

INNSUITES HOSPITALITY TRUST  
Form DEF 14A  
November 16, 2004

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**SCHEDULE 14A  
(RULE 14A-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

**INNSUITES HOSPITALITY TRUST**

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(Name of Registrant as Specified In Its Charter)

N/A

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:  
N/A

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  - (2) Aggregate number of securities to which transaction applies:  
N/A

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(1) Amount Previously Paid:  
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(2) Form, Schedule or Registration Statement No.:  
N/A

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(3) Filing Party:  
N/A

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(4) Date Filed:  
N/A

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[TRUST LOGO]

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the 2004 Annual Meeting of Shareholders of InnSuites Hospitality Trust (the "Trust") will be held in the Kachina Room at the InnSuites Hotels Phoenix Best Western, 1615 E. Northern Avenue, Phoenix, Arizona 85020 (phone: 602-997-6285) on Friday, December 10, 2004, at 11:00 a.m., local time, for the purpose of considering and acting upon:

1. The election of three Trustees, one to hold office until the 2005 Annual Meeting of Shareholders and until his successor shall be elected and qualified and two to hold office until the 2007 Annual Meeting of Shareholders and until their successors shall be elected and qualified (listed as Proposal 1 on the Proxy Card).
2. The approval of the following, proposed by the Trust in connection with its efforts to meet the continued listing standards of the American Stock Exchange:
  - A. the issuance of Shares of Beneficial Interest of the Trust in exchange for the cancellation of indebtedness owed by the Trust to RRF Limited Partnership (listed as Proposal 2A on the Proxy Card);
  - B. the issuance of Shares of Beneficial Interest of the Trust in consideration of the Trust's acquisition of all general partner interests of Yuma Hospitality Properties, Ltd. which are currently held by RRF Limited Partnership (listed as Proposal 2B on the Proxy Card);
  - C. the issuance of Shares of Beneficial Interest of the Trust in exchange for the cancellation of indebtedness owed by the Trust to certain affiliates of James F. Wirth (listed as Proposal 2C on the Proxy Card); and
  - D. the issuance of Shares of Beneficial Interest of the Trust upon the conversion of Class B limited partnership units in RRF Limited Partnership into Shares of Beneficial Interest by James F. Wirth and certain of his affiliates (listed as Proposal 2D on the Proxy Card).
3. The transaction of any other business that properly may come before the meeting and any adjournments thereof.

Shareholders of the Trust of record at the close of business on November 11, 2004 are entitled to vote at the 2004 Annual Meeting of Shareholders and any adjournments thereof.

By order of the Board of Trustees

MARC E. BERG  
Secretary

Phoenix, Arizona  
November 16, 2004

**Shareholders are requested to complete, date, sign and return the enclosed Proxy Card in the envelope provided, which requires no postage if mailed in the United States.**

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[TRUST LOGO]

November 16, 2004

InnSuites Hotels Centre  
1615 E. Northern Avenue  
Suite 102  
Phoenix, Arizona 85020

## PROXY STATEMENT

### Proxy Solicitation

The accompanying proxy is solicited by the Trustees of InnSuites Hospitality Trust (the "Trust") for use at the 2004 Annual Meeting of Shareholders to be held on Friday, December 10, 2004 and any adjournments thereof. In addition to the Trust's solicitation of proxies by mail, the Trustees, officers and regular employees of the Trust may also solicit the return of proxies by mail, telephone, telegram or personal contact, for which they will not receive additional compensation. The Trust will pay the cost of soliciting proxies in the accompanying form. The Trust will reimburse brokers or other persons holding Shares in their names or in the names of their nominees for their reasonable expenses in forwarding proxy material to the beneficial owners of such Shares.

### General Information

Shareholders of record at the close of business on November 11, 2004 (the record date) will be entitled to vote at the 2004 Annual Meeting of Shareholders and at any adjournments thereof. At that date, there were 2,349,155 Shares of Beneficial Interest of the Trust ("Shares") issued and outstanding. Each outstanding Share is entitled to one vote on all matters that properly come before the 2004 Annual Meeting. At least 1,174,578 Shares must be represented at the 2004 Annual Meeting in person or by proxy in order to constitute a quorum for the transaction of business.

This Proxy Statement and the accompanying form of proxy are first being mailed to the shareholders of the Trust on or about November 18, 2004. The Trust is also mailing with this Proxy Statement its Annual Report to Shareholders for the fiscal year ended January 31, 2004, its Quarterly Report on Form 10-Q for the three months ended April 30, 2004, as amended, and its Quarterly Report on Form 10-Q for the six months ended July 31, 2004.

No appraisal rights are available under Ohio law or under the Declaration of Trust of the Trust to any shareholder who dissents from any of the Proposals.

A proxy may be revoked at any time before a vote is taken or the authority granted is otherwise exercised. Revocation may be accomplished by the execution of a later proxy with regard to the same Shares or by giving notice in writing to the Trust's Secretary or in an open meeting.

### The Proposals

Shares represented by properly executed proxy cards will be voted in accordance with the specifications made thereon. If no specification is made, proxies will be voted **FOR** the following proposals (each, a "Proposal," and collectively, the "Proposals"):

1. the election of the Trustee nominees named herein (listed as Proposal 1 on the Proxy Card), and
2. the approval of each of the following:
  - A. the issuance of up to 7,125,876 Shares in exchange for the cancellation of certain indebtedness of the Trust currently owed to RRF Limited Partnership (the "Debt Cancellation Proposal"), only 3,051,300 of which would remain outstanding following the

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consummation of the Debt Cancellation Proposal (listed as Proposal 2A on the Proxy Card);

- B. the issuance of up to 5,356,392 Shares in consideration of the Trust's acquisition of all general partner interests of Yuma Hospitality Properties, Ltd. currently held by RRF Limited Partnership (the "Acquisition Proposal"), only 2,293,607 of which would remain outstanding following the consummation of the Acquisition Proposal (listed as Proposal 2B on the Proxy Card);
- C. the issuance of up to 568,155 Shares in exchange for the cancellation of certain indebtedness of the Trust currently owed to certain affiliates of James F. Wirth (the "Notes Cancellation Proposal"), all 568,155 of which would remain outstanding following the consummation of the Notes Cancellation Proposal (listed as Proposal 2C on the Proxy Card); and
- D. the issuance of up to 1,000,000 Shares in exchange for the conversion of a like-number of Class B limited partnership units in RRF Limited Partnership into Shares by James F. Wirth and certain of his affiliates (the "Units Conversion Proposal"), all 1,000,000 of which would remain outstanding following the consummation of the Units Conversion Proposal (listed as Proposal 2D on the Proxy Card).

The Board of Trustees recommends that the shareholders vote FOR each of the Trustee nominees. The Board of Trustees is not making a recommendation with respect to any of the Proposals. Each of the Trustees and executive officers other than Mr. Wirth, however, has indicated their intention to vote the Shares owned by them in favor of each of the Proposals. As of November 11, 2004, the Trustees and executive officers other than Mr. Wirth collectively own approximately 12.02% of the Trust's issued and outstanding Shares. Mr. Wirth and his affiliates have agreed to vote the Shares owned by them in the same proportions as the other votes cast with respect to each Proposal. As of November 11, 2004, Mr. Wirth and his affiliates collectively own approximately 25.99% of the Trust's issued and outstanding Shares.

The approval of any one Proposal is not contingent upon the approval of any other Proposal. In addition, the Board of Trustees will implement any Proposal only if it determines that the implementation of that Proposal is in the best interests of the Trust, and may implement any of the Proposals that are approved by the shareholders regardless of the failure to approve any of the other Proposals.

The approval of each Proposal requires the affirmative vote of a majority of the issued and outstanding Shares entitled to vote present in person or by proxy at the Annual Meeting. Abstentions and broker non-votes, unless a broker's authority to vote on a particular matter is limited, are tabulated in determining the votes present at a meeting. Consequently, an abstention or a broker non-vote (assuming a broker has unlimited authority to vote on the matter) has the same effect as a vote against a Trustee or a proposal, as each abstention or broker non-vote would be one less vote for a Trustee nominee or for the approval of a proposal.

### SUMMARY OF PROPOSAL TERMS

The following is a summary of the material terms of the Debt Cancellation Proposal, the Acquisition Proposal, the Notes Cancellation Proposal and the Units Conversion Proposal, and the Trust's proposed issuance of Shares thereunder. Cross references to further information contained in this Proxy Statement are provided with each summary item. This summary may not contain all of the information regarding the Proposals that you may consider important. You should read this entire proxy statement before voting your Shares.

### **Purposes of the Proposals**

The Trust's Board of Trustees believes that consummating the transactions contemplated by the Proposals would facilitate the Trust's compliance with the American Stock Exchange's continued listing standards.

The failure of the Trust's shareholders to approve any one (or more) of the Proposals could substantially hinder the Trust's ability to regain compliance with the American Stock Exchange's continued listing standards. If the Trust's Shares were delisted from the American Stock Exchange, liquidity in the trading market for its Shares could be significantly decreased, which could greatly reduce the trading price of and increase the transaction costs of trading the Trust's Shares.

The Trust can provide no assurance, however, that future events will not result in additional proceedings against the Trust with respect to the American Stock Exchange's continued listing standards.

See "Purposes of Proposals 2A, 2B, 2C and 2D" herein (p. 45).

### **The Debt Cancellation Proposal (Proposal 2A)**

RRF Limited Partnership, the Trust's operating partnership (the "Partnership"), would receive up to 7,125,876 Shares in exchange for the cancellation of an aggregate of \$8.3 million in principal plus approximately \$260,000 in accrued but unpaid interest owed by the Trust to the Partnership (p. 31).

The maximum number of Shares to be issued by the Trust in connection with the Debt Cancellation Proposal (7,125,876) is based on a price of \$1.20 per Share. The exact number of Shares to be issued to the Partnership would be determined by dividing the amount of the debt (principal and accrued but unpaid interest) by the market price of the Trust's Shares at the effective time of the debt cancellation, provided, however, that regardless of the market price, the per Share price used for this calculation will not be less than \$1.20 or more than \$2.00 (p. 31).

The Shares received by the Partnership would be immediately distributed to its partners, which include the Trust (as the sole general partner) and James F. Wirth and his affiliates (as majority limited partners) (p. 31).

Due to the Trust's ownership interest in the Partnership, the Trust's receipt of Shares from the Partnership would cause up to 4,074,576 of the total Shares issued in connection with the Debt Cancellation Proposal to be held by the Trust as treasury shares, with the result that only 3,051,300 of the issued Shares would remain outstanding. Mr. Wirth and his affiliates will receive up to 2,409,971 of the total Shares issued in connection with the Debt Cancellation Proposal (p. 56).

As a result of the issuance of Shares described in the Debt Cancellation Proposal, the percentage ownership interests of all existing Trust shareholders other than Mr. Wirth and his affiliates and, under some circumstances, limited partners of the Partnership who are also Trust shareholders would be diluted (p. 56).

The reduction in the Trust's liabilities resulting from the transactions described in the Debt Cancellation Proposal would increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 32).

### **The Acquisition Proposal (Proposal 2B)**

Yuma Hospitality Properties, Ltd. ("Yuma LP") owns the 166-suite InnSuites Hotels and Suites Yuma located in Yuma, Arizona (p. 36).

The Partnership is the sole 99.9% general partner of Yuma LP, and RRF-LP LLC I is the sole 0.1% limited partner of Yuma LP. The Partnership is the sole member of RRF-LP LLC I (p. 33).



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To acquire the 99.9% general partner interest in Yuma LP, the Trust would issue up to 5,356,392 Shares to the Partnership (p. 33).

The maximum number of Shares to be issued by the Trust in connection with the Acquisition Proposal (5,356,392) is based on a price of \$1.20 per Share. The exact number of Shares to be issued to the Partnership would be determined by dividing the fair value of the assets of Yuma LP (approximately \$9.0 million, consisting of the appraised value of the hotel of \$8.3 million plus the book value of all other assets) less assumed liabilities (approximately \$2.5 million, including mortgage debt of \$2.3 million) by the market price of the Trust's Shares at the effective time of the acquisition, provided, however, that regardless of the market price, the per Share price used for this calculation will not be less than \$1.20 or more than \$2.00 (p. 33).

The Shares received by the Partnership would be immediately distributed to its partners, which include the Trust (as the sole general partner) and James F. Wirth and his affiliates (as majority limited partners) (p. 33).

Due to the Trust's ownership interest in the Partnership, the Trust's receipt of Shares from the Partnership would cause up to 3,062,785 of the total Shares issued in connection with the Acquisition Proposal to be held by the Trust as treasury shares. As a result, only 2,293,607 of the issued Shares would remain outstanding. Mr. Wirth and his affiliates will receive up to 1,811,532 of the total Shares issued in connection with the Acquisition Proposal (p. 57).

As a result of the issuance of Shares described in the Acquisition Proposal, the percentage ownership interests of all existing Trust shareholders other than Mr. Wirth and his affiliates and, under some circumstances, limited partners of the Partnership who are also Trust shareholders would be diluted (p. 57).

The Trust's acquisition of the 99.9% sole general partner interest in Yuma LP resulting from the transactions described in the Acquisition Proposal would increase the Trust's allocation of the Yuma Hotel's profitable operations and the Trust's allocation of Yuma LP's equity, which in each case would further increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 33).

The issuance of the Shares contemplated by the Acquisition Proposal would also increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 33).

### **The Notes Cancellation Proposal (Proposal 2C)**

Hulsey Hotels Corporation, Brian Wirth, Christopher Wirth, Eric Wirth and Pamela Wirth Barnhill, each an affiliate of James F. Wirth (the "Note Holders"), would receive up to an aggregate of 568,155 Shares in exchange for the cancellation of an aggregate of \$681,786 in principal owed by the Trust to the Note Holders (p. 42).

The maximum number of Shares to be issued by the Trust in connection with the Notes Cancellation Proposal (568,155) is based on a price of \$1.20 per Share. The exact number of Shares to be issued to the Note Holders would be determined by dividing the amount of the debt (principal and accrued but unpaid interest) by the market price of the Trust's Shares at the effective time of the note cancellations, provided, however, that regardless of the market price, the per Share price used for this calculation will not be less than \$1.20 or more than \$2.00 (p. 42).

All Shares issued in connection with the Notes Cancellation Proposal (up to 568,155) would remain outstanding (p. 42).



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As a result of the issuance of Shares described in the Notes Cancellation Proposal, the percentage ownership interests of all existing Trust shareholders other than the Note Holders would be diluted (p. 57).

The reduction in the Trust's liabilities through the issuance of Shares as described in the Notes Cancellation Proposal would increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 43).

### **The Units Conversion Proposal (Proposal 2D)**

As of November 11, 2004, James F. Wirth and his affiliates held all 4,467,938 outstanding Class B limited partnership units in the Partnership, each of which may be converted into one newly-issued Share upon the approval of the Board of Trustees (p. 44).

Pursuant to the Units Conversion Proposal, Mr. Wirth and his affiliates would be permitted to convert up to 1,000,000 Class B limited partnership units into the same number of Shares (p. 44).

Subject to shareholder approval, Mr. Wirth and his affiliates have received the approval of the Board of Trustees for the proposed conversion of up to 1,000,000 Class B limited partnership units (p. 44).

Mr. Wirth has informed the Trust of his intention to convert up to 1,000,000 Class B limited partnership units into 1,000,000 Shares following shareholder approval of the Units Conversion Proposal to the extent necessary to facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 44).

All Shares issued in connection with the Units Conversion Proposal (up to 1,000,000) would remain outstanding (p. 44).

As a result of the issuance of Shares described in the Units Conversion Proposal, the percentage ownership interests of all existing Trust shareholders other than Mr. Wirth and his affiliates would be diluted (p. 58).

As a result of the conversion of limited partnership units into Shares as described in the Units Conversion Proposal, the Trust would increase its sole general partner interest in the Partnership, increasing its allocation of the Partnership's reported equity which would further increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange (p. 44).

As of July 31, 2004, the Trust owns a 57.18% general partner interest in the Partnership. If the Units Conversion Proposal is adopted and implemented, the Trust's general partner interest will increase to 64.75% (p. 58).

### **Effects of the Proposals**

If all of the Proposals are approved and the maximum number of Shares contemplated under all of the Proposals are issued, the percentage ownership of Shares by Mr. Wirth and his affiliates would increase from approximately 25.94% to approximately 69.07% of the Trust's issued and outstanding Shares following the Partnership's distribution of Shares to its partners.

As a result of the issuance of Shares as contemplated by the Proposals, Mr. Wirth and his affiliates will have the ability to exert significant influence over our policies and affairs, including the power to elect Trustees, to increase the size of the Board of Trustees, and to approve actions requiring a shareholder vote, such as amendments to our Declaration of Trust, transactions with affiliates, mergers, and asset acquisitions or dispositions. In addition, Mr. Wirth and his affiliates may be able to prevent or cause a change of control of the Trust by either voting his Shares against or for a change of control or selling his Shares and causing a change of control.



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As a result of the issuance of Shares as contemplated by the Proposals, the Trust could elect to be treated as a "controlled company" for purposes of compliance with the rules of the American Stock Exchange. If the Trust elected to be treated as a "controlled company," the Trust would no longer be required to have a majority of its Trustees be "independent" (as such term is defined by Securities and Exchange Commission rules and the continued listing standards of the American Stock Exchange) or to maintain an "independent" nominating or compensation committee. The Trust does not currently intend to elect to be treated as a "controlled company."

See "Effects of the Proposals" herein (p. 56).

**ELECTION OF TRUSTEES  
(Proposal 1 on the Proxy Card)**

At the Annual Meeting, three Trustees are to be elected, one with a one-year term expiring at the 2005 Annual Meeting of Shareholders and two with three-year terms expiring at the 2007 Annual Meeting of Shareholders and, in each case, until their respective successors are duly elected and qualified.

The Board of Trustees reluctantly accepted the resignation of Edward G. Hill as Trustee effective January 31, 2004. Mr. Hill informed the Trust that he wishes to focus on other personal interests. The Board of Trustees will miss the experience and expertise of Mr. Hill and wishes him well in his personal pursuits.

To fill the vacancy created by the resignation of Mr. Hill, and consistent with the Trust's Declaration of Trust, as of February 3, 2004, the remaining members of the Board of Trustees unanimously appointed Stephen A McConnell to serve as Trustee in the class whose terms expire at the 2005 Annual Meeting of Shareholders. In accordance with the terms of the Declaration of Trust, Mr. McConnell must stand for election by the shareholders at the 2004 Annual Meeting of Shareholders. The biography of Mr. McConnell is set forth below.

Accordingly, Stephen A McConnell will stand for election as Trustee to a term expiring at the 2005 Annual Meeting of Shareholders, and James F. Wirth and Peter A. Thoma will stand for re-election as Trustees to terms expiring at the 2007 Annual Meeting of Shareholders. Unless a shareholder requests that voting of a proxy be withheld for any one or more of the nominees for Trustee in accordance with the instructions set forth on the proxy, it presently is intended that Shares represented by proxies solicited hereby will be voted FOR the election of Stephen A McConnell as Trustee to a term expiring at the 2005 Annual Meeting of Shareholders and the election of James F. Wirth and Peter A. Thoma as Trustees to terms expiring at the 2007 Annual Meeting of Shareholders. The nominees have consented to being named in this Proxy Statement and to serve if elected. Should any nominee subsequently decline or be unable to accept such nomination or to serve as a Trustee, an event which the current Trustees do not now expect, the persons voting the Shares represented by proxies solicited hereby may vote such Shares for a slate of three persons which includes a substitute nominee.

The Trust's Board of Trustees currently has five members and is divided into three classes, as follows:

two Trustees in the class whose terms expire at the 2004 Annual Meeting of Shareholders;

two Trustees in the class whose terms expire at the 2005 Annual Meeting of Shareholders; and

one Trustee in the class whose term expires at the 2006 Annual Meeting of Shareholders.

Each of the Trustees serves for three years and until his successor is duly elected and qualified. A majority of the Trustees, Messrs. Thoma, Robson and McConnell, are "independent" as defined by the American Stock Exchange listing standards. The Trust expects all of its Trustees to attend the 2004 Annual Meetings of Shareholders. All incumbent Trustees were present at the 2003 Annual Meeting of Shareholders.

James F. Wirth and Peter A. Thoma, whose terms as Trustee expire at the 2004 Annual Meeting of Shareholders, each have chosen to stand for re-election as Trustee to a term expiring at the 2007 Annual Meeting of Shareholders. Stephen A McConnell, who was appointed by the Board of Trustees to fill the vacancy created by the resignation of Mr. Hill, has chosen to stand for election as Trustee to a term expiring at the 2005 Annual Meeting of Shareholders. The biographies of Messrs. Wirth, Thoma and McConnell, and each of the Trustees whose term in office will continue after the 2004 Annual Meeting of Shareholders, are set forth below.

**The Board of Trustees of the Trust recommends a vote FOR James F. Wirth, Peter A. Thoma and Stephen A McConnell as Trustees.**

#### **Nominees, Trustees and Executive Officers**

The information concerning the Trustees and executive officers of the Trust set forth in the following table is based in part on information received from the respective Trustees and executive officers and in part on the Trust's records. The following table sets forth the name, age, term of office and principal business experience for each Trustee, nominee for Trustee and executive officer of the Trust, as applicable.

Name	Principal Occupations During Past Five Years, Age as of November 11, 2004 and Directorships Held	Trustee Since
<b>Nominee For Term Expiring in 2005</b>		
Stephen A McConnell <sup>1,2,3,4</sup>	President of Solano Ventures since 1991, an investment fund devoted to small and mid-sized companies. Chairman of G-L Industries, L.L.C. from June 1998 to July 2004, a Salt Lake City-based manufacturer of wood glue-lam beams used in the construction industry. Chairman of Malco Lumber & Building Materials, Inc., a wholesale distributor of lumber and doors from 1991 to 1997. Member of the Board of Directors of Mobile Mini, Inc., Capital Title Group, Inc., Miracor Diagnostics, Inc. and OneSource Technologies, Inc. Age: 51.	February 3, 2004
<b>Nominees for Terms Expiring in 2007</b>		
James F. Wirth <sup>1</sup>	Chairman, President and Chief Executive Officer of the Trust since January 30, 1998. Owner (together with his affiliates) of Suite Hotels LLC and affiliated entities, owners and operators of hotels, since 1980. President of Rare Earth Development Company, a real estate investment company owned by Mr. Wirth and his affiliates, since 1973. Age: 58.	January 30, 1998
Peter A. Thoma <sup>2,3,4</sup>	Owner and operator of A&T Verleigh, Hamburg, Germany, a hospitality service and rental company, since 1997. Owner and operator of Thoma Zelssysteme, Hamburg, Germany, an import and sales company, since 1997. Age: 38.	April 13, 1999
<b>Trustee Whose Term Expires in 2005</b>		
Steven S. Robson <sup>2,3,4</sup>	President of Robson Communities, Inc. and Scott Homes and Scott Multifamily, Inc., residential real estate developers, since 1979. Age: 48.	June 16, 1998

**Trustee Whose Term Expires in  
2006**

Marc E. Berg<sup>1</sup> Executive Vice President, Secretary and Treasurer of the Trust since January 30, 1998  
February 10, 1999. Vice President Acquisitions of the Trust from  
December 16, 1998 to February 10, 1999. Consultant to InnSuites  
Hotels since 1989. Self-employed as a Registered Investment Advisor  
since 1985. Age: 52.

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- 1 Member of the Executive Committee.
- 2 Member of the Audit Committee.
- 3 Member of the Compensation Committee.
- 4 Member of the Governance and Nominating Committee.

**Other Executive Officers**

Anthony B. Waters Chief Financial Officer of the Trust since February 29, 2000. Controller of the Trust from June 17, 1999 to February 29, 2000. Accountant and auditor with Michael Maastricht, CPA from June 16, 1998 to June 15, 1999, performing audits for InnSuites Hotels, Inc. Self-employed, concentrating in computerized accounting and information systems, from 1990 to June 1998. Age: 57.

The Trustees held 2 meetings during fiscal year 2004. Two of the three nominees for Trustee, Messrs. Wirth and Thoma, were members of the Board of Trustees during fiscal year 2004 and are standing for re-election at the 2004 Annual Meeting of Shareholders. Mr. McConnell, who was appointed by the Board of Trustees to fill the vacancy created by the resignation of Mr. Hill, will stand for election at the 2004 Annual Meeting of Shareholders.

**Trustee Nominations and Qualifications**

The Governance and Nominating Committee expects to identify nominees to serve as Trustees of the Trust primarily by accepting and considering the suggestions and nominee recommendations made by members of the Board of Trustees and the Trust's management and shareholders. Nominees for Trustee are evaluated based on their character, judgment, independence, financial or business acumen, diversity of experience, ability to represent and act on behalf of all Trust shareholders and the needs of the Board of Trustees. In general, before evaluating any nominee, the Governance and Nominating Committee first determines the need for additional Trustees to fill vacancies or expand the size of the Board of Trustees and the likelihood that a nominee can satisfy the evaluation criteria. The Governance and Nominating Committee would expect to re-nominate incumbent Trustees who have served well on the Board of Trustees and express an interest in continuing to serve.

The Governance and Nominating Committee will consider shareholder recommendations for Trustee nominees. A shareholder who wishes to suggest a Trustee nominee for consideration by the Governance and Nominating Committee should send a resume of the nominee's business experience and background to James F. Wirth, InnSuites Hospitality Trust, 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona 85020. The mailing envelope and letter must contain a clear notation indicating that the enclosed letter is a "Shareholder-Board of Trustees Nominee."

**Shareholder Communications with the Board of Trustees**

Shareholders interested in communicating directly with the Board of Trustees or any individual member thereof may do so by writing to the Secretary, InnSuites Hospitality Trust, 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona 85020. The mailing envelope and letter must contain a clear notation indicating that the enclosed letter is a "Shareholder-Board of Trustees Communication." The Secretary will review all such correspondence and regularly forward to the Board of Trustees a log and summary of all such correspondence and copies of all correspondence that, in the opinion of the Secretary, deals with the functions of the Board of Trustees or Committees thereof or that he otherwise determines requires their attention. Trustees may at any time review a log of all correspondence received by the Trust that is addressed to members of the Board of Trustees and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Trust's accounting department and handled in accordance with procedures established by the Audit Committee for such matters.

**Code of Ethics and Code of Conduct and Ethics**

The Trust has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer and principal accounting officer and persons performing similar functions. The Trust has posted its Code of Ethics on its Internet website at [www.innsuitemtrust.com](http://www.innsuitemtrust.com). The Trust intends to satisfy all Securities and Exchange Commission and American Stock Exchange disclosure requirements regarding any amendment to, or waiver of, the Code of Ethics relating to its Chief Executive Officer, Chief Financial Officer and principal accounting officer, and persons performing similar functions, by posting such information on its website and making any necessary filings with the SEC. In addition, the Trust has adopted a Code of Conduct and Ethics that applies to all of its employees, officers and Trustees. It is also available on the Trust's Internet website at [www.innsuitemtrust.com](http://www.innsuitemtrust.com).

## BOARD COMMITTEES

All incumbent Trustees attended at least 75% of the aggregate number of meetings held by the Board of Trustees and all committees on which the Trustee served.

### **Audit Committee**

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Trust's independent auditors, including reviewing the scope and results of audit and non-audit services. The Audit Committee also reviews internal accounting controls and assesses the independence of the Trust's auditors. In addition, the Audit Committee has established procedures for the receipt, retention and treatment of any complaints received by the Trust regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by the Trust's employees of any concerns regarding accounting or auditing matters. The Audit Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties. The Audit Committee met four times during fiscal year 2004.

All members of the Audit Committee are "independent," as such term is defined by Securities and Exchange Commission ("SEC") rules and American Stock Exchange ("Amex") listing standards. The Board of Trustees has determined that Mr. McConnell, a member of the Trust's Audit Committee, qualifies as a "financial expert" under applicable SEC rules. The Board of Trustees of the Trust has adopted an Amended and Restated Audit Committee Charter. The Trust has posted its Amended and Restated Audit Committee Charter on its Internet website at [www.innsuitestrust.com](http://www.innsuitestrust.com), a copy of which is also attached hereto as Appendix A.

### ***Audit Committee Report***

The Audit Committee of the Board of Trustees has reviewed and discussed the audited financial statements of the Trust for the fiscal year ended January 31, 2004 with the management of the Trust. In addition, the Audit Committee has discussed with McGladrey & Pullen, LLP, the independent auditors of the Trust, the matters required by Codification of Statements on Auditing Standards No. 61. The Audit Committee has also received the written disclosures and the letter from McGladrey & Pullen, LLP required by Independence Standards Board Standard No. 1 and has discussed with McGladrey & Pullen, LLP its independence from the Trust, including the compatibility of non-audit services with McGladrey & Pullen, LLP's independence. The Audit Committee has also pre-approved the fees to be charged to the Trust by its independent auditors for audit and non-audit services.

Based on the foregoing, the Audit Committee recommended that such audited financial statements be included in the Trust's Annual Report for the fiscal year ended January 31, 2004. The Trust's Annual Report on Form 10-K was filed with the SEC on April 30, 2004, and Amendment No. 1 to Annual Report on Form 10-K was filed with the SEC on June 1, 2004.

*By the Audit Committee of the Board of Trustees:*

*Stephen A McConnell, Chairman*  
*Steven S. Robson*  
*Peter A. Thoma*



**Compensation Committee**

The Compensation Committee has the responsibility of determining the compensation of the Chief Executive Officer and all other officers of the Trust, advising the Board of Trustees on the adoption and administration of employee benefit and compensation plans and administering the Trust's 1997 Stock Incentive and Option Plan. The Compensation Committee met once during fiscal year 2004.

All members of the Compensation Committee are "independent," as such term is defined by SEC rules and Amex listing standards. In order to comply with new SEC rules and Amex listing standards, the Compensation Committee Board of Trustees adopted a Compensation Committee Charter. The Trust has posted its Compensation Committee Charter on its Internet website at [www.innsuitestrust.com](http://www.innsuitestrust.com).

***Compensation Committee Report***

Under the supervision of the Compensation Committee of the Board of Trustees, the Trust has developed and implemented compensation policies, plans and programs that seek to enhance the Trust's ability to recruit and retain qualified management and other personnel, including a stock option program that seeks to create long-term incentives for management and other personnel. In developing and implementing compensation policies and procedures, the Compensation Committee seeks to provide rewards for the long-term value of an individual's contribution to the Trust. The Compensation Committee seeks to develop policies and procedures that offer both recurring and non-recurring, and both financial and non-financial, incentives.

James F. Wirth, Chairman, President and Chief Executive Officer of the Trust, has an Employment Agreement with the Trust expiring in December 2007. Pursuant to the terms of the Employment Agreement, upon the termination of the Advisory Agreement with Mid-America ReaFund Advisors, Inc. ("MARA"), a company owned by Mr. Wirth and his spouse, which termination occurred effective January 1, 1999, Mr. Wirth is to receive, each year through 2007, up to the amount MARA would have received for advisory and management services under the Advisory Agreement, but Mr. Wirth has agreed that his compensation will not exceed \$160,000 per year. Based upon a review of the performance of the Trust and upon the recommendation of the Compensation Committee, during fiscal year 2004, Mr. Wirth was paid an annual salary equal to \$95,231, which is less than he is entitled to receive under the terms of his Employment Agreement. Mr. Wirth's annual salary for fiscal year 2005 has been set at \$130,000. The Compensation Committee does not rely on any particular set of financial or non-financial factors, measures or criteria when determining the compensation offered to Mr. Wirth.

During fiscal year 2004, the Compensation Committee did not award any stock options to employees or executive officers of the Trust.

*By the Compensation Committee of the Board of Trustees:*

*Steven S. Robson, Chairman  
Stephen A McConnell  
Peter A. Thoma*

**Governance and Nominating Committee**

The Governance and Nominating Committee has the responsibility of screening and nominating candidates for election as Trustees and recommending committee members for appointment by the Board of Trustees. See "Trustee Nominations and Qualifications" above for more information on how shareholders can nominate Trustee candidates, as well as information regarding how Trustee candidates are identified and evaluated. The Governance and Nominating Committee also advises the Board of Trustees with respect to governance issues and trusteeship practices, including determining whether Trustee candidates and current Trustees meet the criteria for independence required by Amex and the SEC. The Governance and Nominating Committee met once during fiscal year 2004.

All members of the Governance and Nominating Committee are "independent," as such term is defined by SEC rules and Amex listing standards. In order to comply with new SEC rules and Amex listing standards, the Board of Trustees adopted a Governance and Nominating Committee Charter. The Trust has posted its Governance and Nominating Committee Charter on its Internet website at [www.innsuitestrust.com](http://www.innsuitestrust.com).

**Executive Committee**

The Executive Committee has the responsibility of exercising all of the powers of the Board of Trustees in the management of the business and affairs of the Trust, other than filling vacancies in the Board of Trustees or in any committee of the Board of Trustees, during intervals between meetings of the Board of Trustees. The Executive Committee met twice during fiscal year 2004.

### COMPENSATION OF TRUSTEES AND EXECUTIVE OFFICERS

During fiscal year 2005, the Trust will issue 9,600 Shares to each Trustee, other than Messrs. Wirth and Berg, as compensation for services rendered as a Trustee of the Trust during fiscal year 2004. During fiscal year 2006, the Trust intends to issue 9,600 Shares to each Trustee, other than Messrs. Wirth and Berg, as Trustee compensation for services rendered during fiscal year 2005.

#### Summary Compensation Table

The table below shows individual compensation information for the Trust's Chief Executive Officer and any other executive officer whose total annual salary and bonus for the fiscal year ended January 31, 2004 exceeded \$100,000.

Name and Principal Position	Fiscal Year	Annual Salary	Restricted Stock Awards
James F. Wirth President and Chief Executive Officer(1)	2004	\$ 95,231(2)	
	2003	95,936(3)	
	2002	90,940(4)	
Anthony B. Waters Chief Financial Officer	2004	\$ 126,000	\$ 6,240(6)
	2003	129,392	
	2002	121,477(5)	

(1) The terms of Mr. Wirth's Employment Agreement are summarized above. See "Compensation Committee Report."

(2) Although Mr. Wirth's annual salary for fiscal year 2004 was set at \$130,000, Mr. Wirth agreed to a salary reduction that resulted in an annual salary of \$95,231 for fiscal year 2004.

(3) Although Mr. Wirth's annual salary for fiscal year 2003 was set at \$126,000, Mr. Wirth agreed to a salary reduction that resulted in an annual salary of \$95,936 for fiscal year 2003.

(4) During fiscal year 2002, Mr. Wirth was paid \$90,940 and agreed to defer the payment of an additional \$20,923 until a future date mutually agreeable to Mr. Wirth and the Trust. The deferred salary payment of \$20,923 was waived and forfeited by Mr. Wirth during fiscal year 2003.

(5) During fiscal year 2002, Mr. Waters was paid \$117,115 and agreed to defer the payment of an additional \$4,362 until March 31, 2002. In March 2002, Mr. Waters was paid the deferred salary payment of \$4,362.

(6) Represents the fair market value of 4,800 Shares issued to Mr. Waters as a bonus on June 30, 2003.

#### Aggregated Option Exercises in Fiscal Year 2004 and Fiscal Year-End Option Values

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options At Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-The-Money Options At Fiscal year-End (\$) Exercisable/ Unexercisable
James F. Wirth	N/A	N/A	50,000/0	N/A*
Anthony B. Waters	N/A	N/A	20,000/0	N/A*

\*

As of January 31, 2004, none of the options held by such individual were in-the-money.

**TRUST PERFORMANCE GRAPH**

The following graph compares total shareholder returns from the Trust over the last five fiscal years to the Standard & Poor's 500 Stock Index ("S&P 500") and the National Association of Real Estate Investment Trusts, Inc.'s Equity REIT Index ("NAREIT"). Total return values for the S&P 500, NAREIT and the Trust were calculated based upon market weighting at the beginning of the period and include reinvestment of dividends. The shareholder returns shown on the following graph are not necessarily indicative of future performance.

The following graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent the Trust specifically incorporates this information by reference, and otherwise shall not be deemed filed under such Acts.

Trust	100.00	76.10	83.70	43.86	60.60	76.42
NAREIT	100.00	97.73	124.37	140.53	141.36	208.32
S&P 500	100.00	110.35	109.35	91.70	70.59	95.01
	1/31/99	1/31/00	1/31/01	1/31/02	1/31/03	1/31/04

## CERTAIN TRANSACTIONS

### **Employment Agreement with James F. Wirth**

Mr. Wirth has an Employment Agreement with the Trust, expiring in December 2007. See "Compensation Committee Report" above.

### **Acquisition of InnSuites Hotels, Inc. by the Trust**

As of July 31, 2004, the Trust held a 57.18% general partner interest as the sole general partner of RRF Limited Partnership. The Partnership is a Delaware limited partnership that, as of July 31, 2004, owned (directly and indirectly) six InnSuites® hotels located in Arizona, New Mexico and southern California (the "Hotels"). Prior to May 1, 2004, each of the Hotels was leased to InnSuites Hotels, Inc., a wholly-owned subsidiary of the Trust ("IHI"), under substantially identical Percentage Leases. Effective May 1, 2004, the Percentage Leases for the Hotels were terminated. See "Certain Transactions Termination of Percentage Leases" below.

Effective February 1, 2001, the Trust acquired all of the issued and outstanding common and preferred equity stock of IHI for \$11,531 in cash consideration and the assumption of approximately \$1.6 million of net liabilities. Prior to the acquisition, IHI was owned 23% by Marc E. Berg, Executive Vice President, Secretary, Treasurer and Trustee of the Trust, 9.8% by InnSuites International Hotels, Inc. ("InnSuites International"), an entity owned by Mr. Wirth, and 67.2% by unrelated parties.

Following the acquisition of IHI by the Trust, the management agreements relating to the Hotels between IHI and InnSuites International were terminated, and new management agreements were entered into on substantially similar terms between IHI and Suite Hospitality Management, Inc. (the "Management Company"), 9.8% of which was owned by Mr. Wirth until July 1, 2003, when Mr. Wirth sold his interest to the majority stockholder. There were no termination fees charged in connection with the cancellation of the old management agreements. In exchange for its assumption of the management agreements, the Management Company agreed to pay up to \$911,320 to InnSuites International in order for InnSuites International to satisfy its liabilities. Effective February 1, 2001, the Partnership, IHI and the Management Company entered into an amended Intercompany Agreement whereby, subject to certain terms and conditions, the Partnership granted IHI a right of first refusal to lease, and the Management Company a right of first refusal to operate, any real property acquired by the Partnership. In return, the Partnership was granted a right of first refusal to pursue opportunities presented to IHI or the Management Company to purchase investments in real estate, hotel properties, real estate mortgages, derivatives or entities that invest in any of the foregoing. In connection with the acquisition of IHI by the Trust, the rate structures of the Percentage Leases for the Hotels were amended to reflect current economic and market conditions, and the employees of IHI became employees of the Management Company.

### **Transfer of Interest in Suite Hospitality Management, Inc.**

Effective July 1, 2003, Mr. Wirth transferred his entire 9.8% interest in the Management Company to the majority stockholder in exchange for \$98 cash consideration pursuant to an existing buy/sell agreement. Following the transfer, all of the issued and outstanding capital stock of the Management Company is owned by the stockholder who purchased Mr. Wirth's shares.

### **Termination of REIT Status**

Until February 1, 2004, the Trust elected to be taxed as a real estate investment trust ("REIT"), as that term is defined and used in Sections 856-860 of the Internal Revenue Code of 1986, and the

regulations thereunder. Effective February 1, 2004, the Trust terminated its election to be taxed as a REIT, and instead will be taxed as a C corporation under federal tax laws.

As of February 1, 2004, any distributions to the Trust's shareholders are not deductible for purposes of computing the Trust's taxable income, and the Trust will be subject to income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates, without offset for distributions of such income to its shareholders. As a REIT, the Trust was required to distribute at least 90% of its net taxable income annually in order to maintain its REIT qualification. No such minimum distribution requirements apply to the Trust beginning on February 1, 2004.

With the termination of its REIT status, the Trust will be taxed under the general rules applicable to C corporations. Consequently, the Trust could pay up to 35% of its taxable income in federal taxes and also pay applicable state taxes. As a C corporation, the Trust's distributions in respect of its Shares will be taxed as dividends to the extent of the Trust's current and accumulated earnings and profits. Distributions in excess of the Trust's current and accumulated profits will be taxed to a shareholder as a return of capital to the extent of the shareholder's tax basis in his Shares, and the amount of a distribution in excess of the shareholder's tax basis will be taxed as a capital gain (a long term capital gain if the shareholder has held the Shares for more than one year). On the other hand, distributions to corporate shareholders may be eligible for the dividends received deduction, subject to certain limitations in the Internal Revenue Code, whereas distributions from REITs are not eligible for the dividends received deduction.

#### **Purchase of Class B Limited Partnership Units from James F. Wirth**

On February 2, 2004, the Trust purchased 433,036 Class B limited partnership units in the Partnership from Mr. Wirth and his affiliates for the closing price of the Trust's Shares on that day, which was \$2.25 per Share. The Trust made a down-payment totaling \$2,500 and issued five promissory notes totaling \$971,831, which will be paid in monthly installments of principal and interest over 84 months. The Trust repurchased these Class B limited partnership units to increase its sole general partner interest in the Partnership, and thereby receive a larger allocation of the Partnership's equity which enhances the Trust's ability to regain compliance with Amex listing standards.

#### **Acquisition of InnSuites Licensing Corp. by Suite Hospitality Management, Inc.**

Effective February 2, 2004, the Management Company, an entity in which Mr. Wirth previously owned a 9.8% interest, acquired all of the issued and outstanding capital stock of InnSuites Licensing Corp. (the "Licensing Corp."), an entity then owned by Mr. Wirth and his spouse. In exchange for the stock of the Licensing Corp., Mr. Wirth and his spouse received 55,563 Shares of the Trust that were held by the Management Company. The Licensing Corp. became a wholly-owned subsidiary of the Management Company. Agreements for the provision of trademark and license services by Licensing Corp. to IHI continued after this transfer, as described below in "Certain Transactions Management of Hotel Properties and Licensing Agreements."

#### **Management of Hotel Properties and Licensing Agreements**

Mr. Wirth has derived benefits from the management of the Trust's hotel properties by the Management Company, an entity in which Mr. Wirth previously had a 9.8% interest. See "Certain Transactions Transfer of Interest in Suite Hospitality Management, Inc." above. In addition, Mr. Wirth has derived benefits from the license agreements with the Licensing Corp., an entity formerly owned by Mr. Wirth and his spouse. See "Certain Transactions Acquisition of InnSuites Licensing Corp. by Suite Hospitality Management, Inc." above.

As a REIT, through January 31, 2004, the Trust was prohibited from operating its properties other than through an independent management company or a taxable REIT subsidiary, each as defined in

the Internal Revenue Code of 1986 and the regulations thereunder. Until February 1, 2004, the Trust elected to be taxed as a REIT, as that term is defined and used in Sections 856 through 860 of the Internal Revenue Code of 1986 and the regulations thereunder. As of February 1, 2004, the Trust is no longer a REIT, but instead will be taxed as a C corporation under federal tax laws. See "Certain Transactions Termination of REIT Status" above.

Prior to February 1, 2001, IHI operated and managed all of the Hotels, with the assistance of InnSuites International. Pursuant to management agreements, IHI paid InnSuites International an annual management fee of 2.5% of gross room revenues for property management services. Following the acquisition of IHI by the Trust effective February 1, 2001, IHI operated and managed the Hotels with the assistance of the Management Company, an entity in which Mr. Wirth, until July 1, 2003, held a 9.8% ownership interest, pursuant to substantially the same terms as the InnSuites International management agreements. Effective February 1, 2003, the annual management fee charged by the Management Company to IHI under the current management agreements was reduced to 2.0% of gross room revenues. This reduction was to be effective through January 31, 2005, when the annual management fee will return to the level originally stated in the current management agreements. On December 31, 2003, the Trust agreed to extend the current management agreements through January 31, 2008, in exchange for the Management Company forgiving \$183,248 of accrued but unpaid fees.

Pursuant to license agreements, IHI paid Licensing Corp. an annual licensing fee of 2.0% of gross room revenues (1.0% for those hotel properties which also carry a third-party franchise (as discussed below), such as Best Western® or Holiday Inn®) for trademark and licensing services relating to the use of the InnSuites® name and marks owned by Licensing Corp. These rates were to be in effect until January 31, 2005, when the trademark and licensing fees will return to the levels originally stated in the current trademark and licensing services agreements (2.5% and 1.25% of gross room revenue, respectively). On December 31, 2003, the Trust agreed to extend the current trademark and licensing services agreements through January 31, 2007, in exchange for the Licensing Corp. forgiving \$347,473 of accrued but unpaid fees. Effective February 2, 2004, the Management Company purchased Licensing Corp. See "Certain Transactions Acquisition of InnSuites Licensing Corp. by Suite Hospitality Management, Inc." above.

#### **Acquisition of Management Agreements and Licensing Agreements**

Effective June 8, 2004, IHI acquired from the Management Company the management agreements under which the Management Company provided management services to the six Hotels owned by the Trust and four other hotels (three of which are owned by affiliates of Mr. Wirth). In consideration of the acquisition, the stockholder of the Management Company received \$20,000 and 90,000 Shares of the Trust, reflecting a transaction value of approximately \$159,500 in the aggregate.

Following the acquisition, IHI will manage the Hotels on behalf of the Partnership. In return for management services for the six Hotels owned by the Trust, IHI will be paid a management fee equal to 2.0% of gross room revenues, until January 31, 2005, when the annual management fee will increase to 2.5% of gross room revenues, which is the same fee structure under which the Management Company rendered management services to the Hotels.

Effective June 8, 2004, IHI acquired the licensing agreements under which Licensing Corp. provided trademark and licensing services to the six Hotels owned by the Trust and five other hotels (three of which are owned by affiliates of Mr. Wirth), and the related registered and unregistered InnSuites trademarks and tradenames. In consideration of the acquisitions, the Management Company (as the sole stockholder of Licensing Corp.) received \$60,000 and 10,000 Shares of the Trust and IHI satisfied Licensing Corp's line of credit in the amount of \$459,000, reflecting a transaction value of approximately \$534,500 in the aggregate.



Following the acquisition, the acquired intellectual property will be used to assist IHI to manage the Hotels on behalf of the Partnership and will be licensed to others. In return for trademark and licensing services for the six Hotels owned by the Trust, IHI will be paid a licensing fee equal to 2.0% of gross room revenues (1.0% for those hotel properties which also carry a third-party franchise (as discussed below), such as Best Western® or Holiday Inn®), until January 31, 2005, when the trademark and licensing fees will increase to 2.5% of gross room revenues (1.25% for those hotel properties which also carry a third-party franchise), which is the same fee structure under which Licensing Corp. rendered trademark and licensing services to the Hotels.

#### **Sale of Scottsdale, Arizona Property**

On March 21, 2003, the Trust sold its Scottsdale, Arizona property to Scottsdale Eldorado Resort, L.L.C. ("Eldorado"), an affiliate of Mr. Wirth, for its appraised and carrying value of \$3.1 million. Eldorado paid for the hotel by assuming \$1.1 million of the Trust's notes payable to Rare Earth Financial, L.L.C. ("Rare Earth Financial"), an affiliate of Mr. Wirth, assuming \$500,000 of the Partnership's notes payable to Capital Resource Lenders-I, L.L.C., an affiliate of Mr. Wirth, and paying the Trust's term loan of \$1,500,000 to a third party lender in full.

#### **Sale of Flagstaff, Arizona Property**

On August 21, 2003, the Trust sold its Flagstaff, Arizona property to Flagstaff Grand Canyon Resort, LLC, an affiliate of Mr. Wirth, for a cash payment equal to its appraised value of \$2,775,000. The Flagstaff, Arizona property had a carrying value of \$2.4 million on August 21, 2003. The Trust used the proceeds to fully satisfy its \$1.5 million bank line of credit, which was secured by the Flagstaff, Arizona property, and to reduce its notes payable to Rare Earth Financial by \$1,275,000. In connection with the sale of the Flagstaff property, affiliates of Mr. Wirth that held certain promissory notes issued by the Trust and the Partnership released their security interests in the Flagstaff property.

#### **Sale of Buena Park, California Property**

On October 16, 2003, the Trust sold its Buena Park, California property to CVTI, LLC, an unrelated third party ("CVTI"), for \$6.5 million. The Buena Park, California property had a carrying value of \$6.5 million on October 16, 2003. The purchase price was satisfied with \$6.3 million in cash and a \$200,000 promissory note issued by CVTI to the Trust. The Trust subsequently assigned the \$200,000 promissory note to Rare Earth Financial to satisfy \$200,000 of a certain note payable held by Rare Earth Financial. The Trust used the cash proceeds to fully satisfy the bank mortgage note on the property in the amount of \$3,082,574, to reduce certain notes payable to Mr. Wirth and his affiliates and to Mr. Steven S. Robson, a Trustee of the Trust, in the aggregate amount of \$1.5 million, and to reduce trade accounts payable.

#### **Sale of Tempe, Arizona Property**

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

#### **Sale of San Diego, California Property**

On April 1, 2004, the Partnership sold its San Diego, California property to an unrelated third party for \$9.7 million, which was paid in cash. The San Diego, California property had a carrying value of \$4.9 million on April 1, 2004. The Trust used \$4.8 million of the proceeds to satisfy its mortgage

note payable on the property. The Trust used \$1.1 million of the remaining proceeds from the sale to satisfy related party notes payable, \$700,000 to reduce trade payables and retained the remaining proceeds for future operations and capital improvements.

#### **Termination of Percentage Leases**

Effective May 1, 2004, the Percentage Leases under which IHI leased the Hotels, and pursuant to which IHI subsequently contracted with the Management Company for management services and with Licensing Corp. for trademark and licensing services, were terminated. Beginning June 8, 2004, IHI began managing the Hotels on behalf of the Partnership, since as a result of the Trust's termination of its REIT status the utilization of independent management companies such as the Management Company and Licensing Corp. is no longer required. See "Certain Transactions Termination of REIT Status" and "Certain Transactions Acquisition of Management Agreement and Licensing Agreements".

At the effective time of the termination of the Percentage Leases, IHI owed the Partnership approximately \$548,700 in rent under the Percentage Leases. As of July 31, 2004, the Partnership owed IHI approximately \$242,346 for rent overpayments under the Percentage Leases.

#### **Related Party Loans and Advances to the Trust**

During the second and third quarters of fiscal year 2004, the Trust issued five promissory notes in the amount of \$208,000, \$75,000, \$200,000, \$110,000 and \$60,000 to Rare Earth Development Company, an affiliate of Mr. Wirth, all of which were paid in full in the third quarter of fiscal year 2004 utilizing a portion of the cash proceeds from the sale of the Buena Park property.

During the second quarter of fiscal year 2004, the Trust issued a promissory note in the amount of \$225,000 to Rare Earth Financial, L.L.C., an affiliate of Mr. Wirth, which was paid in full in the third quarter of fiscal year 2004 utilizing a portion of the cash proceeds from the sale of the Buena Park property.

On February 2, 2004, the Trust purchased 433,036 Class B limited partnership units in the Partnership from affiliates of Mr. Wirth for the closing price of the Trust's Shares on that day, which was \$2.25. The Trust made a down payment totaling \$2,500 and issued five promissory notes, each of which is secured by the applicable purchased Class B limited partnership units, bears interest at 7% per annum and will be paid in monthly installments of principal and interest over 84 months. Four of the promissory notes were issued to affiliates of Mr. Wirth in the aggregate principal amount of \$414,331 and remain outstanding. The fifth promissory note was issued to an affiliate of Mr. Wirth in the principal amount of \$557,500 and was fully paid during April 2004.

The Trust paid interest on related party notes to Mr. Wirth and his affiliates in the amounts of \$205,101, \$28,373 and \$222,047 for the twelve months ended January 31, 2004, 2003 and 2002, respectively. The Trust incurred interest expense on related party notes to Mr. Wirth and his affiliates in the amounts of \$515,214, \$623,522 and \$495,995 for the twelve months ended January 31, 2004, 2003 and 2002, respectively.

Notes and advances payable to related parties consist of funds provided by Mr. Wirth, certain of his affiliates and other related parties to permit the Trust to repurchase additional general partnership

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units in the Partnership and to fund working capital and capital improvement needs. The aggregate amount outstanding to related parties was approximately \$6.9 million as of January 31, 2004.

	<b>Amount Payable as of January 31, 2004</b>
Note payable to Steve Robson, Trustee of the Trust, bearing interest at 7% per annum, secured by Class A limited partnership units in the Partnership, and due in monthly principal and interest payments of \$25,000 through December 2004	\$ 239,667
Unsecured notes payable to Rare Earth Financial, L.L.C., an affiliate of Mr. Wirth, bearing interest at 7% per annum, and due in a one-time installment of \$514,500 on February 15, 2004. Paid in full during February 2004	514,500
Unsecured note payable to Rare Earth Financial, L.L.C., an affiliate of Mr. Wirth, bearing interest at 7% per annum. A principal payment of \$500,000 was due on March 15, 2004, and was paid using a portion of the proceeds of sale of the Tempe, Arizona property. The remaining unpaid principal balance and accrued interest is due on March 15, 2005	2,000,000
Note payable to Rare Earth Financial, L.L.C., an affiliate of Mr. Wirth, bearing interest at 7% per annum, secured by the Partnership's equity in Baseline Hospitality Properties LP, and due in monthly principal and interest payments of \$13,860 through July 2006. During fiscal year 2004, \$136,290 of accrued interest was added to the principal balance	2,072,893
Note payable to Rare Earth Financial, L.L.C., an affiliate of Mr. Wirth, bearing interest at 7% per annum, secured by the Partnership's equity in Baseline Hospitality Properties LP, and due in monthly principal and interest payments of \$9,179 through July 2007. During fiscal year 2004, \$263,014 of accrued interest was added to the principal balance	1,379,646
Note payable to Hulseley Hotels Corporation, an affiliate of Mr. Wirth, bearing interest at 7% per annum, secured by Class B limited partnership units in the Partnership, and due in monthly principal and interest payments of \$10,488 through March 2007	356,550
Note payable to Mr. Wirth, bearing interest at 7% per annum, secured by Shares of Beneficial Interest in the Trust, and due in monthly installments of \$5,508 through March 2007	187,230
Unsecured note payable to Mr. Wirth, bearing interest at 7% per annum, and due in monthly installments of \$2,993 through March 2007	101,755
<b>Total:</b>	<b>\$ 6,852,241</b>

All related party transactions are subject to appropriate review and oversight by the Audit Committee of the Board of Trustees.

## CERTAIN INFORMATION CONCERNING THE TRUST

## Ownership of Shares

The following table shows the persons who were known to the Trust to be the beneficial owner of more than 5% of the Shares as of November 11, 2004, together with the number of Shares owned beneficially by each Trustee, nominee and executive officer, and the Trustees, nominees and executive officers as a group.

**Five Percent Beneficial Owners and  
Beneficial Ownership of Trustees, Nominees and Executive Officers**

	Shares Beneficially Owned	Percentage of Outstanding Shares
<b>5% Beneficial Owners</b>		
Mason E. Andersen(1)	218,606	9.31%
Dan Z. Bochner(2)	238,383	10.15%
Lee J. Flory(3)	184,416	7.41%
<b>Trustees, Nominees and Executive Officers</b>		
James F. Wirth(4)	660,563	27.53%
Marc E. Berg(5)	86,225	3.62%
Steven S. Robson(6)	203,923	8.61%
Peter A. Thoma(7)	49,100	2.07%
Stephen A McConnell	3,400	*
Anthony B. Waters(8)	29,800	1.26%
Trustees, Nominees and Executive Officers as a group (six persons)	1,033,011	41.50%

- (1) Consists of 170,000 Shares held by the Andersen Trust dated August 27, 1980 and 48,606 Shares held by the Anderson Charitable Remainder UniTrust. Mr. Andersen and his spouse are co-trustees and income beneficiaries of both Trusts. Mr. Andersen's address is 3024 West Sahuaro Drive, Phoenix, Arizona 85029.
- (2) Pursuant to Amendment No. 2 to Schedule 13D, dated December 30, 1996, filed with the Securities and Exchange Commission on December 31, 1996 by Mr. Bochner. Mr. Bochner's address is P.O. Box 10809, Beverly Hills, California 90213.
- (3) Consists of 118,344 Class A limited partnership units in the Partnership that are convertible at any time, at the option of the holder thereof, into Shares, 20,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 46,072 Shares. Mr. Flory's address is 716 South 6th Avenue, La Grange, Illinois 60525.
- (4) Consists of 50,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 610,563 Shares. These Shares are owned jointly by Mr. Wirth and his spouse. Mr. Wirth and his spouse also own 4,467,938 issued and outstanding Class B limited partnership units in the Partnership, the conversion of which is restricted and permitted only at the discretion of the Board of Trustees of the Trust. Mr. Wirth's address is 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona 85020.
- (5) Consists of 30,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 56,225 Shares.
- (6) Consists of 20,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 183,923 Shares. Mr. Robson's address is 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona 85020.



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- (7) Consists of 20,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 29,100 Shares.
- (8) Consists of 20,000 Shares that may be acquired within 60 days of November 11, 2004 pursuant to the exercise of stock options and 9,800 Shares.
- \*  
Less than one percent (1.0%).

### Section 16(a) Beneficial Ownership Reporting Compliance

Based on Trust records and information, and upon representations from the reporting persons, the Trust believes that all Securities and Exchange Commission filing requirements applicable to Trustees, executive officers and beneficial owners of more than 10% of a registered class of equity securities of the Trust under Section 16(a) of the Securities Exchange Act of 1934, as amended, for the fiscal year ended January 31, 2004, were complied with.

### Selection of Independent Auditors

The Trustees have selected McGladrey & Pullen, LLP as independent auditors to examine the books, records and accounts of the Trust for the fiscal year ending January 31, 2005. McGladrey & Pullen, LLP were the independent auditors of the Trust for the fiscal years ended January 31, 2004 and 2003, and is considered by the Trustees to be well qualified.

Representatives of McGladrey & Pullen, LLP are expected to be present at the 2004 Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

### Change in Independent Auditors

On January 6, 2003, the Trust engaged McGladrey & Pullen, LLP to act as the Trust's principal independent accountant to audit the Trust's financial statements, replacing KPMG LLP as the Trust's principal independent accountant on the same date. The decision to change independent auditors was recommended and approved by the Audit Committee of the Board of Trustees of the Trust. The Trust reported this change in independent auditors in a Current Report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2003.

The reports of KPMG LLP on the Trust's financial statements for the fiscal years ended January 31, 2002 and 2001 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Trust's financial statements for the fiscal years ended January 31, 2002 and 2001, and in the subsequent interim period through January 6, 2003, there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedure which, if not resolved to the satisfaction of KPMG LLP, would have caused KPMG LLP to make reference to the matter in its report.

In connection with the audits of the Trust's financial statements for the fiscal years ended January 31, 2002 and 2001, and in the subsequent interim period through January 6, 2003, there were no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal years ended January 31, 2002 and 2001, and in the subsequent interim period through January 6, 2003, the Trust did not consult with McGladrey & Pullen, LLP regarding the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on the Trust's financial statements or any of the matters described in the immediately preceding paragraphs.

## **Audit Fees & Services**

### *Audit Fees*

The aggregate fees for professional services rendered by McGladrey & Pullen, LLP for the audit of the Trust's annual financial statements for the fiscal year ended January 31, 2004 and January 31, 2003 were \$134,463 and \$90,275, respectively. The aggregate fees for professional services rendered by McGladrey & Pullen, LLP for reviewing the interim financial statements included in the Trust's quarterly reports on Form 10-Q filed during the fiscal year ended January 31, 2004 were \$27,000 and the aggregate fees for professional services rendered by KPMG LLP for reviewing the interim financial statements included in the Trust's quarterly reports on Form 10-Q filed during the fiscal year ended January 31, 2003 were \$34,000.

### *Audit-Related Fees*

The aggregate fees paid to McGladrey & Pullen, LLP for audit-related services, such as comfort letters, consents and assistance with and review of documents filed with the Securities and Exchange Commission, were \$7,081 and \$0 for the fiscal years ended January 31, 2004 and January 31, 2003, respectively. The aggregate fees paid to KPMG LLP for audit-related services, such as review services were \$6,000 for the fiscal year ended January 31, 2003. The Audit Committee pre-approved all audit-related fees billed for the fiscal year ended January 31, 2004.

### *Tax Fees*

The aggregate fees paid to McGladrey & Pullen, LLP for tax compliance, tax advice and tax planning for the fiscal years ended January 31, 2004 and January 31, 2003 were \$74,690 and \$67,130, respectively. The aggregate fees paid to KPMG LLP for tax compliance, tax advice and tax planning for the fiscal year ended January 31, 2003 were \$0. The Audit Committee pre-approved all tax fees billed for the fiscal year ended January 31, 2004.

### *All Other Fees*

The aggregate fees for all other services rendered by McGladrey & Pullen, LLP during the fiscal years ended January 31, 2004 and January 31, 2003 were \$750 and \$4,770, respectively. The aggregate fees for all other services rendered by KPMG LLP during the fiscal year ended January 31, 2003 were \$2,250. These fees represent amounts paid for the issuance of consents. The Audit Committee pre-approved all other fees billed for the fiscal year ended January 31, 2004. The Audit Committee of the Trust has considered whether the provision of these services, other than the audit of the Trust's annual financial statements, is compatible with McGladrey & Pullen, LLP and KPMG LLP maintaining their respective independence from the Trust.

The Audit Committee pre-approves all fees for services performed by McGladrey & Pullen, LLP, including audit and non-audit services. Unless a type of service McGladrey & Pullen, LLP provides has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. Since May 6, 2003, the effective date of SEC rules requiring Audit Committee pre-approval of audit and non-audit services performed by the Trust's independent auditors, all of the services provided by McGladrey & Pullen, LLP have been approved in accordance with the policies and procedures described above.

**Selected Historical Consolidated Financial Information of the Trust**

The following operating data as of and for the five years ended January 31, 2004 are derived from, and should be read in conjunction with, the Trust's financial statements and the notes thereto that have been incorporated by reference into this Proxy Statement and that have been audited by McGladrey & Pullen, LLP the Trust's independent auditors, together with the information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing the Trust's Annual Report to Shareholders which accompanies this Proxy Statement.

	Years Ended January 31,				
	2004	2003	2002	2001	2000
Total revenue	\$ 17,760,244	\$ 18,927,511	\$ 19,037,620	\$ 9,727,206	\$ 9,546,181
Net Income (Loss) from continuing operations	\$ (1,833,633)	\$ (2,754,660)	\$ (3,248,047)	\$ (2,594,754)	\$ (951,811)
Net Income (Loss) per share from continuing operations basic and diluted	\$ (0.90)	\$ (1.33)	\$ (1.52)	\$ (1.12)	\$ (0.40)
Net Income (Loss)	\$ (2,594,317)	\$ (3,445,948)	\$ (3,539,402)	\$ (2,594,754)	\$ (951,811)
Net Income (Loss) per share basic and diluted	\$ (1.27)	\$ (1.67)	\$ (1.66)	\$ (1.12)	\$ (0.40)
Cash dividends declared and paid per share	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.02
Total assets	\$ 47,961,594	\$ 61,494,579	\$ 64,264,516	\$ 63,905,561	\$ 65,305,519
Notes and advances payable to banks and others	\$ 31,974,992	\$ 38,922,408	\$ 38,598,106	\$ 37,053,593	\$ 35,776,662
Notes and advances payable related parties	\$ 6,852,241	\$ 9,901,153	\$ 8,666,360	\$ 7,471,707	\$ 2,970,000

On February 1, 2001, the Trust acquired IHI, and the results of IHI are consolidated with the Trust beginning in fiscal year 2002, resulting in a significant increase in revenues and expenses reported by the Trust. See "Certain Transactions Acquisition of InnSuites Hotels, Inc. by the Trust" above.

During fiscal year 2004, the Trust sold its Scottsdale and Flagstaff, Arizona, and Buena Park, California hotel properties. See "Certain Transactions Sale of Scottsdale, Arizona Property," " Sale of Flagstaff, Arizona Property," and " Sale of Buena Park, California Property" above.

During the first quarter of fiscal year 2005, the Trust sold its Tempe, Arizona and San Diego, California hotel properties. See "Certain Transactions Sale of Tempe, Arizona" and " Sale of San Diego, California Property" above.

**Supplementary Quarterly Financial Information of the Trust**

The following is a summary of the results of operations, by quarter, for the six months ended July 31, 2004, and the fiscal years ended January 31, 2004 and 2003. Management believes that all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such interim



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results have been included. The results of operations for any interim period are not necessarily indicative of those for the entire fiscal year.

<b>FISCAL 2005</b>	<b>APRIL 30</b>	<b>JULY 31</b>
Total revenue	\$ 6,453,534	\$ 4,922,463
Total revenue less interest expense on mortgage loans and operating expenses	\$ 677,128	\$ (1,156,292)
Net income (loss)	\$ 2,028,243	\$ (934,548)
Net income (loss) per share basic	\$ 0.94	\$ (0.40)
Net income (loss) per share diluted	\$ 0.59	\$ (0.40)
Dividends declared and paid per share	\$	\$

<b>FISCAL 2004</b>	<b>APRIL 30</b>	<b>JULY 31</b>	<b>OCTOBER 31</b>	<b>JANUARY 31</b>	<b>FISCAL 2004</b>
Total revenue	\$ 5,729,225	3,687,158	3,962,428	4,381,433	\$ 17,760,244
Total revenue less interest expense on mortgage loans and operating expenses	\$ 369,886	(1,054,039)	(685,062)	(630,796)	\$ (2,000,011)
Net income (loss)	\$ 147,099	(1,004,921)	(951,141)	(782,470)	\$ (2,594,317)
Net income (loss) per share basic	\$ .07	(.50)	(.46)	(.38)	\$ (1.27)
Net income (loss) per share diluted	\$ (.01)	(.50)	(.46)	(.38)	\$ (1.27)
Dividends declared and paid per share	\$			.02	\$ .02

<b>FISCAL 2003</b>	<b>APRIL 30</b>	<b>JULY 31</b>	<b>OCTOBER 31</b>	<b>JANUARY 31</b>	<b>FISCAL 2003</b>
Total revenue	\$ 6,104,857	4,347,344	4,216,888	4,258,422	\$ 18,927,511
Total revenue less interest expense on mortgage loans and operating expenses	\$ 744,219	(1,032,845)	(954,916)	(1,710,202)	\$ (2,953,744)
Net income (loss)	\$ 618,422	(730,999)	(977,581)	(2,691,737)	\$ (3,445,948)
Net income (loss) per share basic	\$ .29	(.34)	(.49)	(1.35)	\$ (1.67)
Net income (loss) per share diluted	\$ .06	(.34)	(.49)	(1.35)	\$ (1.67)
Dividends declared and paid per share	\$			.01	\$ .01

**ADDITIONAL PROPOSALS  
(PROPOSALS 2A, 2B, 2C AND 2D ON THE PROXY CARD)**

On June 13, 2003, the Trust received notice from Amex indicating that the Trust failed to meet certain of Amex's continued listing standards. The Trust was given the opportunity to submit a plan to regain compliance with those continued listing standards. Management of the Trust began formulating such a plan under the guidance of the Board of Trustees. On July 24, 2003, the independent members of the Board of Trustees approved the submission of the Trust's plan (the "Amex Plan") to Amex. On August 26, 2003, the Trust was notified that Amex had accepted the Amex Plan and granted the Trust the opportunity to regain compliance with Amex's continued listing standards. Under the Amex Plan, the Trust will, among other things, engage in equity raising activities. The Board of Trustees established a minimum per Share price of \$1.20 and a maximum per Share price of \$2.00 to be used in calculating the number of Shares to be issued pursuant to the Proposals. The Trust and Mr. Wirth negotiated those minimum and maximum per Share prices in order to provide certainty as to the number of Shares to be issued pursuant to the Proposals and to protect each party from the risk of fluctuations in the market price of the Trust's Shares. The Trust is required to complete the Amex Plan by December 13, 2004.

The Board of Trustees has monitored the Trust's progress in complying with the Amex Plan at each of its meetings. When necessary, the Board of Trustees has modified the Amex Plan to account for new developments in the operations of the Trust and in the hospitality industry. In its deliberations regarding the Proposals, the Board of Trustees considered a number of factors, including the following:

The impact on the Trust's reported shareholders' equity and the importance of continued listing of the Shares of the American Stock Exchange to the Trust's shareholders and the Partnership's limited partners.

The historical and current market prices of the Trust's Shares.

The dilution of the Trust's current shareholders upon implementation of the Proposals.

The interests of the shareholders of the Trust and the Trust's responsibilities to the shareholders.

The interests of the limited partners of the Partnership and the Trust's responsibilities as general partner to the limited partners under the Partnership agreement.

The interests of the Trust's executive officers and directors with respect to the Proposals, apart from their interests as shareholders of the Trust, and the risk that these interests might influence their decision with respect to the Proposals.

The Proposals are intended to reduce the Trust's indebtedness and increase the Trust's shareholders' equity, thereby addressing the remaining issues cited in Amex's June 13, 2003 notice and completing the Amex Plan. On October 26, 2004, the independent members of the Board of Trustees approved the submission of the Proposals to a vote by the Trust's shareholders.

Accordingly, the Board of Trustees presents the following proposals for approval by the shareholders of the Trust:

- A. to issue up to 7,125,876 Shares to the Partnership in exchange for the cancellation of indebtedness owed by the Trust to the Partnership in the aggregate principal amount of \$8.3 million plus approximately \$260,000 in accrued but unpaid interest, only 3,051,300 of which would remain outstanding following the consummation of the Debt Cancellation Proposal, which is listed as Proposal 2A on the Proxy Card;
- B. to issue up to 5,356,392 Shares to the Partnership in consideration of the Trust's acquisition of all general partner interests of Yuma LP which are currently held by the Partnership, only

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2,293,607 of which would remain outstanding following the consummation of the Acquisition Proposal, which is listed as Proposal 2B on the Proxy Card;

C.

to issue up to 568,155 Shares to the Note Holders in exchange for the cancellation of indebtedness owed by the Trust to the Note Holders in the aggregate principal amount of \$681,786, all 568,155 of which would remain outstanding following the consummation of the Notes Cancellation Proposal, which is listed as Proposal 2C on the Proxy Card; and

D.

to issue up to 1,000,000 Shares upon conversion of a like-number of Class B limited partnership units in the Partnership into Shares by James F. Wirth and certain of his affiliates, all 1,000,000 of which would remain outstanding following the consummation of the Units Conversion Proposal, which is listed as Proposal 2D on the Proxy Card.

The foregoing discussion of the information and factors considered by the Trust's Board of Trustees is not exhaustive, but includes all material factors considered by the Board of Trustees. In view of the wide variety of factors considered by the Board of Trustees in connection with its evaluation of the Proposals and the complexity of such matters, the Board of Trustees did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The Board of Trustees conducted a discussion of the factors described above, including asking questions of the Trust's management and the Trust's legal and financial advisors. The independent members of the Board of Trustees reached a unanimous decision that the transactions described in the Proposals should be submitted to a vote by the Trust's shareholders. In addition, individual Trustees may have considered other factors not described above in reaching their decision. It should be noted that this explanation of the Trust's Board of Trustees' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements."

The Amex Rules contain a number of quantitative and qualitative requirements for continued listing on the American Stock Exchange. Amex has broad discretion to suspend or remove a security from trading on the American Stock Exchange for failure to meet any of those enumerated requirements or for other reasons that Amex's Board of Governors, in its discretion, considers to be appropriate. The Trust can provide no assurance that Amex will accept the Trust's completion of the Amex Plan or that future events will not result in additional proceedings by Amex against the Trust with respect to Amex's continued listing standards.

### **Reasons for Seeking Shareholder Approval**

The Trust is seeking shareholder approval of the Debt Cancellation Proposal as required by Section 713(a) of the American Stock Exchange Company Guide (the "Amex Rules") since the issuance of the Shares described therein would exceed 20% of the issued and outstanding Shares of the Trust.

The Trust is seeking shareholder approval of the Acquisition Proposal as required by Section 712(b) of the Amex Rules since the issuance of the Shares described therein would exceed 20% of the issued and outstanding Shares of the Trust.

The Trust is seeking shareholder approval of the Notes Cancellation Proposal as required by Section 713(a) of the Amex Rules since the issuance of the Shares described therein would exceed 20% of the issued and outstanding Shares of the Trust.

The Trust is seeking shareholder approval of the Units Conversion Proposal as required by Section 713(a) of the Amex Rules since the issuance of the Shares described therein would exceed 20% of the issued and outstanding Shares of the Trust.

Pursuant to Section 710 of the Amex Rules, the affirmative vote of a majority of the votes cast at the 2004 Annual Meeting, in person or by proxy, is required for approval of each of the Proposals.

The Board of Trustees is not making a recommendation with respect to any of the Proposals, however, each of the Trustees and executive officers other than Mr. Wirth has indicated their intention to vote the Shares owned by them in favor of each of the Proposals. Shares represented by properly executed proxy cards will be voted in accordance with the specifications made thereon. If no specification is made, properly executed proxies will be voted **FOR** the Proposals.

As of November 11, 2004, the Trustees and executive officers of the Trust other than Mr. Wirth collectively own approximately 12.02% of the issued and outstanding Shares of the Trust, and each of them has indicated that they intend to vote their Shares in favor of each of the Proposals. Mr. Wirth and his affiliates have agreed to vote the Shares owned by them in the same proportions as the other votes cast with respect to each Proposal. As of November 11, 2004, Mr. Wirth and his affiliates collectively own approximately 25.99% of the issued and outstanding Shares of the Trust.

#### **Background to Proposals 2A, 2B, 2C and 2D**

As of July 31, 2004, the Trust held a 57.18% general partner interest as the sole general partner of the Partnership. The Partnership is a Delaware limited partnership that owns (directly and indirectly) six InnSuites® hotels located in Arizona, New Mexico and southern California. Prior to May 1, 2004, each of the Hotels (including the Yuma Hotel) was leased to InnSuites Hotels, Inc., a wholly-owned subsidiary of the Trust, under substantially identical Percentage Leases. Effective May 1, 2004, the Percentage Leases for each of the Hotels (including the Yuma Hotel) were terminated. See "Certain Transactions Termination of Percentage Leases" above.

The Partnership has two outstanding classes of limited partnership interests, Class A and Class B, identical in all respects except that each Class A limited partnership unit is convertible, at the option of the Class A holder, into one newly-issued Share. Each Class B limited partnership unit may be converted into one newly-issued Share only upon the approval of the Board of Trustees. As of July 31, 2004, a total of 1,189,386 Class A limited partnership units were outstanding, representing 9.0% of the total partnership units in the Partnership, and a total of 4,467,938 Class B limited partnership units were outstanding, all of which were held by James F. Wirth and his affiliates, representing 33.82% of the total partnership units in the Partnership.

On November 11, 2004, there were 2,349,155 Shares of the Trust issued and outstanding.

Effective February 1, 2001, Suite Hospitality Management, Inc. contracted to provide property management services and employment services to IHI at the Hotels (including the Yuma Hotel). IHI agreed to pay the Management Company an annual management fee equal to 2.5% of the gross room revenues of each of the Hotels (including the Yuma Hotel) in consideration of the Management Company's property management and employment services. Effective February 1, 2003, the annual management fee paid by IHI to the Management Company was reduced from 2.5% to 2.0% of gross room revenues. This reduction was to continue until January 31, 2005, at which time the annual management fee was to return to 2.5% of gross room revenue of the Hotels.

Effective February 2, 2004, the Management Company acquired InnSuites Licensing Corp., an entity owned by Mr. Wirth and his spouse. In exchange for all of the issued and outstanding capital stock of the Licensing Corp., Mr. Wirth and his spouse received 55,563 Shares of the Trust that were held by the Management Company.

Prior to June 8, 2004, the Licensing Corp. owned all of the InnSuites® tradenames and trademarks. IHI agreed to pay the Licensing Corp. an annual licensing fee equal to 2.5% of the gross room revenue (1.25% for hotel properties which also carry a third-party franchise, such as Best Western® or Holiday Inn®) of the Hotels (including the Yuma Hotel) in consideration of the

Licensing Corp.'s trademark and licensing services. Effective November 1, 2002, the annual licensing fee paid by IHI to the Licensing Corp. was reduced from 2.5% to 2.0% of gross room revenues (reduced from 1.25% to 1.0% for hotel properties which also carry a third-party franchise). This reduction was to continue until January 31, 2005, at which time the annual licensing fee was to return to 2.5% (or 1.25% for hotel properties with a third-party franchise) of gross room revenue of the Hotels (including the Yuma Hotel).

Effective June 8, 2004, IHI acquired the management agreements under which the Management Company provided management and employment services to the Hotels, and the license agreements and the related registered and unregistered InnSuites trademarks and tradenames by which Licensing Corp. provided trademark and licensing services to the Hotels. IHI will now manage the Hotels on behalf of the Partnership, for which IHI will receive management fees and trademark and licensing fees. See "Certain Transactions Acquisition of Management Agreements and Licensing Agreements."

**PROPOSAL 2A**

**Exchange of Shares for Cancellation of Debt  
(the Debt Cancellation Proposal)**

**General**

On April 2, 1999, the Trust issued an unsecured promissory note in the principal amount of \$2.6 million to the Partnership (the "Exchange Note"). The Trust used the proceeds of this loan to purchase 1.3 million general partner units in the Partnership. Annual interest only payments under the Exchange Note are due on March 1 of each year and are based on a 7% interest rate, and the unpaid principal balance of the Exchange Note is due at maturity on April 2, 2006. The Partnership generated the money it loaned to the Trust by refinancing the Northern Phoenix hotel and borrowing an additional \$1.8 million that was secured by a mortgage on that property. Monthly principal and interest payments on the Exchange Note began on April 1, 1999. The Exchange Note, by its terms, is not convertible into Shares. There have been no defaults in required payments under the Exchange Note. The principal balance of the Exchange Note has been paid in full, however, there remains \$260,000 of accrued but unpaid interest (the "Exchange Note Interest").

On July 26, 2002, the Trust purchased 673,623 Shares of Beneficial Interest held by the Partnership for \$1.5 million (the "Purchase Debt"). The Trust recorded the Purchase Debt as a note payable to a related party, which was eliminated when the financial results of the Partnership were consolidated with the financial results of the Trust, and the Purchase Debt did not accrue interest.

On March 21, 2004, the Partnership sold its Tempe, Arizona property to Tempe/Phoenix Airport Resort LLC, an affiliate of Mr. Wirth. Tempe/Phoenix Airport Resort LLC satisfied the purchase price by assuming \$5.1 million of notes payable to Mr. Wirth and his affiliates, \$3.7 million of which was due from the Trust. As a result, the Partnership was deemed to have satisfied the Trust's obligation to Mr. Wirth, for which the Trust was indebted to the Partnership in the amount of \$3.7 million (the "Satisfied Debt"). The Trust recorded the Satisfied Debt as a note payable to a related party, which was eliminated when the financial results of the Partnership were consolidated with the financial results of the Trust, and the Satisfied Debt did not accrue interest.

During fiscal years 2002, 2003 and 2004, the Partnership advanced \$3.1 million to the Trust, which the Trust used to make principal and interest payments on its debt obligations (the "Debt Service Advances").

**The Proposal**

The Trust proposes to issue up to 7,125,876 Shares to the Partnership in exchange for the cancellation of the Exchange Note Interest, the Purchase Debt, the Satisfied Debt and the Debt Service Advances owed by the Trust to the Partnership in the aggregate amount of approximately \$8.5 million (collectively, the "Cancelled Debts"). As a result of the issuance of Shares described in the Debt Cancellation Proposal, listed as Proposal 2A on the Proxy Card, the Partnership would cancel substantially all amounts that it is owed by the Trust.

The Shares received by the Partnership would be immediately distributed to its partners, which include the Trust (as the sole general partner) and Mr. Wirth and his affiliates (as majority limited partners). The Trust's receipt of Shares from the Partnership would result in up to 4,074,576 of the total Shares issued in connection with the Debt Cancellation Proposal to be held by the Trust as treasury shares, and only up to 3,051,300 of the issued Shares shall be outstanding.

The exact number of Shares to be issued to the Partnership pursuant to the Debt Cancellation Proposal would depend upon the market price of the Shares at the effective time of the transaction, since the Trust would issue the number of Shares equal to (a) the amount of the Cancelled Debt divided by (b) the market price of the Trust's Shares at that time, provided, however, that regardless of

the market price, the per Share price used for this calculation will not be less than \$1.20 or more than \$2.00. An increase or decrease in the market price of the Trust's Shares would decrease or increase, respectively, the number of Shares issued to the Partnership pursuant to the Debt Cancellation Proposal. The maximum number of Shares to be issued by the Trust in connection with the Debt Cancellation Proposal (7,125,876) is based on a price of \$1.20 per Share and the minimum number of Shares to be issued by the Trust in connection with the Debt Cancellation Proposal (4,275,526) is based on a price of \$2.00 per Share. See "Effect of the Proposals" below.

The reduction in the Trust's liabilities resulting from the transactions described in the Debt Cancellation Proposal would increase the Trust's reported shareholders' equity, which would facilitate the Trust's compliance with the continued listing standards of the American Stock Exchange. See "Effect of the Proposals" and "Unaudited Pro Forma Financial Information" below.

#### **Dilution of Percentage Ownership Interests of Existing Shareholders**

As a result of the issuance of the Shares described in the Debt Cancellation Proposal, the percentage ownership interests of all existing shareholders of the Trust other than Mr. Wirth and his affiliates and, under some circumstances, limited partners of the Partnership who are also Trust shareholders would be diluted. See "Effect of the Proposals" below.

**PROPOSAL 2B**

**Acquisition of the Sole General Partnership Interest  
of Yuma Hospitality Properties, Ltd.  
(the Acquisition Proposal)**

**General**

The Partnership is the 99.9% sole general partner of Yuma Hospitality Properties, Ltd., an Arizona limited partnership that owns the Yuma Hotel. Upon consummation of the Acquisition Proposal, the Trust would be the 99.9% sole general partner of Yuma LP.

The Trust proposes to issue up to 5,356,392 Shares to the Partnership in connection with the Acquisition Proposal. The Shares received by the Partnership would be immediately distributed to its partners, which include the Trust (as the sole general partner) and Mr. Wirth and his affiliates (as majority limited partners). The Trust's receipt of Shares from the Partnership would result in up to 3,062,785 of the total Shares issued in connection with the Acquisition Proposal to be held by the Trust as treasury shares, and only up to 2,293,607 of the issued Shares shall be outstanding.

The exact number of Shares to be issued to the Partnership pursuant to the Acquisition Proposal would depend upon the market price of the Shares at the effective time of the acquisition, since the Trust would issue the number of Shares equal to (a) the agreed value of the net assets of Yuma LP (as determined below) divided by (b) the market price of the Trust's Shares at that time, provided, however, that regardless of the market price, the per Share price used for this calculation will not be less than \$1.20 or more than \$2.00. An increase or decrease in the market price of the Trust's Shares would decrease or increase, respectively, the number of Shares issued to the Partnership pursuant to the Acquisition Proposal. The maximum number of Shares to be issued by the Trust in connection with the Acquisition Proposal (5,356,392) is based on an estimated price of \$1.20 per Share and the minimum number of Shares to be issued by the Trust in connection with the Acquisition Proposal (3,213,835) is based on an estimated price of \$2.00 per Share. See "Effect of the Proposals" below.

The Trust would acquire the 99.9% sole general partner interest in Yuma LP by issuing a number of Shares equal in value to approximately \$6.4 million, representing approximately \$8.9 million in fair value of the assets of Yuma LP reduced by the Trust's assumption of approximately \$2.5 million in mortgage debt secured by the Yuma Hotel and other liabilities.

The Trust and the Partnership would account for the acquisition in accordance with rules and conventions applicable to transactions between entities under common control. The Trust and the Partnership may alter the method of effecting the acquisition, provided that such change does not adversely affect the tax treatment of the Trust or its shareholders, or materially impede or delay completion of the acquisition.

Following the exchange, the Yuma LP would operate as a majority-owned subsidiary of the Trust. As a result of the acquisition by IHI of the management agreement and the licensing agreements previously defining the management services provided by the Management Company and the trademark and licensing services provided by Licensing Corp. to the Hotels, IHI will manage the Yuma Hotel on behalf of the Trust, for which IHI will receive management fees and trademark and licensing fees. See "Certain Transactions Acquisition of Management Agreements and Licensing Agreements."

The principal executive offices of the Trust are located at InnSuites Hotels Centre, 1615 E. Northern Avenue, Suite 102, Phoenix, Arizona 85020.

The principal executive offices of Yuma LP are located at 1615 East Northern Avenue, Suite 102, Phoenix, Arizona 85020.

The Trust's Board of Trustees believes that the Acquisition Proposal presents a strategic opportunity for the Trust to substantially increase its allocable share in the profitable operations of the



Yuma Hotel and its allocable share of Yuma LP's equity, each of which would increase the Trust's reported shareholders' equity, facilitating the Trust's compliance with the Amex Plan and Amex's continued listing standards.

In its deliberations regarding the Acquisition Proposal, the Trust's Board of Trustees considered a number of factors, in addition to the factors described under "Additional Proposals" above, including the following:

Its understanding of the Trust's business, operations, financial condition, earnings and prospects and of the Yuma Hotel's business, operations, financial condition, earnings and prospects.

The complementary aspects of the Trust's and the Yuma Hotels' business.

The reports of the Trust's management concerning the operations, financial condition, earnings and prospects of the Yuma Hotel.

The Trust's Board of Trustees also considered potential risks associated with the acquisition in connection with its deliberations of the proposed transaction, including:

The exposure to a greater portion of the operating results of the Yuma Hotel due to the Trust's increased ownership interest in Yuma LP.

The Board of Trustees determined the value of the Yuma Hotel for purposes of the Acquisition Proposal based upon their evaluation of recent appraisals of the Yuma Hotel and sales of other comparable hotel properties, as well as their knowledge of the hospitality industry.

The Board of Trustees realizes that there can be no assurance about future results, including results expected or considered in the factors listed above, such as assumptions regarding growth rates, potential revenue enhancements, anticipated cost savings and earnings accretion. However, the Trust's Board of Trustees concluded that the potential positive factors outweigh the potential risks of completing the Acquisition Proposal and decided to submit the Acquisition Proposal to a vote by the Trust's shareholders.

The foregoing discussion of the information and factors considered by the Trust's Board of Trustees is not exhaustive, but includes all material factors considered by the Board of Trustees. In view of the wide variety of factors considered by the Board of Trustees in connection with its evaluation of the Acquisition Proposal and the complexity of such matters, the Board of Trustees did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The Board of Trustees conducted a discussion of the factors described above, including asking questions of the Trust's management and the Trust's legal and financial advisors, and the independent members of the Board of Trustees reached a unanimous decision that the transactions described in the Acquisition Proposal should be submitted to a vote by the Trust's shareholders. In addition, individual Trustees may have considered other factors not described above in reaching their decision. It should be noted that this explanation of the Trust's Board of Trustees' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements."

#### **Dilution of Percentage Ownership Interests of Existing Shareholders**

As a result of the issuance of the Shares described in the Acquisition Proposal, the percentage ownership interests of all existing shareholders of the Trust other than Mr. Wirth and his affiliates and, under some circumstances, limited partners of the Partnership who are also Trust shareholders would be diluted. See "Effect of the Proposals" below.

**Selected Historical Financial Information of Yuma Hospitality Properties, Ltd.**

The following operating data for the years ended January 31, 2004, 2003 and 2002 and the balance sheet data as of January 31, 2004 and 2003 are derived from, and should be read in conjunction with, the financial statements and the notes thereto of Yuma Hospitality Properties, Ltd., together with the information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations of Yuma Hospitality Properties, Ltd." appearing elsewhere in this Proxy Statement. The operating data for the years ended January 31, 2001 and 2000 and the balance sheet data as of January 31, 2001 and 2000 are unaudited.

	Year Ended January 31,				
	2004	2003	2002	2001	2000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total revenue	\$ 2,918,612	\$ 3,062,133	\$ 2,663,029	\$ 3,982,866	\$ 119,073
Net Income	\$ 166,400	\$ 478,017	\$ 233,896	\$ 282,751	\$ 341,819
Total assets	\$ 6,007,039	\$ 6,379,514	\$ 6,333,410	\$ 6,259,287	\$ 6,561,976
Note payable to bank	\$ 2,685,306	\$ 2,919,051	\$ 3,132,220	\$ 3,326,624	\$ 3,489,758

**Supplementary Quarterly Financial Information of Yuma Hospitality Properties, Ltd.**

The following is a summary of the results of operations, by quarter, for the six months ended July 31, 2004, and the fiscal years ended January 31, 2004 and 2003. Management believes that all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such interim results have been included. The results of operations for any interim period are not necessarily indicative of those for the entire fiscal year.

FISCAL 2005	APRIL 30	JULY 31			
Total revenue	\$ 1,063,814	\$ 781,563			
Net income	\$ 348,398	\$ 76,343			
FISCAL 2004	APRIL 30	JULY 31	OCTOBER 31	JANUARY 31	FISCAL 2004
Total revenue	\$ 746,562	499,451	783,357	889,242	\$ 2,918,612
Net income (loss)	\$ 43,594	(184,562)	95,097	212,271	\$ 166,400
FISCAL 2003	APRIL 30	JULY 31	OCTOBER 31	JANUARY 31	FISCAL 2003
Total revenue	\$ 803,625	763,532	759,773	735,203	\$ 3,062,133
Net income	\$ 125,352	266,157	(16,806)	103,314	\$ 478,017

**Management's Discussion and Analysis of Financial Condition and Results of Operations of Yuma Hospitality Properties, Ltd.**

The following discussion should be read in conjunction with the financial statements and notes thereto of Yuma Hospitality Properties, Ltd. appearing elsewhere in this Proxy Statement.

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**Results of Operations of Yuma Hospitality Properties, Ltd. for the year ended January 31, 2004 compared to the year ended January 31, 2003.**

A summary of operating results for the fiscal years ended January 31, 2004 and 2003 is:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Revenue	\$ 2,918,612	\$ 3,062,133	\$ (143,521)	-4.69%
Operating Profit	\$ 424,865	\$ 757,217	\$ (332,352)	-43.89%
Net Income	\$ 166,400	\$ 478,017	\$ (311,617)	-65.19%

For the twelve months ended January 31, 2004, Yuma LP had total revenue of \$2.9 million compared to \$3.1 million for the twelve months ended January 31, 2003, a decrease of approximately \$200,000, or 4.69%. This decrease was due to lower operating revenues at the 166-suite InnSuites Hotel and Suites Yuma owned by Yuma LP (the "Yuma Hotel") due to the continued economic decline of the travel and tourism industry. Total expenses of \$2.8 million for the twelve months ended January 31, 2004 reflect an increase of approximately \$200,000, or 6.50%, compared to total expenses of \$2.6 million for the twelve months ended January 31, 2003. The increase was primarily due to increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive refurbishment projects and additional repairs on the property during the end of fiscal year 2003 and the first half of fiscal year 2004.

Total room revenue decreased approximately \$200,000, or 5.52%, to \$2.7 million for the twelve months ended January 31, 2004 from \$2.9 million for the twelve months ended January 31, 2003, primarily due to the continued economic decline of the travel and tourism industry.

Total operating expenses for the twelve months ended January 31, 2004 were \$2.5 million, an increase of approximately \$200,000, or 8.19%, from \$2.3 million in the twelve months ended January 31, 2003. The increase was primarily due to increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive refurbishment projects and additional repairs on the property.

Total interest expense for the twelve months ended January 31, 2004 was \$258,000, a decrease of approximately \$21,000, or 7.43%, from \$279,000 in the twelve months ended January 31, 2003.

Real estate and personal property taxes and insurance was \$164,000 for the twelve months ended January 31, 2004, which was consistent with the prior year total of \$173,000.

Hotel property depreciation for the twelve months ended January 31, 2004 compared to 2003 increased approximately \$61,000, or 17.98%, to \$395,000 from \$334,000, respectively. The increase was due to increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive refurbishment projects.

Yuma LP had net income of \$166,400 for the twelve months ended January 31, 2004, compared to income of \$478,017 in the prior year. The decrease was caused primarily by decreased operating revenues at the Yuma Hotel, due to the continued economic decline of the travel and tourism industry.

**Results of Operations of Yuma Hospitality Properties, Ltd. for the year ended January 31, 2003 compared to the year ended January 31, 2002.**

A summary of operating results for the fiscal years ended January 31, 2003 and 2002 is:

	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>% Change</u>
Revenue	\$ 3,062,133	\$ 2,663,029	\$ 399,104	14.99%
Operating Profit	\$ 757,217	\$ 532,005	\$ 225,212	42.33%
Net Income	\$ 478,017	\$ 233,896	\$ 244,121	>100%

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For the twelve months ended January 31, 2003, Yuma LP had total revenue of \$3.1 million compared to \$2.7 million for the twelve months ended January 31, 2002, an increase of approximately \$400,000, or 14.99%. The increase was primarily due to increased operating revenues at the Yuma Hotel, caused by increased sales efforts. Total expenses of \$2.6 million for the twelve months ended January 31, 2003 reflect an increase of approximately \$200,000, or 6.38%, compared to total expenses of \$2.4 million for the twelve months ended January 31, 2002. The increase was primarily due to increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive refurbishment projects and losses incurred on the replacement of hotel assets during fiscal year 2003.

General and administrative expenses include hotel administration expenses, professional fees, certain expenses related to refurbishment and losses incurred on the disposal of assets. In comparing general and administrative expenses for the twelve months ended January 31, 2003 and 2002, these expenses increased \$26,000, or 7.01%, to \$394,000 in fiscal year 2003 from \$368,000 in fiscal year 2002. This increase was primarily due to expenses incurred on the replacement of hotel fixtures, furniture and equipment in fiscal year 2003.

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Total operating expenses for the twelve months ended January 31, 2003 were \$2.3 million, an increase of approximately \$200,000, or 8.16%, from \$2.1 million in the twelve months ended January 31, 2002. The increase was primarily due to increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive hotel refurbishment projects.

Total interest expense for the twelve months ended January 31, 2003 was \$279,000, a decrease of \$19,000, or 6.34%, from \$298,000 in the twelve months ended January 31, 2002.

Real estate and personal property taxes and insurance was \$173,000 for the twelve months ended January 31, 2003, which was consistent with the prior year total of \$164,000.

Hotel property depreciation for the twelve months ended January 31, 2003 compared to 2002 increased approximately \$29,000, or 9.58%, to \$334,000 from \$305,000, respectively. The increase resulted primarily from increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive hotel refurbishment projects and increased room revenues.

Yuma LP had net income of \$478,000 for the twelve months ended January 31, 2003, compared to net income of \$234,000 in the prior year, an increase of greater than 100%. The increase was primarily due to increased rent revenues at the Yuma Hotel based on increased sales efforts.

### ***Results of Operations of Yuma Hospitality Properties, Ltd. for the six months ended July 31, 2004 compared to the six months ended July 31, 2003.***

A summary of operating results for the six months ended July 31, 2004 and 2003 is:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Revenue	\$ 1,845,377	\$ 1,246,013	\$ 599,364	48.10%
Operating Profit	\$ 541,617	\$ (9,113)	\$ 550,730	>100%
Net Income	\$ 424,741	\$ (141,058)	\$ 565,799	>100%

For the six months ended July 31, 2004, Yuma LP had total revenue of \$1.8 million compared to \$1.2 million for the six months ended July 31, 2003, an increase of approximately \$600,000 or 48.10%. The increase was due to increased room revenue primarily caused by economic improvements in the travel and tourism industry. Total expenses of \$1.4 million were consistent with the prior year period.

Total room revenue increased \$600,000 or 48.17% to \$1.8 million for the six months ended July 31, 2004 from \$1.2 million for the six months ended July 31, 2003, primarily due to an improving economy.

Total operating expenses for the six months ended July 31, 2004 were \$1.3 million, which was consistent with the prior year period.

Total interest expense for the six months ended July 31, 2004 was \$117,000, a decrease of \$15,000, or 11.42%, from \$132,000 in the six months ended July 31, 2003.

Real estate and personal property taxes and insurance was \$85,000 for the six months ended July 31, 2004, a decrease of \$2,000, or 2.36%, from the prior year period total of \$87,000.

Hotel property depreciation for the six months ended July 31, 2004 compared to 2003 increased approximately \$24,000, or 13.09%, to \$211,000 from \$187,000, respectively. The increase resulted primarily from increased depreciation charges incurred on an increased asset base generated from, and increased expenses related to, extensive hotel refurbishment projects.

Yuma LP had net income of \$425,000 for the six months ended July 31, 2004, compared to net loss of \$(141,000) in the prior year period, an increase of approximately \$566,000, or greater than

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100%. The increase was primarily due to increased room revenues caused by improved operating revenues at the Yuma Hotel based on increased sales efforts and recent refurbishment projects.

### *Liquidity and Capital Resources*

Net cash provided by operating activities totaled approximately \$566,000, \$826,000, and \$545,000 for the years ended January 31, 2004, 2003 and 2002, respectively. The fluctuations were primarily due to improved collections of receivables.

Net cash used in investing activities totaled approximately \$(408,000), \$(196,000), and \$(107,000) for the years ended January 31, 2004, 2003 and 2002, respectively. The increases were attributable to cash used for extensive refurbishment projects undertaken during fiscal years 2004 and 2003.

Net cash used in financing activities totaled approximately \$(158,000), \$(631,000), and \$(460,000) for the years ended January 31, 2004, 2003 and 2002, respectively. The decreases in cash used comparing 2002, 2003 and 2004 reflect Yuma LP's use of its cash reserves to fund 2002 financing activities, compared to its use of increasing capital contributions by the Partnership during 2003 and 2004 for such activities.

As of January 31, 2004, Yuma LP had no commitments for capital expenditures beyond a 4% reserve for refurbishment and replacements that is set aside annually, as described below.

During the years ended January 31, 2004, 2003 and 2002, Yuma LP contributed to a Capital Expenditures Fund (the "Fund") intended to be used for capital improvements to the Yuma Hotel and refurbishment and replacement of furniture, fixtures and equipment. With each monthly mortgage payment, Yuma LP would also transfer to its mortgage lender an amount equal to 4% of the previous month's gross revenues, which amount was returned to Yuma LP or paid to outside vendors (at the election of Yuma LP) upon the mortgage lender's receipt of payment acknowledgements and/or invoices for qualifying capital expenditures. As of January 31, 2004, \$43 was held in the Fund and is reported on Yuma LP's Balance Sheet as "Restricted Cash."

During the twelve months ended January 31, 2004 and 2003, Yuma LP spent approximately \$408,000 and \$227,000, respectively, for capital expenditures at the Yuma Hotel. Yuma LP considers the majority of these improvements to be revenue producing. Therefore, these amounts have been capitalized and are being depreciated over their estimated useful lives. Yuma LP plans to spend approximately \$120,000 for capital expenditures at the Yuma Hotel in fiscal year 2005.

Yuma LP has minimum debt payments of \$256,000 and \$281,000 due during fiscal years 2005 and 2006, respectively. The Partnership believes that these obligations can be satisfied during fiscal years 2005 and 2006 using revenue generated by the operations of the Yuma Hotel.

### *Contractual Obligations*

The following summarizes the contractual obligations of Yuma LP at January 31, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

#### PAYMENTS DUE BY PERIOD

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	THEREAFTER
Mortgage notes payable	\$ 2,685,306	\$ 256,307	\$ 589,222	\$ 708,460	\$ 1,131,317
<b>TOTAL</b>	<b>\$ 2,685,306</b>	<b>\$ 256,307</b>	<b>\$ 589,222</b>	<b>\$ 708,460</b>	<b>\$ 1,131,317</b>

*Critical Accounting Policies and Estimates*

Yuma LP believes that impairment testing of long-lived assets is its most critical accounting estimate. Accordingly, the accounting policy it follows for the valuation of its hotel property, which constitutes a majority of its assets, is its most critical accounting policy. Yuma LP applies SFAS No. 144 to determine when it is necessary to test an asset for impairment. On an events and circumstances basis, Yuma LP reviews the carrying value of its hotel property. Yuma LP would record an impairment loss and reduce the carrying value of its hotel property when anticipated undiscounted future cash flows (excluding interest) is less than the carrying value of the hotel property. In cases where Yuma LP does not expect to recover the carrying cost of its hotel property, it would reduce the carrying value to the fair value of the hotel, as determined by a current appraisal. For the twelve months ended January 31, 2004, 2003 and 2002, Yuma LP recorded no impairment losses. As of January 31, 2004, Yuma LP does not believe that the carrying values of its hotel property is impaired.

*Inflation*

Yuma LP's revenue is based on the underlying revenue generated by the Yuma Hotel. Therefore, Yuma LP relies entirely on the Yuma Hotel's 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 the Yuma Hotel's ability to raise rates faster than inflation.

**Market Price of and Dividends on Yuma LP Partnership Interests**

There is no trading market for the general or limited partnership interests in Yuma LP. The Partnership maintains central clearing bank accounts to maintain the Hotels, including the Yuma Hotel. Yuma LP deposits its receipts into these accounts, and funds are disbursed from these account by the Partnership to satisfy Yuma LP obligations. In the event that receipts deposited by Yuma LP are greater than disbursements made on behalf of Yuma LP, such excess is deemed to be a "distribution" from Yuma LP to the Partnership. In the event that receipts deposited by Yuma LP are less than disbursements made on behalf of Yuma LP, such deficiency is deemed to be a "capital contribution" by the Partnership to Yuma LP. For fiscal 2002, the Partnership was deemed to have received a distribution from Yuma LP in the amount of \$171,039. For fiscal years 2003 and 2004, the Partnership was deemed to have made a capital contribution to Yuma LP in the amount of \$442,226 and \$525,436, respectively.

**Quantitative and Qualitative Disclosures about Market Risk**

Yuma LP is exposed to interest rate risk primarily as a result of its mortgage note payable. The proceeds from this loan were used to acquire the property. Yuma LP's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower its overall borrowing costs. To achieve its objectives, Yuma LP has borrowed using fixed rate debt. Yuma LP's interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts, weighted average interest rates, fair value and other terms required, by year of expected maturity, in order to evaluate the expected cash flow and sensitivity to interest rate changes.

Debt Type	Fiscal Year						Total	Fair Value
	2005	2006	2007	2008	2009	Thereafter		
Fixed rate debt(1)	\$ 256,307	281,047	308,175	337,921	370,539	1,131,317	2,685,306	2,917,000
Average interest rate	9.25%	9.25%	9.25%	9.25%	8.27%	8.25%	8.29%	7.00%
Interest rate available on January 31, 2004	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%