer of goods and services equal to the amount an entity expects to receive for those goods and services. This ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. Subsequent to the issuance of ASU 2014-09, FASB has issued a number of additional ASUs on Topic 606. The Trust has continued to analyze the impact of the new standards on its financial results based on an inventory of the Trust’s current contracts with customers.

The Trust has obtained an understanding of the new standard and starting February 1, 2018, the Trust will change its accounting policy to record prepaid reservations on a net basis. Starting August 1, 2017, we changed our accounting policy to record prepaid reservations on a “gross basis” which included recording an additional amount of reservation revenues equal to an additional amount of reservation acquisition expenses representing the entire amount of the guest prepaid reservation, excluding taxes and including IBC Hotels’ commission. Reservation acquisition costs included amounts owed to hotels for prepaid reservations from August 2017 – January 2018 were approximately \$234,000. Previous to August 1, 2017, all prepaid reservations were recorded on a “net basis” and only the prepaid reservation commissions were included in revenues.

For recent accounting pronouncements, see Note 1 to our Consolidated Financial Statements – “Nature of Operations and Basis of Presentation”; under “Recently Issued Accounting Guidance”.

SEASONALITY

See Item 1 for related discussion of seasonality.

INFLATION

We rely entirely on the performance of the Hotels and InnSuites Hotels’ ability to increase revenue to keep pace with inflation. Operators of hotels in general and InnSuites Hotels in particular can change room rates quickly, but competitive pressures may limit InnSuites Hotels’ ability to raise rates as fast as or faster than inflation.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-K, including statements containing the phrases “believes,” “intends,” “expects,” “anticipates,” “predicts,” “projects,” “will be,” “should be,” “looking ahead,” “may” or similar words, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend that such forward-looking statements be subject to the safe harbors created by such Acts. These forward-looking statements include statements regarding our intent, belief or current expectations, those of our Board of Trustees or our officers in respect of (i) the declaration or payment of dividends; (ii) the leasing, management or operation of the Hotels; (iii) the adequacy of reserves for renovation and refurbishment; (iv) our financing plans; (v) our position regarding investments, acquisitions, developments, financings, conflicts of interest and other matters; (vi) expansion of IBC Hotels; (vii) our plans and expectations regarding future sales of hotel properties; and (viii) trends affecting our or any Hotel’s financial condition or results of operations.

These forward-looking statements reflect our current views in respect of future events and financial performance, but are subject to many uncertainties and factors relating to the operations and business environment of the Hotels that may cause our actual results to differ materially from any future results expressed or implied by such forward-looking statements. Examples of such uncertainties include, but are not limited to:

local, national or international, political economic and business conditions, including, without limitation, conditions that may, or may continue to, affect public securities markets generally, the hospitality industry or the markets in which we operate or will operate;

fluctuations in hotel occupancy rates;

changes in room rental rates that may be charged by InnSuites Hotels in response to market rental rate changes or otherwise;

seasonality of our hotel operations business;

our ability to sell any of our Hotels at market value, listed sale price or at all;

interest rate fluctuations;

changes in, or reinterpretations of, governmental regulations, including, but not limited to, environmental and other regulations, the ADA and federal income tax laws and regulations;

competition including supply and demand for hotel rooms and hotel properties;

availability of credit or other financing;

our ability to meet present and future debt service obligations;

our ability to refinance or extend the maturity of indebtedness at, prior to, or after the time it matures;

any changes in our financial condition or operating results due to acquisitions or dispositions of hotel properties;

insufficient resources to pursue our current strategy;

concentration of our investments in the InnSuites Hotels® brand;

loss of membership contracts;

the financial condition of franchises, brand membership companies and travel related companies;

ability to develop and maintain positive relations with “Best Western Plus” or “Best Western” and potential future franchises or brands;

real estate and hospitality market conditions;

hospitality industry factors;

our ability to carry out our strategy, including our strategy regarding IBC Hotels;

the Trust's ability to remain listed on the NYSE American;

effectiveness of the Trust's software program;

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

our ability to cost effectively integrate any acquisitions with the Trust in a timely manner;

increases in the cost of labor, energy, healthcare, insurance and other operating expenses as a result of changed or increased regulation or otherwise;

terrorist attacks or other acts of war;

outbreaks of communicable diseases attributed to our hotels or impacting the hotel industry in general;

natural disasters, including adverse climate changes in the areas where we have or serve hotels;

airline strikes;

transportation and fuel price increases;

adequacy of insurance coverage and increases in cost for health care coverage for employees and potential government regulation with respect to health care coverage;

data breaches or cybersecurity attacks, including breaches impacting the integrity and security of employee and guest data; and

loss of key personnel and uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act

In addition, examples of such uncertainties we specifically face in our IBC Hospitality Technologies division include, but are not limited to:

transaction volumes in the global travel industry;

pricing pressure from travel suppliers and competition in the travel distribution market;

the amount of resources needed to implement our software solutions;

the use of alternative distribution models by travel suppliers;

failures, capacity constraints, business interruptions and other forces impacting the integrity of our systems and infrastructure;

international privacy regulations, compliance with these regulations could impose significant compliance burdens;

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet have recently come under increased public scrutiny. The U.S. Congress and federal agencies, including the Federal Trade Commission and the Department of Commerce, are reviewing the need for greater regulation for the collection and use of information concerning consumer behavior on the internet, including regulation aimed at restricting certain targeted advertising practices. U.S. courts are also considering the applicability of existing federal and state statutes, including computer trespass and wiretapping laws, to the collection and exchange of information online.

In addition, the European Court of Justice's invalidation of the U.S.-EU Safe Harbor Framework could make it more difficult for us to transfer data outside of the European Union for processing and the European Union's reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies, including Expedia, with users in Europe and increased costs of compliance. For example, the European Union adopted a new regulation that becomes effective in May 2018, called the General Data Protection Regulation, which requires companies to meet new requirements regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet these requirements could result in significant penalties. Finally, countries in other regions, most notably Asia, Eastern Europe and Latin America, are increasingly implementing new privacy regulations, resulting in additional compliance burdens and uncertainty as to how some of these laws will be interpreted.

system interruption, security breaches and the lack of redundancy in our information systems may harm our businesses;

We rely on information technology systems, including the internet and third-party hosted services, to support a variety of business processes and activities and to transmit and store data, including booking transactions, intellectual property, our proprietary business information and that of our suppliers and business partners, personally identifiable information of our guests and employees, and invoicing information and the collection of payments, accounting and procurement. In addition, we rely on our information technology systems to process financial information and results of operations for internal reporting purposes and to comply with financial reporting, legal, and tax requirements. The risk of a cybersecurity-related attack, intrusion, or disruption, including through spyware, viruses, phishing, denial of service and similar attacks by criminal organizations, hacktivists, foreign governments, and terrorists, is persistent. We have experienced and may in the future experience system interruptions that make some or all of these systems unavailable or prevent us from efficiently fulfilling orders or providing services to third parties. These interruptions could include security intrusions and attacks on our systems for fraud or service interruption. Significant interruptions, outages or delays in our internal systems, or systems of third parties that we rely upon - including multiple co-location providers for data centers, cloud computing providers for application hosting, and network access providers - and network access, or deterioration in the performance of such systems, would impair our ability to process transactions, decrease our quality of service that we can offer to our guests, damage our reputation and brands, increase our costs and/or cause losses.

Potential security breaches to our systems or the systems of our service providers, whether resulting from internal or external sources, could significantly harm our business. We devote resources to network security, monitoring and testing, employee training, and other security measures, but there can be no guarantee that these measures will prevent all possible security breaches or attacks. A party, whether internal or external, that is able to circumvent our security systems could misappropriate guest or employee information, intellectual property, proprietary information or other business and financial data or cause significant interruptions in our operations. We may need to expend additional significant resources to protect against security breaches or to address problems caused by breaches, and a security breach resulting in the reduction of website availability could cause a loss of substantial business volume during the occurrence of any such incident. Because the techniques used to sabotage security change frequently, are often not recognized until launched against a target, and may originate from less regulated or remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures. Security breaches could result in negative publicity, damage to reputation, exposure to risk of loss or litigation and possible

liability due to regulatory penalties and sanctions or pursuant to our contractual arrangements with payment card processors for associated expenses and penalties. Security breaches could also cause travelers and potential users and our business partners to lose confidence in our security, which would have a negative effect on the value of our brands. Our failure to quickly respond to or adequately protect against attacks or intrusions, whether for our own systems or systems of vendors, could expose us to security breaches that could have an adverse impact on financial performance.

In addition, no assurance can be given that our backup systems or contingency plans will sustain critical aspects of our operations or business processes in all circumstances, many other systems are not fully redundant and our disaster recovery or business continuity planning may not be sufficient. Fire, flood, power loss, telecommunications failure, break-ins, earthquakes, acts of war or terrorism, natural events, computer viruses, electronic intrusion attempts from both external and internal sources and similar events or disruptions may damage or impact or interrupt computer or communications systems or business processes at any time. We rely on the measures in place at our vendors to protect certain portions of our data and electronic assets, any of these events could cause system interruption, delays and loss of critical data, and could prevent us from providing services to our travelers and/or third parties for a significant period of time. In addition, any remediation efforts may be costly for which we may not have adequate insurance to cover such losses or costs. Moreover, the costs of enhancing infrastructure to attain improved stability and redundancy may be time consuming and expensive and may require resources and expertise that are difficult to obtain.

We process, store and use customer and employee personal, financial and other data, which subjects us to risks stemming from possible failure to comply with governmental regulation and other legal obligations, as well as litigation and reputational risks associated with the failure to protect such data from unauthorized use, theft or destruction. We process, store and use customer and employee personal, financial and other data obtained from users of our websites and from our administrative functions. There are numerous laws regarding the storing, sharing, use, processing, disclosure and protection of customer and employee personal, financial and other data, the scope of which is changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. It is possible, however, that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or the practices of the companies.

Any failure or perceived failure by us, or our service providers, to comply with the privacy policies, privacy-related obligations to users or other third parties, or privacy related legal obligations, or any compromise of security that results in the unauthorized use, theft or destruction of such data, may result in a material loss of revenues from the potential adverse impact to our reputation and brand, our ability to retain customers or attract new customers and the potential disruption to our business and plans. In addition, such an event could result in violations of applicable U.S. and international laws, governmental enforcement actions and consumer or securities litigation. Such events could also subject us to bank fines, penalties or increased transaction costs, damage our reputation and brands, impair our relationships with current and potential business partners and key service providers, all of which could have an adverse effect on our business.

payments-related and fraud risks;

We have agreements with companies that process customer credit and debit card transactions, the volume of which continues to grow, for the facilitation of customer bookings of travel services from our travel suppliers. These processing companies may be entitled to a holdback or suspension of processing services upon the occurrence of specified events, including material adverse changes in our financial condition. An imposition of a holdback or suspension of processing services by one or more of our processing companies could materially reduce our liquidity.

Moreover, there can be no assurances that the interchange rates or the fees we pay for the processing of customer credit and debit card transactions will not increase which could reduce our revenue thereby adversely affecting our business and financial performance.

In addition, credit card networks, such as Visa, MasterCard and American Express, have adopted rules and regulations that apply to all merchants who process and accept credit cards and include payment card association operating rules, the Payment Card Industry Data Security Standards, or the PCI DSS. Under these rules, we are required to adopt and implement internal controls over the use, storage and security of card data. We assess our compliance with the PCI DSS rules on a periodic basis and make necessary improvements to our internal controls. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

Our results of operations and financial positions have been negatively affected by our acceptance of fraudulent bookings made using credit and debit cards. We are sometimes held liable for accepting fraudulent bookings on our websites or other bookings for which payment is subsequently disputed by our customers both of which lead to the reversal of payments received by us for such bookings (referred to as a "charge back"). Our ability to detect and combat fraudulent schemes, which have become increasingly common and sophisticated, may be negatively impacted by the adoption of new payment methods, the emergence and innovation of new technology platforms, including smartphones, tablet computers and in-home assistants, and our global expansion, including into markets with a history of elevated fraudulent activity. In addition, for existing and future payment options we offer to our technology company customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. If we are unable to effectively combat fraudulent bookings on our websites or if we otherwise experience increased levels of charge backs, our results of operations and financial positions could be materially adversely affected.

The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for all companies, including ours.

While the Trust selects these third-party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor could adversely affect the Trust's ability to deliver products and services to its customers and otherwise conduct its business.

our ability to maintain and renew contracts with our hoteliers and other counterparts; and
financial or other general business instability experienced by our travel suppliers.

We do not undertake any obligation to update publicly or revise any forward-looking statements whether as a result of new information, future events or otherwise except as may be required by law. Pursuant to Section 21E(b)(2)(E) of the Securities Exchange Act of 1934, as amended, the qualifications set forth hereinabove are inapplicable to any forward-looking statements in this Form 10-K relating to the operations of the Partnership.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All other schedules are omitted, as the information is not required or is otherwise furnished.

INNSUITES HOSPITALITY TRUST

LIST OF CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of InnSuites Hospitality Trust are included in Item 8:

| | |
|--|----|
| <u>Report of Independent Registered Public Accounting Firm</u> | 29 |
| <u>Consolidated Balance Sheets – January 31, 2018 and 2017</u> | 30 |
| <u>Consolidated Statements of Operations – Years Ended January 31, 2018 and 2017</u> | 31 |
| <u>Consolidated Statements of Shareholders' Equity – Years Ended January 31, 2018 and 2017</u> | 32 |
| <u>Consolidated Statements of Cash Flows – Years Ended January 31, 2018 and 2017</u> | 33 |
| <u>Notes to the Consolidated Financial Statements – Years Ended January 31, 2018 and 2017</u> | 34 |

All other schedules are omitted, as the information is not required or is otherwise furnished.

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of trustees of InnSuites Hospitality Trust

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of InnSuites Hospitality Trust and subsidiaries (the “Trust”) as of January 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity and cash flows for each of the two years in the period ended January 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as of January 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended January 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Trust’s management. Our responsibility is to express an opinion on the Trust’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Trust’s internal control over financial reporting. Accordingly, we express no opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis

for our opinion.

/s/ Hall & Company Certified Public Accountants & Consultants, Inc.

We have served as the Trust's auditor since 2015

Irvine, CA

May 16, 2018

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INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | JANUARY 31, 2018 | JANUARY 31, 2017 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$4,776,453 | \$478,835 |
| Short-Term Investments – Available For Sale Securities | 1,000,330 | - |
| Accounts Receivable, including \$15,113 and \$1,783 from related parties and net of Allowance for Doubtful Accounts of \$28,564 and \$53,720 as of January 31, 2018 and 2017, respectively | 344,108 | 626,174 |
| Advances to Affiliates - Related Party | 970,353 | - |
| Notes Receivable - Related Party | 810,799 | - |
| Prepaid Expenses and Other Current Assets | 164,278 | 130,831 |
| Current Assets of Discontinued Operations | - | 229,127 |
| Total Current Assets | 8,066,321 | 1,464,967 |
| Property, Plant and Equipment, net | 15,011,751 | 13,694,268 |
| Intangible Assets, net | - | 433,000 |
| Goodwill | - | 500,000 |
| Noncurrent assets of Discontinued Operations | - | 6,080,597 |
| TOTAL ASSETS | \$23,078,072 | \$22,172,832 |

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

| | | |
|--|-------------|-------------|
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | \$2,211,176 | \$1,763,498 |
| Lending From Affiliates - Related Party | - | 379,167 |
| Current Portion of Notes Payable - Related Party | 296,315 | 145,000 |
| Current Portion of Mortgage Notes Payable, net of Discount of \$2,628 and \$8,012 as of January 31, 2018 and 2017, respectively | 254,460 | 320,193 |
| Current Portion of Notes Payable to Banks, net of Discount of \$3,680 and \$39,796 as of January 31, 2018 and 2017, respectively | 144,185 | 646,376 |
| Current Portion of Other Notes Payable | 1,059,349 | 565,657 |
| Current Liabilities of Discontinued Operations | 86,976 | 585,609 |
| Total Current Liabilities | 4,052,461 | 4,405,500 |
| Notes Payable - Related Party | 494,258 | - |
| Mortgage Notes Payable, net of discount of \$13,868 and \$50,894 as of January 31, 2018 2017, respectively | 9,499,875 | 7,755,564 |
| Notes Payable to Banks, net of discount of \$4,902 and \$2,316 as of January 31, 2018 and 2017, respectively | 808,028 | 1,331,270 |
| Other Notes Payable | 104,481 | 7,411 |
| Noncurrent Liabilities of Discontinued Operations | - | 5,047,838 |

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| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES | 14,959,103 | 18,547,583 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Shares of Beneficial Interest, without par value, unlimited authorization; 18,572,215 and 18,292,601 shares issued and 9,775,669 and 9,665,328 shares outstanding at January 31, 2018 and January 31, 2017, respectively | 22,333,905 | 16,794,132 |
| Treasury Stock, 8,796,546 and 8,645,573 shares held at cost at January 31, 2017 and January 31, 2017, respectively | (12,662,996) | (12,362,952) |
| TOTAL TRUST SHAREHOLDERS' EQUITY | 9,670,909 | 4,431,180 |
| NON-CONTROLLING INTEREST | (1,551,940) | (805,931) |
| TOTAL EQUITY | 8,118,969 | 3,625,249 |
| TOTAL LIABILITIES AND EQUITY | \$23,078,072 | \$22,172,832 |

See accompanying notes to these consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| | FOR THE YEARS ENDED JANUARY 31, | |
|--|---------------------------------------|-----------------------|
| | 2018 | 2017 |
| REVENUE | | |
| Room | \$9,281,199 | \$8,124,592 |
| Food and Beverage | 62,969 | 31,936 |
| Management and Trademark Fees | 200,457 | 296,176 |
| Reservation and Convention | 1,111,775 | 669,533 |
| Other | 111,192 | 74,942 |
| TOTAL REVENUE | 10,767,592 | 9,197,179 |
| OPERATING EXPENSES | | |
| Room | 2,732,908 | 2,422,225 |
| Food and Beverage | 90,543 | 91,249 |
| Telecommunications | 37,145 | 24,018 |
| General and Administrative | 4,349,086 | 3,950,659 |
| Sales and Marketing | 1,796,338 | 1,280,073 |
| Reservation Acquisition Costs | 234,169 | - |
| Repairs and Maintenance | 695,992 | 690,386 |
| Hospitality | 639,293 | 583,380 |
| Utilities | 565,028 | 561,013 |
| Depreciation | 1,291,371 | 1,395,572 |
| Goodwill Impairment | 500,000 | - |
| Intangible Amortization | 433,000 | 67,000 |
| Real Estate and Personal Property Taxes, Insurance and Ground Rent | 488,373 | 509,353 |
| Other | 29,153 | (22,282) |
| TOTAL OPERATING EXPENSES | 13,882,399 | 11,552,646 |
| OPERATING LOSS | (3,114,807) | (2,355,467) |
| Interest Income | 11,641 | 1,359 |
| Interest Income on Advances to Affiliates - Related Party | 68,358 | 28,910 |
| TOTAL OTHER INCOME | 79,999 | 30,269 |
| Interest on Mortgage Notes Payable | 496,515 | 417,543 |
| Interest on Notes Payable to Banks | 57,008 | 60,745 |
| Interest on Other Notes Payable | 103,287 | 11,504 |
| TOTAL INTEREST EXPENSE | 656,810 | 489,792 |
| CONSOLIDATED NET LOSS BEFORE INCOME TAX PROVISION, DISCONTINUED OPERATIONS AND GAIN ON DISPOSAL OF ASSETS | (3,691,618) | (2,814,990) |
| Income Tax (Provision) Benefit | (341,000) | 227,568 |
| CONSOLIDATED NET LOSS FROM CONTINUING OPERATIONS | \$(4,032,618) | \$(2,587,422) |
| Discontinued Operations, Net of Non-Controlling Interest | \$(605,360) | \$(39,332) |
| Gain on Disposal of Discontinued Operations | \$11,445,879 | \$- |

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| | | |
|--|---------------|----------------|
| CONSOLIDATED NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS | \$ 10,840,519 | \$(39,332) |
| CONSOLIDATED NET INCOME (LOSS) | \$6,807,901 | \$(2,626,754) |
| LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST | \$5,410,300 | \$(434,782) |
| NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTERESTS | \$ 1,397,601 | \$(2,191,972) |
| NET LOSS PER SHARE FROM CONTINUING OPERATIONS – BASIC | \$(0.42) | \$(0.27) |
| NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS – BASIC | \$1.13 | \$- |
| NET INCOME (LOSS) PER SHARE PER SHARE TOTAL - BASIC | \$0.71 | \$(0.27) |
| NET LOSS PER SHARE FROM CONTINUING OPERATIONS – DILUTED | \$(0.31) | \$(0.19) |
| NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS – DILUTED | \$0.83 | - |
| NET INCOME (LOSS) PER SHARE PER SHARE TOTAL - DILUTED | \$0.52 | \$(0.19) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC | 9,612,139 | 9,682,668 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED | 13,085,223 | 13,366,737 |

See accompanying notes to these consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED JANUARY 31, 2018 and 2017

| | Total Equity | | Treasury Stock | | Trust Shareholders' Equity | Non-Controlling | |
|--|-------------------------------|--------------|----------------|----------------|----------------------------|-----------------|--------------|
| | Shares of Beneficial Interest | Amount | Shares | Amount | | Interest | Amount |
| Balance, January 31, 2016 | 8,791,500 | \$18,769,849 | 8,615,346 | \$(12,285,915) | \$6,483,934 | \$486,795 | \$6,970,729 |
| Net Loss | - | (2,191,972) | - | - | (2,191,972) | (434,782) | (2,626,754) |
| Dividends | - | (96,630) | - | - | (96,630) | - | (96,630) |
| Shares Issued from Cash | 861,755 | - | - | - | - | - | - |
| Received in Prior Period | - | - | - | - | - | - | - |
| Purchase of Treasury Stock | (30,227) | - | 30,227 | (77,037) | (77,037) | - | (77,037) |
| Shares of Beneficial Interest Issued for Services Rendered | 42,300 | 97,265 | - | - | 97,265 | - | 97,265 |
| Sales of Ownership Interests in Subsidiary, net | - | - | - | - | - | 55,000 | 55,000 |
| Distribution to Non-Controlling Interests | - | - | - | - | - | (697,324) | (697,324) |
| Reallocation of Non-Controlling Interests and Other | - | 215,620 | - | - | 215,620 | (215,620) | - |
| Balance, January 31, 2017 | 9,665,328 | \$16,794,132 | 8,645,573 | \$(12,362,952) | \$4,431,180 | \$(805,931) | \$3,625,249 |
| Net Income | - | 1,397,601 | - | - | 1,397,601 | 5,410,300 | 6,807,901 |
| Dividends | - | (197,512) | - | - | (197,512) | - | (197,512) |
| Purchase of Treasury Stock | (150,973) | - | 150,973 | (300,044) | (300,044) | - | (300,044) |
| Shares of Beneficial Interest Issued for Services | 43,250 | 86,683 | - | - | 86,683 | - | 86,683 |

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| | | | | | | | |
|---------------------|-----------|--------------|-----------|----------------|-------------|----------------|-------------|
| Rendered | | | | | | | |
| Sale of Shares of | | | | | | | |
| Beneficial Interest | 218,064 | 400,000 | - | - | 400,000 | - | 400,000 |
| Sales of | | | | | | | |
| Ownership | | | | | | | |
| Interests in | - | - | - | - | - | 3,454,226 | 3,454,226 |
| Subsidiary, net | | | | | | | |
| Distribution to | | | | | | | |
| Non-Controlling | - | - | - | - | - | (5,757,534) | (5,757,534) |
| Interests | | | | | | | |
| Reallocation of | | | | | | | |
| Non-Controlling | - | 3,853,001 | - | - | 3,853,001 | (3,853,001) | - |
| Interests and | | | | | | | |
| Other | | | | | | | |
| Balance, January | 9,775,669 | \$22,333,905 | 8,796,546 | \$(12,662,996) | \$9,670,909 | \$(1,551,940) | \$8,118,969 |
| 31, 2018 | | | | | | | |

See accompanying notes to these consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE YEARS ENDED JANUARY 31, | |
|---|---------------------------------------|-------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated Net Income (Loss) | \$6,807,901 | \$(2,626,754) |
| Adjustments to Reconcile Consolidated Net Income (Loss) to Net Cash Used In Operating Activities: | | |
| Stock-Based Compensation | 86,683 | 97,265 |
| Recovery of Uncollectible Receivables | (25,157) | 19,750 |
| Depreciation | 1,469,195 | 2,094,401 |
| Goodwill Impairment | 500,000 | - |
| Amortization of Intangibles | 433,000 | 67,000 |
| Amortization of Debt Discounts and Deferred Financing Fees | 75,937 | 29,892 |
| Gain on Disposal of Assets | (11,445,879) | - |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 399,966 | (475,702) |
| Prepaid Expenses and Other Assets | 13,376 | (50,329) |
| Accounts Payable and Accrued Expenses | 133,919 | (26,489) |
| NET CASH USED IN OPERATING ACTIVITIES | (1,551,059) | (870,966) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Improvements and Additions to Hotel Properties | (2,778,817) | (2,254,499) |
| Purchase of Marketable Securities | (1,000,000) | - |
| Cash Received From Sale of Hotel Property | 9,603,610 | - |
| Lendings on Advances to Affiliates - Related Party | (1,956,061) | (879,650) |
| Collections on Advances to Affiliates - Related Party | 606,541 | 2,231,001 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 4,475,273 | (903,148) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Mortgage Notes Payable | (681,868) | (491,806) |
| Borrowings on Mortgage Notes Payable | 5,000,000 | - |
| Payments on Notes Payable to Banks, net of financing costs | (2,428,962) | (1,470,570) |
| Borrowings on Notes Payable to Banks, net of financing costs | 1,370,000 | 2,494,051 |
| Payments on Line of Credit - Related Party | (775,000) | (61,356) |
| Borrowings on Line of Credit - Related Party | 632,384 | 230,000 |
| Payments on Notes Payable - Related Party | (2,022,792) | (701,113) |
| Borrowings on Notes Payable - Related Party | 2,000,184 | 683,230 |
| Payments on Other Notes Payable | (43,195) | (36,622) |
| Borrowings on Other Notes Payable | 633,956 | 555,000 |
| Payment of Dividends | (197,512) | (96,630) |
| Proceeds from Sale of Non-Controlling Ownership Interest in Subsidiary, net | 3,454,226 | 55,000 |

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| | | |
|--|--------------|-------------|
| Sale of Shares of Beneficial Interest | 400,000 | - |
| Distributions to Non-Controlling Interest Holders | (5,757,534) | (697,324) |
| Repurchase of Treasury Stock | (300,044) | (77,037) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,283,843 | 384,823 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,208,057 | (1,389,291) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 568,396 | 1,957,687 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$4,776,453 | \$568,396 |

See accompanying notes to these consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JANUARY 31, 2018 AND 2017

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

As of January 31, 2017, InnSuites Hospitality Trust (the “Trust”, “we”, “us” or “our”) is a publicly traded company with hotels IHT owns, hotels IHT manages, software IHT develops, software IHT sells, and online loyalty reward-based consumer travel services. The Trust and its shareholders owns interests directly in and through a partnership interest, three hotels with an aggregate of 424 suites in Arizona and New Mexico (the “Hotels”) operated under the federally trademarked name “InnSuites Hotels” or “InnSuites”. The Trust and its shareholders owns interests directly in IBC Hospitality Technologies and IVHTravel.com.

Hotel Operations:

Full service hotels often contain upscale full-service facilities with a large volume of full service accommodations, on-site full-service restaurant(s), and a variety of on-site amenities such as swimming pools, a health club, children’s activities, ballrooms and on-site conference facilities. Moderate or limited service hotels are small to medium-sized hotel establishments that offer a limited amount of on-site amenities. Most moderate or limited service establishments may still offer full service accommodations but lack leisure amenities such as an on-site restaurant or a swimming pool. We consider our Tucson, Arizona hotel and our hotel located in Albuquerque, New Mexico to be moderate or limited service establishments. IHT’s owned properties are limited service hotels. IHT provides management services on a wide variety of hotels.

The Trust is the sole general partner of RRF Limited Partnership, a Delaware limited partnership (the “Partnership”), and owned a 74.80% and 72.11% interest in the Partnership as of January 31, 2018 and 2017. The Trust’s weighted average ownership for the years ended January 31, 2018 and 2017 was 72.53% and 72.11%. As of January 31, 2018, the Partnership owned a 51.01% interest in an InnSuites® hotel located in Tucson, Arizona. The Trust owns a direct 12.79% interest in a Yuma, Arizona hotel property, and a direct 22.83% interest in an InnSuites® hotel located in Albuquerque, New Mexico.

Under certain management agreements, InnSuites Hotels Inc., our subsidiary, manages the Hotels’ daily operations. The Trust also provides the use of the “InnSuites” trademark to the Hotels through wholly-owned InnSuites Hotels. All such expenses and reimbursements between the Trust, InnSuites Hotels and the Partnership have been eliminated in

consolidation.

On August 1, 2015, the Trust finalized and committed to a plan to sell all the hotel properties. As of May 1, 2016, the Trust listed all the Hotel properties with a local real estate hotel broker, and management believed that each of the assets was being marketed at a price that was reasonable in relation to its current fair value. The Trust believes that the plan to sell these assets will not be withdrawn. Through the Trust's Form 10-Q for the quarter ended July 31, 2016 filed with the SEC on December 14, 2016, the Trust classified all the Hotel properties as Assets Held for Sale. As of October 31, 2016, the Trust has decided to reclassify these assets back into operations as many of these assets have been marketed for sale for more than one year. At this time, the Trust is unable to predict when, and if, any of these Hotel properties will be sold. The Trust continues to list these properties with local real estate hotel brokers and believes that each of the assets is being marketed at a price that is reasonable in relation to its current fair value. On June 2, 2017, the Ontario Hospitality Properties LLLP (the "Ontario entity") was sold to an unrelated third party for \$17,500,000 (see Note 24).

IBC Hospitality Technologies:

InnDependent Boutique Collection ("IBC", "IBC Hotels", "IBC Hospitality" or "IBC Hospitality Technologies"), a wholly-owned subsidiary of InnSuites Hospitality Trust, has a network of approximately 2,000 unrelated hospitality properties with proprietary software exclusive marketing distribution and services as well as brand-like cost savings solutions to independent boutique hotels and alternative lodging (serviced apartments, B&B's, villas and multi-unit ownership/management of luxury private residences). Additionally, IBC provides software and solutions to a variety of branded hotels looking to increase direct bookings and receive full guest information IBC's patent-pending loyalty program allows consumers to book highly discounted travel when logged in and shopping for lodging on www.ivhtravel.com. IVHTravel.com and its proprietary booking engine has over 1.1 million lodging choices globally and provides add-on capability for activities, rental car and cancellation protection with airfare on its roadmap in 2019.

IBC was born out of an independent hotelier's frustration over being denied cost-effective access to enterprise hospitality services and software that served their large corporate competitors coupled with the inability to secure a global and robust guest loyalty program. Instead of giving up independence, the founders of IBC hired a development team to create the patent-pending InnDependent InnCentives guest loyalty program. With the success of the patent-pending InnCentives loyalty program IBC began adding hotel services and software specifically for independent and boutique hotels. These solutions address the following challenges: RevPAR and Profitability Optimization, Operational Management and Soft Brand Benefits. RevPAR, or revenue per available room, is a hospitality performance metric that is calculated by dividing a hotels total guestroom revenue by the room count and the number of days in the period being measured or by multiplying the average daily rate by the occupancy.

Our technology division is broken into two business lines, International Vacation Hotels Travel ("IVH") and IBC Hospitality Technologies. Each of these divisions customer base is very different, and the services provided to each customer base ranges dramatically.

Intellectual Property

In order to provide our business to business solutions thru IBC and our business to consumer solutions thru IVH, we use software, business processes and proprietary information to carry out our business. These assets including related intellectual property rights, copyrights and website domains are significant assets of our business. InnSuites Hospitality Trust relies on the combination of patent, copyright, trade secret and trademark laws, confidentiality procedures and contractual provisions to protect these assets and we license software and other intellectual property both to and from third parties. Intellectual property assets are considered a valuable part of our business and have become a value-add portion of the services we provide. We consider our intellectual property assets a valuable asset to our business and we renew appropriate registrations and regularly monitor potential infringements of these assets.

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

These consolidated financial statements have been prepared by management in accordance with accounting principles in accordance with GAAP, and include all assets, liabilities, revenues and expenses of the Trust and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated. Certain items have been reclassified to conform to the current fiscal year presentation. The Trust exercises unilateral control over the Partnership and the entities listed below. Therefore, the financial statements of the Partnership and the entities listed below are consolidated with the Trust, and all significant intercompany transactions and balances have been eliminated.

IHT OWNERSHIP %

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| ENTITY | DIRECT | INDIRECT (i) |
|---|----------|-----------------|
| Albuquerque Suite Hospitality, LLC (see Note 6) | 22.83 % | - |
| Tucson Hospitality Properties, LLLP | - | 51.01 % |
| Ontario Hospitality Properties, LLLP (sold in June, 2017) | 99.60 % | - |
| Yuma Hospitality Properties, LLLP (see Note 6) | 12.79 % | - |
| Tucson Saint Mary's Hospitality LLC | - | 83.66 % |
| RRF Limited Partnership | 74.80 % | - |
| InnSuites Hotels Inc. | 100.00 % | - |
| IBC Hotels, LLC (including dba International Vacation Hotels) | 99.90 % | 0.10 % |

(i) Indirect ownership is through the Partnership

PARTNERSHIP AGREEMENT

The Partnership Agreement of the Partnership provides for the issuance of two classes of Limited Partnership units, Class A and Class B. Class A and Class B Partnership units are identical in all respects, except that each Class A Partnership unit is convertible into one newly-issued Share of Beneficial Interest of the Trust at any time at the option of the particular limited partner. The Class B Partnership units may only become convertible, each into one newly-issued Share of Beneficial Interest of the Trust, with the approval of the Board of Trustees, in its sole discretion. On January 31, 2018 and 2017, 250,093 and 276,131 Class A Partnership units were issued and outstanding, representing 1.95% and 2.09% of the total Partnership units, respectively. Additionally, as of both January 31, 2018 and 2017, 2,974,038 and 3,407,938 Class B Partnership units were outstanding to James Wirth, the Trust's Chairman and Chief Executive Officer, and Mr. Wirth's affiliates. If all of the Class A and B Partnership units were converted on January 31, 2018, the limited partners in the Partnership would receive 3,314,131 and 3,684,069 Shares of Beneficial Interest of the Trust. As of January 31, 2018, and 2017, the Trust owns 9,527,448 general partner units in the Partnership, representing 74.80% and 72.11% of the total Partnership units, respectively.

LIQUIDITY

Our principal source of cash to meet our cash requirements, including distributions to our shareholders, is our share of the Partnership's cash flow, quarterly distributions from the Albuquerque, New Mexico and Yuma, Arizona properties and more recently, sales of non-controlling interests in certain of our Hotels. The Partnership's principal source of cash flow is quarterly distributions from the Tucson, Arizona properties. 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 and to service our debt.

As of January 31, 2018, the Trust had a related party Demand/Revolving Line of Credit/Promissory Note with an amount receivable of approximately \$811,000. The Demand/Revolving Line of Credit/Promissory Note accrues interest at 7.0% per annum and requires interest only payments. The Demand/Revolving Line of Credit/Promissory Note has a maximum borrowing capacity to \$1,000,000, which is available through December 31, 2018. As of April 18, 2018, the outstanding net balance receivable on the Demand/Revolving Line of Credit/Promissory Note was \$811,000.

As of January 31, 2018, the Trust had an Advance to Affiliate credit facilities with an aggregate maximum borrowing capacity of \$1,000,000, which is available through June 30, 2018. As of January 31, 2018, the Trust had an amount receivable of the Advances to Affiliate credit facility of approximately \$971,000. As of April 18, 2018, the amount receivable from the Advance to Affiliate credit facility was approximately \$830,000.

With approximately \$5,775,000 of cash and short term investments, as of January 31, 2018, the availability of a \$1,000,000 related party Demand/Revolving Line of Credit/Promissory Note, and the availability of the combined \$1,000,000 Advance to Affiliate credit facilities, we believe that we will have enough cash on hand to meet all of our financial obligations as they become due for at least the next year. In addition, our management is analyzing other strategic options available to us, including the refinancing of another property or raising additional funds through additional non-controlling interest sales; however, such transactions may not be available on terms that are favorable to us, or at all

There can be no assurance that we will be successful in obtaining extensions, refinancing debt or raising additional or replacement funds, or that these funds may be available on terms that are favorable to us. If we are unable to raise additional or replacement funds, we may be required to sell certain of our assets to meet our liquidity needs, which may not be on terms that are favorable.

SEASONALITY OF THE HOTEL BUSINESS

The Hotels' operations historically have been somewhat seasonal. The two 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 two southern Arizona hotels. This seasonality pattern can be expected to cause fluctuations in the Trust's quarterly revenues. The hotel located in 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 Trust's hotel business.

The seasonal nature of the Trust's business increases its vulnerability to risks such as labor force shortages and cash flow issues. Further, if an adverse event such as an actual or threatened terrorist attack, international conflict, data breach, regional economic downturn or poor weather conditions should occur during the first or fourth fiscal quarters, the adverse impact to the Trust's revenues could likely be greater as a result of its southern Arizona seasonal business.

RECENTLY ISSUED ACCOUNTING GUIDANCE

In August 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. If and when an entity's liquidation becomes imminent, financial statements should be prepared under the Liquidation Basis of Accounting. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but the amendments in ASU 2014-15 require additional disclosure of information about the relevant conditions and events. The amendments in ASU 2014-15 are effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Trust has adopted this guidance on its consolidated financial statements and we believe no material impact exists at this time.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," a new standard which simplifies the accounting for share-based payment transactions. This guidance requires that excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the Consolidated Statements of Operations rather than additional paid-in capital. Additionally, the excess tax benefits will be classified along with other income tax cash flows as an operating activity, rather than a financing activity, on the Statement of Cash Flows. Further, the update allows an entity to make a policy election to recognize forfeitures as they occur or estimate the number of awards expected to be forfeited. It will be effective for us beginning in February 2018 and should be applied prospectively, with certain cumulative effect adjustments. Early adoption is permitted. We are currently assessing the impact that this standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Trust is currently evaluating the impact of the adoption of ASU 2016-02 on the Trust's

consolidated financial statements.

The FASB issued the following accounting standard updates related to Topic 606, Revenue Contracts with Customers:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) No. 2014-09, “Revenue from Contracts with Customers.” This new standard will replace the existing revenue recognition guidance in GAAP. The core principle of the ASU is the recognition of revenue for the transfer of goods and services equal to the amount an entity expects to receive for those goods and services. This ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date” that delayed the effective date of ASU 2014-09 by one year to February 1, 2018, as the Trust’s annual reporting period is after December 15, 2017.

The Trust has continued to analyze the impact of the new standard on its financial results based on an inventory of the Trust’s current contracts with customers. The Trust has obtained an understanding of the new standard and believes starting February 1, 2018, the Trust will change its accounting policy to record prepaid reservations on a net basis. Upon adoption of the new standard, the Trust anticipates there will be no effect on retained earnings. Starting August 1, 2017, we changed our accounting policy to record prepaid reservations on a “gross basis” which included recording an additional amount of reservation revenues equal to an additional amount of reservation acquisition expenses representing the entire amount of the guest prepaid reservation, excluding taxes and including IBC Hotels’ commission. Reservation acquisition costs included amounts owed to hotels for prepaid reservations from August 2017 – January 2018 were approximately \$234,000. Previous to August 1, 2017, all prepaid reservations were recorded on a “net basis” and only the prepaid reservation commissions were included in revenues. Therefore there was no effect on retained earnings during the fiscal year ending January 31, 2018.

The Trust continues to evaluate the impact of ASU No. 2014-09 on our financial results and prepare for the adoption of the standard on February 1, 2018, including readying its internal processes and control environment for new requirements, particularly around enhanced disclosures, under the new standard. The standard allows for both retrospective and modified retrospective methods of adoption. The Trust is in the process of determining the method of adoption it will elect and the impact on our consolidated financial statements and footnote disclosures and will provide enhanced disclosures as we continue our assessment.

ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) in May 2014. ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations.

ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) in March 2016. ASU 2016-08 does change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on principal versus agent considerations. The Trust has continued to analyze the impact of the new standard on its financial results based on an inventory of the Trust’s current contacts with customers. The Trust has obtained an understanding of the new standard and believes starting February 1, 2018, the Trust will change its accounting policy to record prepaid reservations on a net basis.

ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) in April 2016. ASU 2016-10 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas.

ASU No. 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)” (“ASU 2016-11”) in May 2016. ASU 2016-11 rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 EITF meeting. The SEC Staff is rescinding SEC Staff Observer comments that are codified in Topic 605 and Topic 932, effective upon adoption of Topic 606.

ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”) in May 2016. ASU 2016-12 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on a few narrow areas and adds some practical expedients to the guidance.

ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”) in January 2017. ASU 2017-04 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on a few narrow areas and adds some practical expedients to the guidance. ASU 2017-04 allows companies to measure goodwill impairment as the excess of the reporting unit’s carrying value over its fair value. ASU 2017-04 is effective for public companies that file with the SEC for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Trust is in the process of determining the impact on our consolidated financial statements and footnote disclosures, and will provide enhanced disclosures as we continue our assessment.

These ASUs will become effective for the Trust beginning interim period February 1, 2018. Based on our initial evaluation of the new revenue recognition standards, the Trust believes that all of our revenues will need to be presented on a net basis instead of a gross basis as currently presented.

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 Trust’s operations are affected by numerous factors, including the economy, competition in the hotel industry and the effect of the economy on the travel and hospitality industries. The Trust cannot predict if any of the above items will have a significant impact in the future, nor can it predict what impact, if any, the occurrence of these or other events might have on the Trust’s operations and cash flows. Significant estimates and assumptions made by management include, but are not limited to, the estimated useful lives of long-lived assets and recoverability of long-lived assets and the fair values of the long-lived assets.

PROPERTY, PLANT AND EQUIPMENT AND HOTEL PROPERTIES

Furniture, fixtures, building improvements and hotel properties are stated at cost and are depreciated using the straight-line method over estimated lives ranging up to 40 years for buildings and 3 to 10 years for furniture and equipment.

Management applies guidance ASC 360-10-35, to determine when it is required to test an asset for recoverability of its carrying value and whether an impairment exists. Under ASC 360-10-35, the Trust is required to test a long-lived asset for impairment when there is an indicator of impairment. Impairment indicators may include, but are not limited to, a drop in the performance of a long-lived asset, a decline in the hospitality industry or a decline in the economy. If an indicator of potential impairment is present, then an assessment is performed of whether the carrying amount of an asset exceeds its estimated undiscounted future cash flows over its estimated remaining life.

If the estimated undiscounted future cash flows over the asset's estimated remaining life are greater than the asset's carrying value, no impairment is recognized; however, if the carrying value of the asset exceeds the estimated undiscounted future cash flows, then the Trust would recognize an impairment expense to the extent the asset's carrying value exceeds its fair value, if any. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are analyzed on a property-specific basis independent of the cash flows of other groups of assets. Evaluation of future cash flows is based on historical experience and other factors, including certain economic conditions and committed future bookings. Management has determined that impairment of long-lived assets existed during the Trust's fiscal years ended January 31, 2018 and 2017 (see Note 9).

Management applies guidance ASC 350-40 Intangibles – Computer Software Developed or Obtained for Internal Use, to determine whether it should capitalize internal use software developed for our IBC Technologies division. Under ASC 350-40, Management determined that some of the internal-use software can possibly be capitalized during the application development stage of development. The application development stage of development includes software configuration, software interfaces and coding. Management has capitalized internally developed software that meets the application development stage of development. Internally developed software is capitalized over the estimated useful life, which ranges from 3-5 years.

INTANGIBLE ASSETS

Intangible assets with finite lives were amortized on a straight-line basis over the estimated useful lives, which ranged from 7 to 10 years. The useful life of the intangible asset was evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life (see Note 9).

BUSINESS COMBINATIONS

We account for business combinations by recognizing the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair values on the acquisition date. The final purchase price may be adjusted up to one year from the date of the acquisition. Identifying the fair value of the tangible and intangible assets and liabilities requires the use of estimates by management and was based upon currently available data.

The Trust allocates the excess of purchase price over the identifiable intangible and net tangible assets to goodwill. Such goodwill is not deductible for tax purposes and represents the value placed on entering new markets and expanding market share (see Note 9).

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Additionally, any change in the fair value of the acquisition-related contingent consideration subsequent to the acquisition date, included changes from events after the acquisition date, such as changes in our estimate of relevant revenue or other targets, will be recognized in earnings in the period of the estimated fair value change. A change in fair value of the acquisition-related contingent consideration or the occurrence of events that cause results to differ from our estimates or assumptions could have a material effect on the consolidated statements of operations, financial position and cash flows in the period of the change in the estimate.

GOODWILL

The Trust tests goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its reporting unit's carrying value to its implied fair value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations and a variety of other circumstances. If the Trust determines that an impairment has occurred, it is required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. In evaluating the recoverability of the carrying value of goodwill, the Trust must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the acquired assets. Changes in strategy or market conditions could significantly impact those judgements in the future and require an adjustment to the recorded balances. The goodwill was recorded as part of the acquisition of International Vacation Hotels that occurred on January 8, 2016 (see Note 9) and an impairment existed as of January 31, 2018.

CASH AND CASH EQUIVALENTS

The Trust considers all highly liquid short-term investments with maturities of three months or less at the time of purchase to be cash equivalents. The Trust believes it places its cash and cash equivalents only with high credit quality financial institutions, although these balances may periodically exceed federally insured limits.

REVENUE RECOGNITION

Hotel and Operations

Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition” summarizes the SEC’s views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB No. 104 establishes the SEC’s view that it is not appropriate to recognize revenue until all of the following criteria are met: persuasive evidence that an arrangement exists; delivery has occurred or services have been rendered; the seller’s price to the buyer is fixed or determinable; and collectability is reasonably assured. Further, SAB No. 104 requires that both title and the risks and rewards of ownership be transferred to the buyer before revenue can be recognized. We believe that our revenue recognition policies as described below are in compliance with SAB No. 104.

Revenues are primarily derived from the following sources and are recognized as services are rendered and when collectability is reasonably assured. Amounts received in advance of revenue recognition are considered deferred liabilities.

Revenues primarily consist of room rentals, food and beverage sales, management and trademark fees and other miscellaneous revenues from our properties. Revenues are recorded when rooms are occupied and when food and beverage sales are delivered. Management and trademark fees from non-affiliated hotels include a monthly accounting fee and a percentage of hotel room revenues for managing the daily operations of the Hotels and the one hotel owned by affiliates of Mr. Wirth.

We are required to collect certain taxes and fees from customers on behalf of government agencies and remit these back to the applicable governmental agencies on a periodic basis. We have a legal obligation to act as a collection agent. We do not retain these taxes and fees and, therefore, they are not included in revenues. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable taxing authority or other appropriate governmental agency.

IBC Technologies Division

Our operating results are affected by certain metrics, such as bookings and revenue margin, which we believe are necessary for understanding and evaluating us. Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel by travelers, including taxes, fees and other charges. As travelers have increased their use of the internet to book travel arrangements, we have generally seen our gross bookings increase, reflecting the growth in the online travel industry, our organic market share gains and our business acquisitions.

We also evaluate the presentation of revenue on a gross versus a net basis. The consensus of the authoritative accounting literature is that the presentation of revenue as “the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee” is a matter of judgment that depends on the relevant facts and circumstances. In making an evaluation of this issue, some of the factors that should be considered are: whether we are the primary obligor in the arrangement (strong indicator); whether we have general supply risk (before customer order is placed or upon customer return) (strong indicator); and whether we have latitude in establishing price. The guidance clearly indicates that the evaluation of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. If the conclusion drawn is that we perform as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis. For our revenue models, discussed below, we have determined gross presentation is appropriate for certain of revenue transactions and net for others. Based on our initial evaluation of the new revenue recognition standards effective for filing periods after February 1, 2018, the Trust believes that all of our IBC revenues will be presented on a net basis.

IVH - Business to Consumer

IVH (Business to Consumer) and IBC (Business to Business) are two very different businesses that have two very different customer bases and provide very different services. IVH's (Business to Consumer) customer is the guest who is staying at the hotel property. Their customer isn't the hotel that the guest is staying at. The consumer gets to select which hotel and which room type. In some cases IVH prepays for discounted inventory from suppliers and resells it to guests so IVH is holding the supply. IVH plans on potentially doing more of this type of business based on the economics. We provide significant value to the guest by providing a 24/7/365 reservation hotline, travel insurance and

support up until the guest reaches the hotel property. We are paid in a variety of ways, sometimes the full value of the reservation is paid to us, of which we remit the hotels portion, sometime just our reservation fee which is equal to a non-refundable deposit made by the guest and sometime by billing the hotel for our reservation fee. Regardless of payment method and mostly depending upon the contractual obligations between IVH and the hotel, IVH typically is forced to pay for no-show reservations.

IBC – Business to Business

IBC is a leading technology solutions provider to the global travel and tourism industry. IBC's customer base is the hospitality properties, not the guests who are staying at the properties. The written agreements IBC has is directly with the properties. IBC has significant information risks per their contractual obligations with the hotels. Services include a CRS, Digital Marketing Services, Meta Services, Patent-pending loyalty services, websites and proprietary booking engines.

IBC is the primary obligor in the arrangement to provide these services. The hotels look to IBC to fulfill the contractual obligations of the arrangement. IBC is required to pay all upfront costs, regardless of usage and therefore has general inventory risk. IBC sets the price of its contracts and has the latitude to sell our services at various prices to our hotels. IBC changes the product before our network of hotels receive it as we have an entire onboarding team dedicated to ensure the content is uploaded properly, we have a call center and we provide the technology updates as necessary. IBC has sole discretion in selecting our suppliers and the product and service has been designed by IBC. In addition, IBC owns the software that the hotels license the rights to we invoice all of our hotels on monthly basis and records the gross amount of our services as revenues.

IBC derives substantially all of our digital marketing revenues from the performance of professional services on a fixed price monthly basis. Our digital marketing services include, but are not limited to, metasearch, retargeting, website design, reputation management, various online business listing services, social media marketing and rate shopping services. We recognize revenues as professional services are performed. A significant component of our digital marketing is search engine marketing (“SEM”). With SEM, we receive a commission on top of the amount of advertising we place for our clients. We incur digital advertising costs on behalf of our clients which are reflected in our advertising and marketing expenses. These expenses include media and production services to place advertisements strategically on various websites to maximize obtaining additional reservations for the hotel.

Based on our policy, we recognize revenue when we believe that persuasive evidence of an arrangement exists, delivery has occurred, or services have been rendered, the seller’s price to the buyer is fixed or determinable, and the collectability of our revenues are reasonably assured.

ACCOUNTS RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are carried at original amounts billed less an estimate made for doubtful accounts based on a review of outstanding amounts on a quarterly basis. Management generally records an allowance for doubtful accounts for 50% of balances over 90 days and 100% of balances over 120 days. Accounts receivable are written off when collection efforts have been exhausted and they are deemed uncollectible. Recoveries, if any, of receivables previously written off are recorded when received. The Trust does not charge interest on accounts receivable balances and these receivables are unsecured. The following is a reconciliation of the allowance for doubtful accounts for the fiscal years ending January 31, 2018 and 2017.

| Fiscal Year | Balance at the Beginning of Year | Discontinued Operations Adjustment | Charged to Expense | Deductions | Balance at the End of Year |
|-------------|----------------------------------|------------------------------------|--------------------|---------------|----------------------------|
| 2018 | \$ 53,720 | \$ (19,750) | \$ 11,356 | \$ (73,890) | \$(28,564) |
| 2017 | \$ 33,970 | \$ - | \$ 127,114 | \$ (107,364) | \$53,720 |

STOCK-BASED COMPENSATION

We have an employee equity incentive plan, which is described more fully in Note 22 - "Share-Based Payments." For fiscal year 2018 and 2017, the Trust has paid the annual fees due to its Trustees by issuing Shares of Beneficial Interest out of its authorized but unissued Shares of Beneficial Interest. Upon issuance, the Trust recognizes the shares as outstanding. The Trust recognizes expense related to the issuance based on the fair value of the shares upon the date of the restricted share grant and amortizes the expense equally over the period during which the shares vest to the Trustees.

During fiscal year 2018, the Trust granted restricted stock awards of 24,000 Shares to members of the Board of Trustees, all of which vested in fiscal year 2018 resulting in stock-based compensation of \$51,840. During fiscal year 2017, the Trust granted restricted stock awards of 24,000 Shares to members of the Board of Trustees, all of which vested in fiscal year 2017 resulting in stock-based compensation of \$55,920.

The following table summarizes restricted share activity during fiscal years 2018 and 2017.

| | Restricted Shares | |
|--|-------------------|---------------------------------------|
| | Weighted-Average | |
| | Shares | Per Share Grant Date Fair Value |
| Balance at January 31, 2016 | - | - |
| Granted | 24,000 | \$ 2.16 |
| Vested | (24,000) | \$ 2.16 |
| Forfeited | - | - |
| Balance of unvested awards at January 31, 2017 | - | - |
| Granted | 24,000 | \$ 2.16 |
| Vested | (24,000) | \$ 2.16 |
| Forfeited | - | - |
| Balance of unvested awards at January 31, 2018 | - | - |

TREASURY STOCK

Treasury stock is carried at cost, including any brokerage commissions paid to repurchase the shares. Any shares issued from treasury stock are removed at cost, with the difference between cost and fair value at the time of issuance recorded against Shares of Beneficial Interest.

INCOME TAXES

The Trust is subject to federal and state corporate income taxes, and accounts for deferred taxes utilizing an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when it is determined to be more likely than not that some portion, or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment (see Note 17).

DIVIDENDS AND DISTRIBUTIONS

In fiscal year 2017, the Trust paid a dividend of \$0.01 per share in the fourth quarter for \$96,630. In fiscal year 2018, the Trust paid a dividend of \$0.01 per share at end of the second fiscal quarter and at the end of the fourth fiscal quarter for a total dividend of \$0.02 for the fiscal year for \$197,512. The Trust's ability to pay dividends is largely dependent upon the operations of the Hotels.

NON-CONTROLLING INTEREST

Non-controlling interest in the Trust represents the limited partners' proportionate share of the capital and earnings of the Partnership. Income or loss is allocated to the non-controlling interest based on a weighted average ownership percentage in the entities throughout the period, and capital is allocated based on the ownership percentage at year-end. Any difference between the weighted average and point-in-time allocations is presented as a reallocation of non-controlling interest as a component of shareholders' equity.

INCOME (LOSS) PER SHARE

Basic and diluted income (loss) per Share of Beneficial Interest is computed based on the weighted-average number of Shares of Beneficial Interest and potentially dilutive securities outstanding during the period. Dilutive securities are limited to the Class A and Class B units of the Partnership, which are convertible into 3,314,131 Shares of the Beneficial Interest, as discussed in Note 1.

For the fiscal years ended January 31, 2018 and 2017, there were Class A and Class B Partnership units outstanding, which are convertible into Shares of Beneficial Interest of the Trust. Assuming conversion at the beginning of each period, the aggregate weighted-average of these Shares of Beneficial Interest would have been 3,473,085 in addition to the basic shares outstanding for fiscal years 2018 and 2017, respectively. These Shares of Beneficial Interest issuable upon conversion of the Class A and Class B Partnership units were dilutive during fiscal 2017 and are included in the calculation of diluted earnings per share for that year below.

| | |
|--|--|
| | For the Year Ended January 31, 2018 |
| Net Income attributable to controlling interest | \$1,397,601 |
| Plus: Net Income attributable to non-controlling interests | 5,410,300 |
| Net Income | \$6,807,901 |
| Weighted average common shares outstanding | 9,612,139 |
| Plus: Weighted average incremental shares resulting from unit conversion | 3,473,085 |

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| | |
|--|------------|
| Weighted average common shares outstanding after unit conversion | 13,085,223 |
| Diluted Income Per Share | \$0.52 |

SEGMENT REPORTING

The Trust determined that its operations are comprised of two reportable segments, a Hotel Operations & Corporate Overhead segment that has ownership interest in three hotel properties with an aggregate of 424 suites in Arizona and New Mexico, and the IBC Hospitality segment serving 2,000 unrelated hotel properties. The Trust has a concentration of assets in the southwest United States and the southern Arizona market. Historical financial information presented in this Form 10-K reflects this change. On an overall basis, the Trust has elected to only put the costs directly attributable to the IBC Hospitality segment in that segment. Included in these costs are salaries, employee taxes and benefits, sales, marketing and technology development costs.

IBC Hotels, LLC was formed during the fiscal year ended January 31, 2014. IBC Hotels, LLC charges a 10% - 20% booking fee which, we believe, increases the independent hotel net profits through lower guest acquisition costs and full guest information for lower lifetime average acquisition cost. Competitors of IBC Hotels can charge anywhere from a 15% to 50% booking fee. InnDependent InnCentives, IBC's loyalty program, allows hoteliers to benefit from guests who frequently stay at IBC independent hotels. We are actively looking for investors to purchase all or part of IBC Hotels and we are looking to continue to expand IBC Hotels in the future as we concentrate our sales and marketing efforts towards consumers, but can provide no assurance that we will be successful.

The Chief Operating Decision Maker ("CODM"), the Trust's CEO, Mr. Wirth, does not see value in allocating costs for items not directly attributable to the IBC Hospitality segment for several reasons. The first is that the Trust's base business is the Hotel Operations & Corporate Overhead segment, and the majority of the expenses of the Trust would continue even if the Trust was not in the reservation business. If the Trust were to allocate general expenses to the reservation business based on some allocation method (e.g., on sales), it would not improve the value of segment reporting, but it would only serve to make the results of the Hotel Operations & Corporate Overhead segment look better and give investors an unfounded sense of the profitability of the Hotel Operations & Corporate Overhead segment without the IBC Hospitality segment. The CODM wants to understand the true investment in the reservation business and that result is delivered by allocating only costs directly associated with the IBC Hospitality segment. By retaining the remainder of costs not associated with the IBC Hospitality segment in the Hotel Operations & Corporate Overhead segment, the Trust is able to compare the Hotel Operations & Corporate Overhead segment to historical figures where the bulk of the business was only that segment of operations to gauge relative efficiency of the Hotel Operations & Corporate Overhead segment as compared to historical norms.

The Trust has chosen to focus its hotel investments in the southwest region of the United States. The CODM does not review assets by geographical region; therefore, no income statement or balance sheet information by geographical region is provided.

ADVERTISING COSTS

Amounts incurred for advertising costs are expensed as incurred. Advertising expense totaled approximately \$368,000 and \$567,000 for the years ended January 31, 2018 and 2017, respectively.

CONCENTRATION OF CREDIT RISK

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Trust to a concentration of credit risk consist primarily of cash and cash equivalents. Management's assessment of the Trust's credit risk for cash and cash equivalents is low as cash and cash equivalents are held in financial institutions believed to be credit worthy. The Trust limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations.

While the Trust is exposed to credit losses due to the non-performance of its counterparties, the Trust considers the risk of this remote. The Trust estimates its maximum credit risk for accounts receivable at the amount recorded on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

For disclosure purposes, fair value is determined by using available market information and appropriate valuation methodologies. Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value framework specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The fair value hierarchy levels are as follows:

Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and / or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are level 2 valuation techniques.

Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect a company's own judgments about the assumptions that market participants would use in pricing an asset or liability.

The Trust has no assets or liabilities that are carried at fair value on a recurring basis and had no fair value re-measurements during the years ended January 31, 2018 and 2017.

Due to their short maturities, the carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value. The fair value of mortgage notes payable, notes payable to banks and notes and advances payable to related parties is estimated by using the current rates which would be available for similar loans having the same remaining maturities and are based on level 3 inputs.

3. SALE OF OWNERSHIP INTERESTS IN ALBUQUERQUE SUBSIDIARY

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 units in Albuquerque Suite Hospitality, LLC (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 49% 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 September 24, 2010, the parties revised the Amended and Restated Operating Agreement to name Rare Earth as the administrative member of the Albuquerque entity in charge of the day-to-day management.

On December 9, 2013, the Trust entered into an updated restructuring agreement with Rare Earth to allow for the sale of additional interest units in the Albuquerque entity for \$10,000 per unit. Under the updated restructuring agreement, Rare Earth agreed to either purchase or bring in other investors to purchase up to 150 (and potentially up to 190 if the overallotment is exercised) units. Under the terms of the updated restructuring agreement, the Trust agreed to hold at least 50.1% of the outstanding units in the Albuquerque entity, on a post-transaction basis, and intends to maintain this minimum ownership percentage through the purchase of units under this offering. The Board of Trustees approved this restructuring on December 9, 2013. The units in the Albuquerque entity are allocated to three classes with differing cumulative discretionary priority distribution rights through December 31, 2015. Class A units are owned by unrelated third parties and have first priority for distributions. Class B units are owned by the Trust and have second priority for distributions. 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 of \$700 per unit per year were cumulative until December 31, 2015; however, after December 31, 2015 Class A unit holders continue to hold a preference on distributions over Class B and Class C unit holders.

If certain triggering events related to 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 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, and 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. Rare Earth received a restructuring fee of \$128,000, conditioned upon and arising from the sale of the first 100 units in the Albuquerque entity following the December 31, 2013 restructuring. The Albuquerque entity plans to use its best efforts to pay the discretionary priority distributions. The Trust does not guarantee and is not otherwise obligated to pay the cumulative discretionary priority distributions. InnSuites Hotels will continue to provide management, licensing and reservation services to the Albuquerque, New Mexico property.

On February 15, 2017, the Trust and Partnership entered into a restructuring agreement with Rare Earth to allow for the sale of non-controlling partnership units in the Albuquerque entity for \$10,000 per unit. Rare Earth and the Trust have restructured the Albuquerque Entity Membership Interest by creating 250 additional Class A membership interests from General Member majority-owned to accredited investor member-owned. In the event of sale of 250 Class A Interests, total interests outstanding will change from 550 to 600 with Class A, Class B and Class C Limited Liability Company Interests (referred to collectively as "Interests") restructured with IHT selling approximately 200 Class B Interests to accredited investors as Class A Interest. Rare Earth, as a General Partner of the Albuquerque entity, will coordinate the offering and sale of Class A Interests to qualified third parties. Rare Earth and other Rare Earth affiliates may purchase Interests under the offering. As part of this offering, Rare Earth was paid \$200,000 for a restructuring fee which was recorded in Equity.

During the fiscal year ended January 31, 2018, there were 193 Class A units of the Albuquerque entity sold, of which 142 came from the Trust at \$10,000 per unit. As of January 31, 2018, the Trust held a 22.83% ownership interest, or 137 Class B units, in the Albuquerque entity, Mr. Wirth and his affiliates held a 0.17% interest, or 1 Class C unit, and other parties held a 77.00% interest, or 462 Class A units. During the fiscal year ended January 31, 2018, the Albuquerque entity has made discretionary Priority Return payments to unrelated unit holders of approximately \$209,000, and to the Trust of approximately \$177,000. As of February 1, 2017, the Trust no longer accrues for these distributions as the preference period has expired.

4. SALE OF OWNERSHIP INTERESTS IN TUCSON HOSPITALITY PROPERTIES SUBSIDIARY

On February 17, 2011, the Partnership entered into a restructuring agreement with Rare Earth to allow for the sale of non-controlling interest units in Tucson Hospitality Properties, LP (the "Tucson entity"), which operates the Tucson Oracle hotel property, then wholly-owned by the Partnership. Under the agreement, Rare Earth agreed to either purchase or bring in other investors to purchase up to 250 units, which represents approximately 41% of the outstanding limited 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. The Board of Trustees approved this restructuring on January 31, 2011.

On October 1, 2013, the Partnership entered into an updated restructured limited partnership agreement with Rare Earth to allow for the sale of additional interest units in the Tucson entity for \$10,000 per unit. Under the agreement, Rare Earth agreed to either purchase or bring in other investors to purchase up to 160 (and potentially up to 200 if the over-allotment is exercised) units. Under the terms of the updated restructuring agreement, the Partnership agreed to hold at least 50.1% of the outstanding limited partnership units in the Tucson entity, on a post-transaction basis, and intends to maintain this minimum ownership percentage through the purchase of units under this offering. The Board of Trustees approved this restructuring on September 14, 2013. The limited partnership interests in the Tucson entity are allocated to three classes with differing cumulative discretionary priority distribution rights through June 30, 2017. Class A units are owned by unrelated third parties and have first priority for distributions. Class B units are owned by the Partnership and have second priority for distributions. 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 of \$700 per unit per year are cumulative until June 30, 2016; however, after June 30, 2016 Class A unit holders continue to hold a preference on distributions over Class B and Class C unit holders.

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, and 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. Rare Earth also received a restructuring fee of \$128,000, conditioned upon and arising from the sale of the first 100 units in the Tucson entity following the

October 1, 2013 restructuring. The Tucson entity plans to use its best efforts to pay the discretionary priority distributions. The Trust does not guarantee and is not otherwise obligated to pay the cumulative discretionary priority distributions. InnSuites Hotels will continue to provide management, licensing and reservation services to the Tucson, Arizona property.

During the fiscal year ended January 31, 2018, there were no units of the Tucson entity sold. As of January 31, 2018, the Partnership held a 51.01% ownership interest, or 404 Class B units, in the Tucson entity, Mr. Wirth and his affiliates held a 0.38% interest, or approximately 3 Class C units, and other parties held a 48.61% interest, or approximately 385 Class A units. For the fiscal year ended January 31, 2018, the Tucson entity made discretionary Priority Return payments to unrelated unit holders of approximately \$272,000 and to the Partnership of approximately \$283,000. As of February 1, 2017, the Trust no longer accrues for these distributions as the preference period has expired.

5. SALE OF OWNERSHIP INTERESTS IN YUMA HOSPITALITY PROPERTIES SUBSIDIARY

On October 24, 2014, the Trust and Partnership entered into a restructuring agreement with Rare Earth to allow for the sale of non-controlling interest units in Yuma Hospitality Properties, Limited Partnership (the “Yuma entity”) for \$10,000 per unit, which operates the Yuma hotel property, then wholly-owned by the Trust. Prior to the agreement there were 750 units outstanding and as a result of the agreement, an additional 50 units will be created for sale. Under the agreement, Rare Earth agreed to either purchase or bring in other investors to purchase up to 398 units, which represents approximately 49% of the outstanding partnership units in the Yuma entity, on a post-transaction basis, and the parties agreed to restructure the limited partnership agreement of the Yuma entity. The Board of Trustees approved this restructuring on October 24, 2014. Under the restructured limited partnership agreement, Rare Earth became a general partner of the Yuma entity along with the Trust and Partnership.

The limited partnership interests in the Yuma entity are allocated to three classes with differing cumulative discretionary priority distribution rights through January 31, 2020. Class A units are owned by unrelated third parties and have first priority for distributions. Class B units are owned by the Trust and have second priority for distributions. Class C units are owned by Rare Earth or other affiliates of Mr. Wirth and have the lowest priority for distributions from the Yuma entity. Priority distributions of \$700 per unit per year are cumulative until January 31, 2020. After January 31, 2020, all Partnership Interests will share equally in all distributions.

If certain triggering events related to the Yuma 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, and 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. Rare Earth will receive a restructuring fee of \$350,000, conditioned upon and arising from the sale of the first 150 units in the Yuma entity following the October 24, 2014 restructuring. The Trust has paid out \$350,000 of the restructuring fee at January 31, 2016. The Yuma entity is required to use its best efforts to pay the priority distributions. The Trust does not guarantee and is not otherwise obligated to pay the cumulative priority distributions. InnSuites Hotels will continue to provide management, licensing and reservation services to the Yuma, Arizona property.

On February 15, 2017, the Trust and Partnership entered into a restructuring agreement with Rare Earth to allow for the sale of non-controlling partnership units in the Yuma entity for \$10,000 per unit. Rare Earth and the Trust are restructuring the Yuma Partnership Interest from General Partner majority-owned to accredited investor majority-owned. Total interests outstanding will remain unchanged at 800 with Class A, Class B and Class C Limited Liability Limited Partnership Interests (referred to collectively as “Interests”) restructured with the Yuma entity purchasing 300 existing IHT Class B Interests and reissuing 300 Class A units to accredited investors as Class A Interests causing the Yuma entity to offer and sell up to approximately 300 Class A (2017 series) Interests. Rare Earth, as a General Partner of the Yuma entity, will coordinate the offering and sale of Class A Interests to qualified third

parties. Rare Earth and other Rare Earth affiliates may purchase Interests under the offering. The Trust paid \$240,000 as a restructuring fee to Rare Earth during the fiscal year ended January 31, 2018, which was included in equity.

During the fiscal year ended January 31, 2018, there were 298.70 Class B units, of which all were sold from the Trust at \$10,000 per unit. As of January 31, 2018, the Trust held a 12.79% ownership interest, or 102.30 Class B units, in the Yuma entity, Mr. Wirth and his affiliates held a 0.63% interest, or 5.0 Class C units, and other parties held an 86.59% interest, or 692.70 Class A units. For the fiscal year ending January 31, 2018, the Yuma entity made discretionary Priority Return payments to the Trust of approximately \$231,000 and to Rare Earth of approximately \$360,500.

6. 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. GAAP requires 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 Yuma and Albuquerque entities are variable interest entities with the Partnership as the primary beneficiary with the ability to exercise control, as determined under the guidance of ASC Topic 810-10-25. 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 Yuma entity and Albuquerque, including its mortgage note payable and distribution obligations, which based on the capital structure of the Yuma 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 and Yuma, 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 Yuma entity, including providing the personnel to operate the property on a daily basis.

During the fiscal year ended January 31, 2018, neither the Trust nor the Partnership have provided any implicit or explicit financial support for which they were not previously contracted. Both the Partnership and the Trust provided mortgage loan guarantees which allowed our properties to obtain new financing as needed.

7. PROPERTY, PLANT, AND EQUIPMENT AND HOTEL PROPERTIES

As of January 31, 2018 and 2017, hotel properties consisted of the following:

| | 2018 | 2017 (i) |
|-----------------------------------|--------------|--------------|
| Land | \$2,805,015 | \$4,438,079 |
| Building and improvements | 18,066,151 | 25,458,137 |
| Furniture, fixtures and equipment | 5,621,820 | 6,521,257 |
| Total hotel properties | 26,492,986 | 36,417,473 |
| Less accumulated depreciation | (12,124,650) | (17,022,739) |
| Hotel Properties in Service, net | 14,368,336 | 19,394,734 |
| Construction in progress | 76,683 | - |
| Hotel properties, net | \$14,445,019 | \$19,394,734 |

(i) Includes discontinued operations

As of January 31, 2018 and 2017, property, plant and equipment consisted of the following:

| | 2018 | 2017 |
|-------------------------------------|------------|-----------|
| Land | \$7,005 | \$7,005 |
| Building and improvements | 75,662 | 75,662 |
| Furniture, fixtures and equipment | 1,178,941 | 852,332 |
| Total property, plant and equipment | 1,261,608 | 934,999 |
| Less accumulated depreciation | (694,876) | (554,868) |
| Property, Plant and Equipment, net | \$566,732 | \$380,131 |

8. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are carried at historic cost and are expected to be consumed within one year. As of January 31, 2018, and 2017, prepaid expenses and other current assets consisted of the following:

| | 2018 | 2017 |
|---|------------|------------|
| Prepaid Assets | \$ 15,545 | \$ 48,922 |
| Tax and Insurance Escrow | 57,235 | 58,790 |
| Deposits | 8,000 | 14,805 |
| Prepaid Insurance | 7,417 | 8,130 |
| Prepaid Workman's Compensation | 7,617 | 43,054 |
| Miscellaneous Prepaid Expenses | 17,636 | 3,953 |
| Total Prepaid Expenses and Current Assets | \$ 113,450 | \$ 177,654 |

9. INTANGIBLE ASSETS, GOODWILL AND IMPAIRMENT

On January 8, 2016, the Trust and IBC Hotels purchased the tangible and intangible assets excluding cash, receivables, prepaid booking/expenses, accrued expenses, and an automobile from Vacation Technologies International, Inc., a Texas Corporation, dba International Vacation Hotels ("International Vacation Hotels"). Assets purchased primarily consist of hotel revenue booking contracts, websites and other key business intangible assets. The transaction has been accounted for as a business combination under the acquisition method of accounting. Tangible assets acquired were considered worthless and therefore were not separately valued. Accordingly, the identifiable intangible assets acquired have been recorded at fair value, with the remaining purchase price recorded as goodwill.

The fair values of assets acquired at the transaction date are summarized below:

| | |
|--------------------------------------|--------------|
| Marketing Related Intangibles | \$ 100,000 |
| Customer Base | 400,000 |
| Total identifiable intangible assets | 500,000 |
| Goodwill | 500,000 |
| Total acquired assets | \$ 1,000,000 |

Over the past several fiscal years, the Trust has made significant investment in IBC Hotels, including its investment in the purchase of International Vacation Hotels for \$1 million in January 2016. In the fiscal year ended January 31,

2017, the Trust incurred approximately \$1 million net operating loss from IBC Hotels. In the fiscal year ended January 31, 2018, IBC Hotels lost approximately \$1.6 million excluding the write-off of the intangible assets. After assessing the totality of events and circumstances including the historical losses and projected losses, the Trust determined that it is more likely than not that the fair value of IBC Hotels is less than its carrying value. Accordingly, Management has decided to write down the entire amount of intangible assets as of January 31, 2018 as such amounts are not considered recoverable.

Intangible Assets

For the fiscal year ending January 31, 2018, intangible assets consisted of the following:

| | Amount | Fiscal Year January 31, 2018 Impairment Expense | Fiscal year 1/31/2017 Accumulated Amortization | Net Amount | Useful Lives (years) |
|-------------------------------|------------|---|---|---------------|----------------------------|
| Marketing Related Intangibles | \$ 100,000 | \$ 90,000 | \$ 10,000 | \$ - | 10 |
| Customer Base | 400,000 | 343,000 | 57,000 | - | 7 |
| Total: | \$ 500,000 | \$ 433,000 | \$ 67,000 | \$ - | |

The Trust recorded amortization of goodwill expense of \$433,000 and \$67,000 for the years ended January 31, 2018 and 2017, respectively.

Goodwill

The changes in the carrying value of the Trust's goodwill for the years ended January 31, 2018 and 2017 is as follows:

| | |
|---|-----------|
| Beginning Balance January 31, 2016 | \$- |
| Acquisition of Vacation Technology Hotels | 500,000 |
| Ending Balance January 31, 2017 | 500,000 |
| Impairment | (500,000) |
| Ending Balance January 31, 2018 | \$- |

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of January 31, 2018 and 2017, accounts payable and accrued expenses consisted of the following:

| | 2018 (i) | 2017 |
|---|-------------|-------------|
| Accounts Payable | \$741,917 | \$1,025,749 |
| Accrued Salaries and Wages | 271,739 | 257,259 |
| Accrued Vacation | 38,957 | 32,608 |
| Income Tax Payable | 340,169 | 20,000 |
| Accrued Interest Payable | 26,565 | 52,852 |
| Advanced Customer Deposits | 15,000 | 11,832 |
| Accrued Property Taxes | 140,439 | 190,533 |
| Accrued Land Lease | 130,015 | 98,175 |
| Sales Tax Payable | 305,071 | 163,772 |
| Deferred Revenue | 107,467 | 133,146 |
| Accrued Other | 180,813 | 177,974 |
| Total Accounts Payable and Accrued Expenses | \$2,298,152 | \$2,163,900 |

(i) Includes current liabilities of discontinued operations.

11. MORTGAGE NOTES PAYABLE

At January 31, 2018 and 2017, the Trust had mortgage notes payable outstanding with respect to each of the Hotels except the Albuquerque property. The mortgage notes payable have various repayment terms and have scheduled

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maturity dates ranging from August 2022 to June 2042. Weighted average annual interest rates on the mortgage notes payable for the fiscal years ended January 31, 2018 and 2017 were 4.85% and 4.65%, respectively.

The following table summarizes the Trust's mortgage notes payable, net of debt discounts, as of January 31:

| | 2018 | 2017 |
|---|-------------|-------------|
| Mortgage note payable, due in monthly installments of \$28,493, including interest at 4.69% per year, through June 19, 2042, secured by the Tucson Oracle property with a carrying value of \$7.6 million at January 31, 2018. | 4,927,076 | 3,112,112 |
| Mortgage note payable, due in monthly installments of \$32,419, including interest at the prime rate plus one percentage point over the index, with a floor of 5.0% per year (5% per year as of January 31, 2015), through August 1, 2022 plus a balloon payment of \$4,112,498 in September 2022, secured by the Yuma property with a carrying value of \$4.8 million at January 31, 2018. | 4,827,259 | 4,963,645 |
| Totals: | \$9,754,335 | \$8,075,757 |

The mortgage note payable secured by the Yuma hotel property is recourse to the Trust as a full guarantor. None of the other mortgage notes are recourse to the Partnership or the Trust.

On August 24, 2012, the Yuma entity entered into a \$5,500,000 mortgage loan with 1st Bank Yuma to refinance the then existing term debt. The mortgage loan calls for a 10 year maturity date and an interest rate of the Wall Street Journal Prime Rate plus one percentage point, with a floor of 5.0% per year. Prepayment fees exist for refinancing this debt with another lender until the maturity date. As of January 31, 2018, the mortgage loan balance was approximately \$4,828,000, net of a discount of approximately \$11,000.

On November 24, 2014, the Tucson Oracle entity entered into a \$3,500,000 mortgage loan with Kansas State Bank of Manhattan to acquire the land associated with this property, re-finance the existing Tucson hotel loan first deed of trust and pay off other existing debt. This new loan lowered the interest rate for this property's mortgage from 8.0% to 4.19% per annum. The \$3,500,000 commercial real estate loan has a 15 year term with a 4.19% per annum fixed interest rate for five years, and adjusts annually based upon the Weekly Average Yield of the US Treasury Securities, with a 4.19% floor. The loan closed simultaneous to the land purchase. Rare Earth, the Partnership, the Trust, the Wirth Family Trust dated July 14, 2006 and James and Gail Wirth are joint guarantors. On June 29, 2017, Tucson Oracle entered into a \$5.0 million Business Loan Agreement ("Tucson Loan") as a first mortgage credit facility with KS State Bank to refinance the existing first mortgage credit facility with an approximate payoff balance of \$3.045 million which will allow Tucson Hospitality Properties, LLLP to be reimbursed for prior and future hotel improvements. The Tucson Loan has a maturity date of June 19, 2042. The Tucson Loan has an initial interest rate of 4.69% for the first five years and thereafter a variable rate equal to the US Treasury + 2.0% with a floor of 4.69% and no prepayment penalty. This credit facility is guaranteed by InnSuites Hospitality Trust, RRF Limited Partnership, Rare Earth Financial, LLC, James F. Wirth and Gail J. Wirth and the Wirth Family Trust dated July 14, 2016. As of January 31, 2018, the mortgage loan balance was approximately \$4,927,000, net of a discount of approximately \$5,000.

See Note 15 – "Minimum Debt Payments" for scheduled minimum payments on the mortgage notes payable.

12. NOTES PAYABLE TO BANKS

On January 8, 2016, in connection with the acquisition of substantially all of the assets of International Vacation Hotels, the Trust entered into a \$400,000 business loan with Laurence Holdings Limited, an Ontario, Canada corporation, with a maturity date of February 1, 2019 pursuant to the terms of the Security Agreement and Promissory Note (the "Laurence Holdings Agreement"). The Laurence Holdings Agreement required the funds be used for the purchase of International Vacation Hotels assets. The Laurence Holdings Agreement provides for interest-only payments for the first three months of the term and principal and interest payments for the remaining portion of the loan. The Laurence Holdings Agreement sets an interest rate of 8% per annum with no prepayment penalty. As of January 31, 2018, the business loan balance was approximately \$124,000, net of a discount of approximately \$2,000.

On May 3, 2016, the Trust and Yuma Hospitality Properties Limited Partnership, a subsidiary of the Trust entered into a \$350,000 one-year line of credit with RepublicBank AZ, N.A. (the "RepublicBank AZ Agreement"). The Republic

Bank AZ agreement includes acceleration provisions upon default. The funds may be used for working capital and is guaranteed by James Wirth, the Trust's Chairman and CEO, Gail Wirth, the Trust's Chairman and CEO's spouse and the Wirth Family Trust Dated July 14, 2006. As of January 31, 2018, the line of credit balance has been paid in full.

On May 11, 2017, Yuma Hospitality Properties, LLLP entered into a \$850,000 Promissory Note Agreement ("Yuma Loan Agreement") as a credit facility to replenish funds for the hotel remodel with 1st Bank of Yuma Arizona Bank & Trust with a maturity date of September 1, 2022. The Yuma Loan Agreement has an initial interest rate of 5.50% with a variable rate adjustment equal to the Wall Street Journal Prime Rate plus 1.50% with a floor of 5.50% and no prepayment penalty. This credit facility is guaranteed by InnSuites Hospitality Trust. As of January 31, 2018, the loan balance was approximately \$828,000, net of a discount of approximately \$6,000.

See Note 15 – "Minimum Debt Payments" for scheduled minimum payments on the mortgage notes payable.

13. LINES OF CREDIT – RELATED PARTY

On December 1, 2014, the Trust entered into a \$1,000,000 net maximum Demand/Revolving Line of Credit/Promissory Note with Rare Earth. The Demand/Revolving Line of Credit/Promissory Note bears interest at 7.0% per annum, is interest only quarterly and matures on December 31, 2018. No prepayment penalty exists on the Demand/Revolving Line of Credit/Promissory Note. The balance fluctuates significantly through the period with the highest payable balance being \$630,000 during the fiscal year ended January 31, 2018. The Demand/Revolving Line of Credit/Promissory Note has a net maximum borrowing capacity of \$1,000,000. Related party interest expense or income for the Demand/Revolving Line of Credit/Promissory Note for the fiscal years ended January 31, 2018 was \$4,768 of expense and \$15,567 of revenue, and for the fiscal year ended January 31, 2017 was \$5,112 of expense. The Demand/Revolving Line of Credit/Promissory Notes are presented together as one line item on the balance sheet and totaled a receivable of \$810,799, and a payable of \$145,000 at January 31, 2018 and 2017, all of which is considered a current receivable and liability, respectively.

14. OTHER NOTES PAYABLE

As of January 31, 2018 the Trust had approximately \$959,000 in promissory notes outstanding to unrelated third parties arising from the repurchase of 91,259 Class A Partnership units in privately negotiated transactions and the repurchase of 524,930 Shares of Beneficial Interest in privately negotiated transactions. These promissory notes bear interest at 7% per year and are due in varying monthly payments through July 2020. As of January 31, 2017 the Trust had approximately \$18,000 in promissory notes outstanding to unrelated third parties arising from the repurchase of 9,903 Partnership Units and 3,259 IHT Shares of Beneficial Interest in privately negotiated transactions. These promissory notes bear interest at 7% per year and are due in varying monthly payments through June 2019.

As of January 31, 2018, the Trust had \$200,000 notes payable with an individual lender.

On June 20, 2016, the Trust and the Partnership together entered into an unsecured loan of \$80,000 with Guy C. Hayden III (“Hayden Loan”). The Hayden loan is due on June 20, 2019 or on demand, whichever occurs first. The Hayden loan accrues interest at 7% and interest only payments shall be made monthly and are due on the first of the following month. The Trust and Partnership may pay all or part of these notes without any repayment penalties. On March 1, 2017, the Trust and the Partnership together added an additional \$36,960 to the Hayden Loan. On May 30, 2017, the Trust and the Partnership together added an additional \$63,040 to the Hayden Loan. On July 18, 2017 the Trust and Partnership together added an additional \$90,000 to the Hayden Loan. The total principal amount of the Hayden Loan is \$270,000.

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On December 5, 2016, the Trust and the Partnership together entered into eight unsecured loans for a total of \$425,000 with varying principal amounts ranging from \$25,000 to \$100,000 with H. W. Hayes Trust (“Hayes Loans”). The Trust and the Partnership together also entered into two unsecured on-demand \$25,000 loans for a total of \$50,000 with Lita M. Sweitzer (“Sweitzer Loans”). On March 20, 2017, the Trust and Partnership added an additional \$50,000 to the Sweitzer Loans. The total principal amount of the Hayes Loans and the Sweitzer Loans is \$525,000. The Hayes Loans and the Sweitzer Loans are due on June 20, 2019 or on demand, whichever occurs first. The Hayes Loans requires from a 0-120 day notification of the demand to repay the loans prior to June 20, 2019. Both the Hayes Loans and the Sweitzer Loans accrue interest at 7.0% per year on the unpaid balance and interest only payments shall be made monthly and are due on the first of the following month. The Trust and Partnership may pay all or part of these notes without any repayment penalties.

See Note 15 – “Minimum Debt Payments” for scheduled minimum payments on the mortgage notes payable.

15. MINIMUM DEBT PAYMENTS

Scheduled minimum payments of debt, net of debt discounts, as of January 31, 2018 are as follows in the respective fiscal years indicated:

| FISCAL YEAR | MORTGAGES | NOTES PAYABLE TO BANK | OTHER NOTES PAYABLE | TOTAL |
|-------------|--------------|-----------------------------|---------------------------|---------------|
| 2019 | \$ 254,460 | 144,185 | \$ 1,355,664 | \$ 1,754,309 |
| 2020 | 267,441 | 21,625 | 378,817 | 667,883 |
| 2021 | 278,588 | 22,868 | 216,489 | 517,945 |
| 2022 | 295,336 | 22,552 | 3,433 | 321,321 |
| 2023 | 4,330,880 | 740,983 | - | 5,071,863 |
| Thereafter | 4,327,630 | - | - | 4,327,630 |
| | | \$ - | | |
| | \$ 9,754,335 | \$ 952,213 | \$ 1,954,403 | \$ 12,660,951 |

16. DESCRIPTION OF BENEFICIAL INTERESTS

Holders of the Trust's Shares of Beneficial Interest are entitled to receive dividends when and if declared by the Board of Trustees of the Trust out of funds legally available therefore. The holders of Shares of Beneficial Interest, upon any liquidation, dissolution or winding-down of the Trust, are entitled to share ratably in any assets remaining after payment in full of all liabilities of the Trust. The Shares of Beneficial Interest possess ordinary voting rights, each share entitling the holder thereof to one vote. Holders of Shares of Beneficial Interest do not have cumulative voting rights in the election of Trustees and do not have preemptive rights.

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 Partnership units and/or Shares of Beneficial Interest in open market or privately negotiated transactions. On September 10, 2002, August 18, 2005 and September 10, 2007, the Board of Trustees approved the purchase of up to 350,000 additional Partnership units and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Additionally, on January 5, 2009, September 15, 2009 and January 31, 2010, the Board of Trustees approved the purchase of up to 300,000, 250,000 and 350,000, respectively, additional Partnership units 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 Trust's equity compensation plans/programs. Additionally, on June 19, 2017, 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 750,000 Partnership units 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.

For the years ended January 31, 2018 and 2017, the Trust repurchased 150,973 and 30,277 Shares of Beneficial Interest at an average price of \$1.99 and \$2.55 per share, respectively. The average price paid includes brokerage commissions. The Trust intends to continue repurchasing Shares of Beneficial Interest in compliance with applicable legal and NYSE AMERICAN requirements. The Trust remains authorized to repurchase an additional 662,117 Partnership units and/or Shares of Beneficial Interest pursuant to the publicly announced share repurchase program, which has no expiration date. Repurchased Shares of Beneficial Interest are accounted for as treasury stock in the Trust's Consolidated Statements of Shareholders' Equity.

17. FEDERAL INCOME TAXES

The Trust and subsidiaries have income tax net operating loss carryforwards of approximately \$4.8 million at January 31, 2018. In 2005, the Trust had an ownership change within the meaning of Internal Revenue Code Section 382. However, the Trust determined that such ownership change would not have a material impact on the future use of the net operating losses.

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Income taxes for the years ended January 31,

| | 2018 | 2017 |
|---|-----------|-------------|
| Current income tax provision (benefit) | 335,000 | (227,000) |
| Deferred income tax provision (benefit) | - | - |
| Net income tax expense (benefit) | \$335,000 | \$(227,000) |

Total and net deferred income tax assets at January 31,

| | 2018 | 2017 |
|--|-------------|-------------|
| Net operating loss carryforwards | \$2,763,000 | \$4,040,000 |
| Bad debt allowance | (22,000) | (18,000) |
| Accrued expenses | 89,000 | 84,000 |
| Syndications | 5,179,000 | 5,179,000 |
| Prepaid Insurance | 30,000 | 30,000 |
| Alternative minimum tax credit | 91,000 | 91,000 |
| Total deferred tax assets | 8,130,000 | 9,406,000 |
| Deferred income tax liability associated with book/tax differences in hotel properties | (2,884,000) | (2,459,000) |
| Net deferred income tax asset | 5,246,000 | 6,947,000 |
| Valuation allowance | (5,246,000) | (6,947,000) |
| Net deferred income tax | \$- | \$- |

A reconciliation of the differences between the effective and statutory income tax rates for years ended January 31, is as follows:

| Income taxes for the years ended January 31, | 2018 | 2017 |
|--|-----------|-------------|
| Current income tax provision (benefit) | 341,000 | (227,000) |
| Deferred income tax provision (benefit) | - | - |
| Net income tax expense (benefit) | \$341,000 | \$(227,000) |

A reconciliation of the differences between the effective and statutory income tax rates for years ended January 31, is as follows:

| | 2018 | | |
|--------------------------------|--------------|---------|----|
| | Amount | Percent | |
| Federal statutory rates | \$1,604,000 | 34 | % |
| State income taxes | 636,000 | 13 | % |
| Changes in valuation allowance | (1,703,000) | (36) |)% |
| True-up to prior year returns | (240,000) | (5 |)% |
| Other | 44,000 | 1 | % |
| Effective rate | \$341,000 | 7 | % |
| | | | |
| | 2017 | | |
| | Amount | Percent | |
| Federal statutory rates | \$(878,000) | (34 |)% |
| State income taxes | (196,000) | (8 |)% |
| Changes in valuation allowance | 1,445,000 | 56 | % |
| True-up to prior year returns | (593,000) | (23 |)% |
| Other | (5,000) | 0 | % |
| Effective rate | \$(227,000) | (9 |)% |

The true-ups to prior year return related primarily to the sale of syndication units in the Trust's subsidiaries which are treated as equity transactions in the Trust's financial statements but are taxed as capital gain transactions and total \$240,000 which were then offset by the release of valuation allowances. The Trust's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Trust had no material accrued interest or penalties at January 31, 2018 and 2017.

18. OTHER RELATED PARTY TRANSACTIONS

As of January 31, 2018 and 2017, Mr. Wirth and his affiliates held 3,064,038 and 3,407,938 Class B Partnership units, which represented 23.86% and 25.8% of the total outstanding Partnership units, respectively. As of January 31, 2018 and 2017, Mr. Wirth and his affiliates held 6,939,429 and 6,939,429, respectively, Shares of Beneficial Interest in the Trust, which represented 70.99% and 71.93%, respectively, of the total issued and outstanding Shares of Beneficial Interest.

As of January 31, 2018 and 2017, the Trust owned 74.80% and 72.11% of the Partnership, respectively. As of January 31, 2018, the Partnership owned a 51.01% interest in the InnSuites® hotel located in Tucson. The Trust also owned a direct 12.79% interest in one InnSuites® hotel located in Yuma, Arizona and owned a direct 22.83% interest in one InnSuites® hotel located in Albuquerque, New Mexico.

The Trust directly manages the Hotels through the Trust's wholly-owned subsidiary, InnSuites Hotels Inc. Under the management agreements, InnSuites Hotels Inc. manages the daily operations of the Hotels and the two hotels owned by affiliates of Mr. Wirth. Revenues and reimbursements among the Trust, InnSuites Hotels Inc. and the Partnership have been eliminated in consolidation. The management fees for the Hotels and the two hotels owned by affiliates of Mr. Wirth are set at 3.0% of room revenue and a monthly accounting fee of \$2,000 per hotel. As of May 1, 2017, management fees increased to 5.0% of room revenues. These agreements have no expiration date and may be cancelled by either party with 90-days written notice or 30-days written notice in the event the property changes ownership. During the years ended January 31, 2018 and 2017, the Trust recognized approximately \$200,000 and approximately \$296,000, respectively of revenue.

On January 28, 2016, pursuant to a Securities Purchase Agreement, the Trust issued 60,000 Shares of Beneficial Interest to Rare Earth at a purchase price of \$2.50 per share, for proceeds of \$150,000 to the Trust. The transaction was approved by the Board of Trustees and the Audit Committee of the Trust. The issuance of the Shares of Beneficial Interest by the Trust to Rare Earth was made in reliance upon the exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2).

On July 23, 2013, the Trust entered into a Corporate Card Agreement (“Corporate Purchase Cards”) with American Express Travel Related Services Company, Inc. The Corporate Card Agreement distributed a total of nine purchase cards - one to each of the four respective Hotels, one to the Trust, and one to each of the two respective hotels owned by affiliates of James F. Wirth. The Corporate Purchase Cards, with a total limit of \$50,000, includes insignificant annual fees and \$0 of interest per annum. Payments are due monthly. The Corporate Card Agreement may be cancelled by either party with 30-days written notice. Pamela J. Barnhill, the Trust’s President and Vice Chairperson and daughter of Mr. Wirth, initiated the nine purchase cards. As of January 31, 2018 and 2017, the Trust’s portion of the Corporate Purchase Cards balance was approximately \$0 and \$115,000, respectively.

The Tucson Oracle property has an unsecured demand/revolving line of credit/promissory note as described in Note 13 – Lines of Credit - Related Party. The Trust has an unsecured demand/revolving line of credit/promissory note as described in Note 13 – Lines of Credit - Related Party.

During the fiscal years ended January 31, 2018 and 2017, the Trust paid Berg Investment Advisors \$42,500 and \$3,500, respectively, for additional consultative services rendered by Mr. Marc Berg, the Trust’s Executive Vice President.

Besides Pamela Barnhill, Vice Chairperson and President of the Trust and daughter of Mr. Wirth, the Trust’s Chairman and Chief Executive Officer, the Trust also employs two other immediate family members of Mr. Wirth who provide technology and administrative support services to the Trust with each receiving a \$47,500 yearly salary.

During the fiscal years ended January 31, 2018 and 2017, Rare Earth received restructuring fees of \$440,000 and \$0, respectively, relating to the syndications of our Yuma, Arizona and Albuquerque, New Mexico hotel properties (see Notes 3 and 5).

On December 22, 2015, the Trust provided Advances to Affiliate – Related Party each in the amount of \$500,000 to Phoenix Northern Resort, LLC and Tempe/Phoenix Airport Resort LLC. Mr. Wirth, individually and thru one of his affiliates owns approximately 100% and 42%, respectively, of Phoenix Northern Resort, LLC and Tempe/Phoenix Airport Resort LLC. Both notes have a due date of June 30, 2018 and accrue interest of 7.0%. During the fiscal year ended January 31, 2018, the Trust received \$0 and \$17,061 interest income from Phoenix Northern Resort, LLC and

Tempe/Phoenix Airport Resort LLC, respectively. As of January 31, 2018, the Advances from Affiliate – Related Party balance was \$0 and \$970,353 from Phoenix Northern Resort, LLC and Tempe/Phoenix Airport Resort LLC, respectively. As of January 31, 2017, the Lending from Affiliate – Related Party balance was \$19,483 and \$359,684 from Phoenix Northern Resort, LLC and Tempe/Phoenix Airport Resort LLC, respectively.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the estimated fair values of the Trust’s debt instruments and the associated carrying value recognized in the accompanying consolidated balance sheets at January 31, 2018 and 2017:

| | 2018 | | 2017 | |
|------------------------|--------------------|-------------|--------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Mortgage notes payable | \$9,752,596 | \$8,164,897 | \$13,367,706 | \$13,473,018 |
| Notes payable to banks | \$952,213 | \$952,213 | \$2,019,758 | \$2,019,758 |
| Other notes payable | \$1,954,405 | \$1,954,405 | \$18,069 | \$18,195 |

20. SUPPLEMENTAL CASH FLOW DISCLOSURES

| | | |
|--|-------------|-----------|
| | 2018 | 2017 |
| Cash paid for interest | \$539,072 | \$743,932 |
| Notes Payables - IHT Shares of Beneficial Interest and Partnership Units repurchases | \$1,141,756 | \$7,006 |

21. COMMITMENTS AND CONTINGENCIES

Leases:

The Albuquerque Hotel is subject to non-cancelable ground lease. The Albuquerque Hotel non-cancelable ground lease was extended on January 14, 2014 and expires in 2058. Total expense associated with the non-cancelable ground lease for the fiscal years ended January 31, 2018 and 2017 was \$149,608 and \$147,587, respectively

On August 4, 2017, the Trust entered into a five year office lease agreement with Northpoint Properties for a commercial office lease at 1730 E Northern Ave, Suite 122, Phoenix, Arizona 85020 commencing on September 1, 2017. Base monthly rent of \$4,100 increases 6% on a yearly basis. No rent is due for October 2018 and October 2022 months. The Trust also agreed to pay electricity and applicable sales tax. The office lease agreement provides early termination with a 90 day notification with an early termination fee of \$12,000, \$8,000, \$6,000, \$4,000 and \$2,000 for years 1 – 5 of the lease term.

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

| | |
|--------------------|-----------|
| Fiscal Year Ending | |
| FY 2019 | 164,184 |
| FY 2020 | 167,225 |
| FY 2021 | 170,448 |
| FY 2022 | 173,864 |
| FY 2023 | 144,565 |
| Thereafter | 5,473,313 |
| Total | 6,293,599 |

Restricted Cash:

The Trust is obligated under a loan agreement relating to the Tucson Oracle property 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 Tucson Oracle property for which a mortgage lender escrow exists is reported on the Trust's Consolidated Balance Sheet as "Restricted Cash." Since a \$0 cash balance existed in Restricted Cash for the fiscal years 2018 and 2017, Restricted Cash line was omitted on the Trust's Consolidated Balance Sheet.

Membership Agreements:

InnSuites Hotels has entered into membership agreements with Best Western International, Inc. ("Best Western") for four of the hotel properties. In exchange for use of the Best Western name, trademark and reservation system, all Hotels pay fees to Best Western based on reservations received through the use of the Best Western reservation system and the number of available suites at the Hotels. The agreements with Best Western have no specific expiration terms and may be cancelled by either party. Best Western requires that the hotels meet certain requirements for room quality, and the Hotels are subject to removal from its reservation system if these requirements are not met. The Hotels with third-party membership agreements received significant reservations through the Best Western reservation system. Under these arrangements, fees paid for membership fees and reservations were approximately \$286,000 and \$483,000 for fiscal years ended January 31, 2018 and 2017, respectively.

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 and is covered by insurance, 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.

Litigation:

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.

Indemnification:

We have entered into indemnification agreements with all of our executive officers and Trustees. The agreements provide for indemnification against all liabilities and expenses reasonably incurred by an officer or Trustee in connection with the defense or disposition of any suit or other proceeding, in which he or she may be involved or with which he or she may be threatened, while in office or thereafter, because of his or her position at the Trust. There is no indemnification for any matter as to which an officer or Trustee is adjudicated to have acted in bad faith, with willful misconduct or reckless disregard of his or her duties, with gross negligence, or not in good faith in the reasonable belief that his or her action was in our best interests. These agreements require us, among other things, to indemnify the director or officer against specified expenses and liabilities, such as attorneys' fees, judgments, fines and settlements, paid by the individual in connection with any action, suit or proceeding arising out of the individual's status or service as our director or officer, other than liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest, and to advance expenses incurred by the individual in connection with any proceeding against the individual with respect to which the individual may be entitled to indemnification by us. We may advance payments in connection with indemnification under the agreements. The level of indemnification is to the full extent of the net equity based on appraised and/or market value of the Trust. Historically, we have not incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying consolidated balance sheets.

22. SHARE-BASED PAYMENTS

We compensate our non-employee Trustees for their services through grants of restricted Shares. The aggregate grant date fair value of these Shares is shown in the table above. These restricted Shares vested in equal monthly amounts during our fiscal year 2018. As of January 31, 2018, Messrs. Kutasi, Chase and Robson and Ms. Ketcherside did not hold any unvested Shares. As compensation for our fiscal year 2017, on February 10, 2017, we issued 6,000 additional restricted Shares (with the aggregate grant date fair value of \$13,980 per grant) to each of Messrs. Kutasi and Robson and Ms. Ketcherside.

During fiscal year 1999, the shareholders of the Trust adopted the 1997 Stock Incentive and Option Plan (the "Plan"). Pursuant to the Plan, the Compensation Committee may grant options to the Trustees, officers, other key employees,

consultants, advisors and similar employees of the Trust and certain of its subsidiaries and affiliates. The number of options that may be granted in a year is limited to 10% of the total Shares of Beneficial Interest and Partnership units in the Partnership (Class A and Class B) outstanding as of the first day of such year.

Generally, granted options expire 10 years from the date of grant, are exercisable during the optionee’s lifetime only by the recipient and are non-transferable. Unexercised options held by employees of the Trust generally terminate on the date the individual ceases to be an employee of the Trust.

There were no options granted in fiscal year 2018 or 2017, and no options were outstanding as of January 31, 2018 and 2017. The Plan currently has 1,000,000 options available to grant. See Note 26 for additional information on stock options. The Plan also permits the Trust to award stock appreciation rights, none of which, as of January 31, 2018, have been issued.

See Note 2 – “Summary of Significant Accounting Policies” for information related to grants of restricted shares under “Stock-Based Compensation.”

Cash and Equity Bonuses

Fiscal 2017– Short-Term Cash and Equity Bonus Program

To provide incentive to get hotel operations off to a strong start for the then-current fiscal year starting February 1, 2016, on February 22, 2016, the Committee adopted an incentive bonus program for the Executives based on the targeted gross operating profit of approximately \$402,000 and approximately \$395,000 (*i.e.*, total revenues less operating expenses) (the “Target GOP”) for February 2016 and March 2016, the first two months of the fiscal year. The program provided that if the Target GOP were achieved or exceeded, each Executive would be entitled to a bonus consisting of cash and Shares of Beneficial Interest of the Trust in the amounts set forth below:

| Executive Officer | Cash | Equity |
|--------------------|----------|--------------------------------------|
| Pamela J. Barnhill | \$10,000 | 10,000 Shares of Beneficial Interest |
| Marc E. Berg | \$2,500 | 2,500 Shares of Beneficial Interest |
| Adam B. Remis | \$5,000 | 5,000 Shares of Beneficial Interest |

In February 2016 and March 2016, the Target GOP were achieved and each of the Executives received the cash and equity bonuses listed above.

Fiscal 2017– Full Year Cash and Equity Bonus Program

On February 22, 2016, the Committee adopted an incentive bonus program for the Executives for the fiscal year ended January 31, 2017 (the “2017 Fiscal Year Bonus Program”). Under the 2017 Fiscal Year Bonus Program, an Executive were to be entitled to receive a bonus consisting of cash and Shares of Beneficial Interest of the Trust up to the maximum amount set forth below upon the achievement by the Executive of performance-based objectives, which included revenue, gross operating profit and strategy for the hotel and IBC/IVH divisions and/or at the discretion of the Committee.

| Executive Officer | Cash | Equity |
|--------------------|----------|--------------------------------------|
| Pamela J. Barnhill | \$25,000 | 10,000 Shares of Beneficial Interest |
| Marc E. Berg | \$5,000 | 2,500 Shares of Beneficial Interest |
| Adam B. Remis | \$10,000 | 5,000 Shares of Beneficial Interest |

Fiscal 2017– Payouts Under Short-Term and Full Year Cash and Equity Bonus Programs

On January 24, 2017, the Compensation Committee exercised negative discretion, based on the Trust's financial condition and its limited cash flow in fiscal 2017, and the Compensation Committee and the Board of Trustees approved the following payouts for the Executives based on the performance of the Trust and the Executives. The payouts were accrued as of January 31, 2017 and paid to the Executives in February 2017.

| Executive | Cash | Equity |
|--------------------|---------|-------------------------------------|
| Pamela J. Barnhill | \$5,000 | 3,000 Shares of Beneficial Interest |
| Marc E. Berg | \$1,000 | 750 Shares of Beneficial Interest |
| Adam B. Remis | \$2,000 | 1,500 Shares of Beneficial Interest |

*Fiscal 2018 Bonuses**Fiscal 2018– Short-Term Cash and Equity Bonus Program*

On January 24, 2017, the Compensation Committee and the Board, with the advice from Mr. Wirth, our Chairman and Chief Executive Officer, authorized the following additional bonuses for the Executives, up to the maximum amounts listed below, which may be earned based on the growth and financial developments of IBC Hotels during the period from February 1, 2017 through May 31, 2017 and the Trust's cash availability, with such bonuses, if any, to be paid before January 31, 2018.

| Executive | Cash | Equity |
|--------------------|---------|-------------------------------------|
| Pamela J. Barnhill | \$5,000 | 3,000 Shares of Beneficial Interest |
| Marc E. Berg | \$1,000 | 750 Shares of Beneficial Interest |
| Adam B. Remis | \$2,000 | 1,500 Shares of Beneficial Interest |

In addition, the Compensation Committee and the Board, with the advice from Mr. Wirth, our Chairman and Chief Executive Officer, also authorized the following bonuses for the Executives, up to the maximum amounts listed below, which may be earned based on the IBC Hotels division growth and financial developments during the period from June 1, 2017 through December 31, 2017 and the Trust's cash availability, with such bonuses, if any, to be paid before January 31, 2018.

| Executive | Cash | Equity |
|-----------|------|--------|
|-----------|------|--------|

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| | | |
|--------------------|----------|-------------------------------------|
| Pamela J. Barnhill | \$10,000 | 4,000 Shares of Beneficial Interest |
| Marc E. Berg | \$2,000 | 1,000 Shares of Beneficial Interest |
| Adam B. Remis | \$4,000 | 2,000 Shares of Beneficial Interest |

Fiscal 2018– Full Year Cash and Equity Bonus Program

On January 24, 2017, the Compensation Committee also adopted an incentive bonus program for the Executives for the full fiscal year ending January 31, 2018 (the “2018 Fiscal Year Bonus Program”). Under the 2018 Fiscal Year Bonus Program, an Executive will be entitled to receive a bonus consisting of cash and Shares of Beneficial Interest of the Trust, up to the maximum amounts set forth below, upon the achievement by the Executive of performance-based objectives which was based exceeding budgeted revenues and net income in both the hotel operations and technology division.

| Executive | Cash | Equity |
|--------------------|----------|--------------------------------------|
| Pamela J. Barnhill | \$25,000 | 10,000 Shares of Beneficial Interest |
| Marc E. Berg | \$5,000 | 2,500 Shares of Beneficial Interest |
| Adam B. Remis | \$10,000 | 5,000 Shares of Beneficial Interest |

The bonuses discussed above are discretionary. In April 2018, the CEO determined, based on his discretionary and after carefully evaluating the financial performance of both the hotels and our technology division, decided to award 50% of the cash and equity noted above to the Executives.

23. SEGMENT REPORTING

The Trust determined its reportable segments are the Hotel Operations and IBC Developments segments. Reportable segments are determined based on discrete financial information reviewed by the Trust's CODM. The Trust organizes and reviews operations based on products and services, and currently there are no operating segments that are aggregated. The Trust performs an annual analysis of its reportable segments.

Information relative to the Trust's reportable segments is as follows:

CONSOLIDATED BALANCE SHEET YEAR ENDED JANUARY 31, 2018

| | Hotel Operations & Corporate Overhead | IBC Developments | Total |
|-------------------|---|---------------------|--------------|
| Total Assets | \$22,201,935 | \$ 876,137 | \$23,078,072 |
| Total Liabilities | 9,897,562 | 5,061,541 | 14,959,103 |
| Fixed Assets, Net | 14,586,879 | 424,872 | 15,011,751 |

CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED JANUARY 31, 2018

| | Hotel Operations & Corporate Overhead | IBC Hospitality | Total |
|---------------------------------|---|--------------------|--------------|
| Total Revenue | \$9,319,467 | \$1,448,125 | \$10,767,592 |
| Loss From Continuing Operations | (731,888) | (2,382,919) | (3,114,807) |

CONSOLIDATED BALANCE SHEET YEAR ENDED JANUARY 31, 2017

| | Hotel Operations & Corporate Overhead | IBC Developments | Total |
|-------------------|---|---------------------|--------------|
| Total Assets | \$20,708,359 | \$ 1,464,473 | \$22,172,832 |
| Total Liabilities | 15,280,624 | 3,266,959 | 18,547,583 |
| Fixed Assets, Net | 13,471,799 | 222,469 | 13,694,268 |

CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED JANUARY 31, 2017

| | Hotel Operations & Corporate Overhead | IBC Hospitality | Total |
|---------------------------------|---|--------------------|-------------|
| Total Revenue | \$8,488,387 | \$708,792 | \$9,197,179 |
| Loss From Continuing Operations | (1,165,554) | (1,189,913) | (2,355,467) |

24. SALE OF ONTARIO HOSPITALITY PROPERTIES, LP

On June 2, 2017, the Trust sold its Ontario, California hotel to an unrelated third party for approximately \$17.5 million, which the Trust received in cash and resulted in a gain of approximately \$11.4 million. The Trust used \$7.2 million of the proceeds to satisfy its mortgage note payable on the property, approximately \$2.4 million to reduce accruals and payables, and retained the remaining proceeds to fund future operations and capital improvements. For the year ended January 31, 2018, Ontario entity had approximately \$1,471,000 of revenue, and approximately \$2,100,000 of operating expenses. As of January 31, 2018, Ontario entity had no current assets, and approximately \$86,000 of current liabilities consisting of accounts payables and accrued expenses. During the years ended January 31, 2018, and January 31, 2017, depreciation/amortization and capital expenses were approximately \$178,000 and \$699,000, respectively. In addition, there were no significant non-cash operating and investing activities during such period.

For the fiscal year ending January 31, 2018, the Ontario entity made discretionary Priority Return payments to unrelated unit holders of approximately \$4,916,000 and to the Partnership of approximately \$3,098,500.

25. DISCONTINUED OPERATIONS

On August 1, 2015, the Trust finalized and committed to a plan to sell all the hotel properties. As of May 1, 2016, the Trust listed all the Hotel properties with a local real estate hotel broker, and management believes that each of the assets is being marketed at a price that is reasonable in relation to its current fair value. The Trust believes that the plan to sell these assets will not be withdrawn. Through the Trust's Form 10-Q for the quarter ended October 31, 2016 filed with the SEC on September 14, 2016, the Trust classified all the Hotel properties as Assets Held for Sale. As of October 31, 2016, the Trust has decided to reclassify these assets back into operations as many of these assets have been marketed for sale for more than one year. At this time, the Trust is unable to predict when, and if, any of these Hotel properties will be sold. The Trust continues to list these properties with local real estate hotel brokers, and believes that each of the assets is being marketed at a price that is reasonable in relation to its current fair value. On June 2, 2017, the Ontario Hospitality Properties LLLP was sold to an unrelated third party for \$17,500,000 (see Note 24).

The Trust has recognized the sale of the Ontario, California hotel into discontinued operations in accordance with ASC No. 205-20, *Discontinued Operations*. As such, the historical results of the Ontario, California hotel have been adjusted for comparability purposes and exclude any corporate general and administrative expenses.

Discontinued operations for the fiscal year ended January 31, 2018 and 2017 primarily consists of all hotels operational revenues and expenses for the Ontario, California hotel property and does not include the sale proceeds and profit from the sale of the Ontario, California hotel.

The following financial information presents the aggregate carrying amounts of the classes of assets and liabilities of discontinued operations for the years ended January 31, 2018 and 2017, as well as the statements of operations for the years ended January 31, 2018 and 2017.

| | DISCONTINUED OPERATIONS | |
|---|----------------------------|---------------------|
| | JANUARY 31, 2018 | JANUARY 31, 2017 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$- | \$89,561 |
| Accounts Receivable | - | 92,743 |
| Prepaid Expenses and Other Current Assets | - | 46,823 |
| Total Current Assets of Discontinued Operations | - | 229,127 |

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| | | |
|---|-----|-------------|
| Property, Plant and Equipment, net | - | 6,080,597 |
| TOTAL ASSETS OF DISCONTINUED OPERATIONS | \$- | \$6,309,724 |

LIABILITIES

LIABILITIES

Current Liabilities:

| | | |
|--|----------|-------------|
| Accounts Payable and Accrued Expenses | \$86,976 | \$400,402 |
| Current Portion of Mortgage Notes Payable | - | 185,207 |
| Total Current Liabilities of Discontinued Operations | 86,976 | 585,609 |
| Mortgage Notes Payable | - | 5,047,838 |
| TOTAL LIABILITIES OF DISCONTINUED OPERATIONS | \$86,976 | \$5,633,447 |

FOR THE YEARS
ENDED JANUARY 31,
2018 **2017**

REVENUE

| | | |
|-------------------|-------------|-------------|
| Room | \$1,397,324 | \$3,827,793 |
| Food and Beverage | 64,976 | 164,326 |
| Other | 8,443 | |