INNSUITES HOSPITALITY TRUST
Form 10-Q
September 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2015

Commission File Number 1-7062

INNSUITES HOSPITALITY TRUST

(Exact name of registrant as specified in its charter)

Ohio	**34-6647590**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

InnSuites Hotels Centre

1625 E. Northern Avenue, Suite 105

Phoenix, AZ 85020

(Address of principal executive offices)

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

Indicate by check mark whether the registrant: (l) has filed all reports required to be filed by Section 13 or l5(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No

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

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

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

Number of outstanding Shares of Beneficial Interest, without par value, as of September 8, 2015: 8,264,346

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	JULY 31, 2015 (UNAUDITED)	**JANUARY 31, 2015**
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 300,950	$ 507,686
Accounts Receivable, including $57,868 and $79,366 from related parties and net of Allowance for Doubtful Accounts of $25,944 and $39,045, as of July 31, 2015 and January 31, 2015, respectively	312,024	472,350
Advances to Affiliates - Related Party	-	1,236
Prepaid Expenses and Other Current Assets	160,294	151,999
Total Current Assets	773,268	1,133,271
Hotel Properties, net	25,680,396	25,818,446
Property, Plant and Equipment, net	142,303	76,092
TOTAL ASSETS	$ 26,595,967	$ 27,027,809
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 2,338,480	$ 2,646,840
Current Portion of Mortgage Notes Payable, net of Discount of $8,012 as of July 31, 2015 and January 31, 2015, respectively	5,190,898	5,325,583
Current Portion of Notes Payable to Banks, net of Discount of $4,500 and $63,474 as of July 31, 2015 and January 31, 2015, respectively	692,530	1,226,626
Line of Credit - Related Party	108,270	541,710
Current Portion of Other Notes Payable	217,209	469,842
Total Current Liabilities	8,547,387	10,210,601
Mortgage Notes Payable, net of discount of $62,909 and $66,915 as of July 31, 2015 and January 31, 2015, respectively	13,578,243	13,796,153
Other Notes Payable	21,448	55,828
TOTAL LIABILITIES	22,147,078	24,062,582
COMMITMENTS AND CONTINGENCIES (SEE NOTE 8)		

SHAREHOLDERS’ EQUITY		
Shares of Beneficial Interest, without par value, unlimited authorization; 16,866,846 and 16,845,846 shares issued and 8,264,346 and 8,265,102 shares outstanding at July 31, 2015 and January 31, 2015, respectively	14,827,601	13,812,470
Treasury Stock, 8,602,500 and 8,580,744 shares held at cost at July 31, 2015 and January 31, 2015, respectively	(12,252,277)	(12,193,491)
TOTAL TRUST SHAREHOLDERS’ EQUITY	2,575,324	1,618,979
NON-CONTROLLING INTEREST	1,873,565	1,346,248
TOTAL EQUITY	4,448,889	2,965,227
TOTAL LIABILITIES AND EQUITY	$ 26,595,967	$27,027,809

See accompanying notes to unaudited

condensed consolidated financial statements

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE SIX MONTHS ENDED JULY 31,	
	2015	**2014**
	(UNAUDITED)	(UNAUDITED)
REVENUE		
Room	$7,561,396	$ 7,229,733
Food and Beverage	626,600	571,371
Management and Trademark Fees	128,144	144,439
Other	225,879	110,858
TOTAL REVENUE	8,542,019	8,056,401
OPERATING EXPENSES		
Room	2,269,162	2,009,349
Food and Beverage	557,413	456,616
Telecommunications	13,199	15,904
General and Administrative	1,847,716	1,939,369
Sales and Marketing	660,419	613,880
Repairs and Maintenance	706,696	659,201
Hospitality	508,900	472,487
Utilities	645,877	656,463
Hotel Property Depreciation	913,751	891,952
Real Estate and Personal Property Taxes, Insurance and Ground Rent	381,721	450,577
Other	13,830	14,891
TOTAL OPERATING EXPENSES	8,518,684	8,180,689
OPERATING INCOME (LOSS)	23,335	(124,288)
Interest Income	7	669
Interest Income on Advances to Affiliates - Related Party	-	2,728
Interest Income on Note Receivable - Related Party	-	1,850
TOTAL OTHER INCOME	7	5,247
Interest on Mortgage Notes Payable	422,376	355,204
Interest on Notes Payable to Banks	88,361	16,844
Interest on Other Notes Payable	3,852	14,505
Interest on Line of Credit - Related Party	8,090	5,602
TOTAL INTEREST EXPENSE	522,679	392,155
CONSOLIDATED NET LOSS BEFORE INCOME TAX PROVISION	(499,337)	(511,196)
Income Tax Provision	(71,571)	(80,000)
CONSOLIDATED NET LOSS	$(570,908)	$ (591,196)
LESS: NET LOSS INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	$(16,540)	$ 193,385
NET LOSS ATTRIBUTABLE TO CONTROLLING INTERESTS	$(554,368)	$ (784,581)
NET LOSS PER SHARE – BASIC AND DILUTED	$(0.07)	$ (0.09)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED	8,274,317	8,391,421

See accompanying notes to unaudited

condensed consolidated financial statements

3

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED JULY 31,	
	2015	**2014**
	(UNAUDITED)	(UNAUDITED)
REVENUE		
Room	$3,185,620	$ 3,039,230
Food and Beverage	213,473	177,698
Management and Trademark Fees	42,151	62,340
Other	64,564	51,063
TOTAL REVENUE	3,505,808	3,330,331
OPERATING EXPENSES		
Room	1,101,535	951,717
Food and Beverage	255,418	190,203
Telecommunications	5,738	8,117
General and Administrative	919,206	980,806
Sales and Marketing	315,013	312,644
Repairs and Maintenance	361,445	296,863
Hospitality	249,110	195,144
Utilities	327,776	352,811
Hotel Property Depreciation	457,482	447,911
Real Estate and Personal Property Taxes, Insurance and Ground Rent	199,447	204,969
Other	4,354	11,043
TOTAL OPERATING EXPENSES	4,196,524	3,952,228
OPERATING LOSS	(690,716)	(621,897)
Interest Income	3	3
Interest Income on Advances to Affiliates - Related Party	-	2,728
Interest Income on Note Receivable - Related Party	-	1,850
TOTAL OTHER INCOME	3	4,581
Interest on Mortgage Notes Payable	222,203	181,574
Interest on Notes Payable to Banks	26,786	8,392
Interest on Other Notes Payable	1,764	13,089
Interest on Line of Credit - Related Party	6,596	5,602
TOTAL INTEREST EXPENSE	257,349	208,657
CONSOLIDATED NET LOSS BEFORE INCOME TAX PROVISION	(948,062)	(825,973)
Income Tax Provision	(30,000)	(49,260)
CONSOLIDATED NET LOSS	$(978,062)	$ (875,233)
LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	$(217,163)	$ (28,783)
NET LOSS ATTRIBUTABLE TO CONTROLLING INTERESTS	$(760,899)	$ (846,450)
NET LOSS PER SHARE – BASIC AND DILUTED	$(0.09)	$ (0.10)
	8,265,225	8,403,072

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED

See accompanying notes to unaudited

condensed consolidated financial statements

4

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JULY 31, 2015

	Total Equity Shares of Beneficial Interest		**Treasury Stock**		**Trust Shareholders' Equity**	**Non-Controlling Interest**	
	Shares	**Amount**	**Shares**	**Amount**			**Amount**
Balance, January 31, 2015	8,265,102	$13,812,470	8,580,744	$(12,193,491)	$1,618,979	1,346,248	$2,965,227
Net Loss	-	(554,368)	-	-	(554,368)	(16,540)	(570,908)
Purchase of Treasury Stock	(21,756)	-	21,756	(58,786)	(58,786)	-	(58,786)
Shares of Beneficial Interest Issued for Services Rendered	21,000	32,640	-	-	32,640	-	32,640
Sales of Ownership Interests in Subsidiary, net	-	-	-	-	-	2,570,690	2,570,690
Distribution to Non-Controlling Interests	-	-	-	-	-	(487,660)	(487,660)
Reallocation of Non-Controlling Interests and Other	-	1,536,859	-	-	1,536,859	(1,539,173)	(2,314)
Balance, July 31, 2015	8,264,346	$14,827,601	8,602,500	$(12,252,277)	$2,575,324	$1,873,565	$4,448,889

See accompanying notes to unaudited

condensed consolidated financial statements

5

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE SIX MONTHS ENDED JULY 31,	
	2015	**2014**
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated Net Loss	$ (570,908)	$ (591,196)
Adjustments to Reconcile Consolidated Net Loss to Net Cash Provided by Operating Activities:		
Stock-Based Compensation	32,640	18,333
(Recovery of) Provision For Uncollectible Receivables	(13,101)	12,007
Hotel Property Depreciation	913,751	891,952
Amortization of Debt Discounts and Deferred Financing Fees	61,621	42,102
Changes in Assets and Liabilities:		
Accounts Receivable	173,427	313,399
Prepaid Expenses and Other Assets	(8,295)	135,776
Accounts Payable and Accrued Expenses	(308,360)	(379,532)
NET CASH PROVIDED BY OPERATING ACTIVITIES	280,775	442,841
CASH FLOWS FROM INVESTING ACTIVITIES		
Improvements and Additions to Hotel Properties	(841,912)	(791,969)
Change in Restricted Cash	-	88,188
Collections on Advances to Affiliates - Related Party	1,236	-
NET CASH USED IN INVESTING ACTIVITIES	(840,676)	(703,781)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Mortgage Notes Payable	(358,917)	(1,812,030)
Borrowings on Mortgage Notes Payable	-	-
Payments on Notes Payable to Banks	(2,659,224)	(1,353,070)
Borrowings on Notes Payable to Banks	2,067,515	1,516,414
Payments on Line of Credit - Related Party	(1,519,051)	(654,640)
Borrowings on Line of Credit - Related Party	1,085,611	1,718,504
Lendings on Note Receivable - Related Party	-	(994,311)
Lendings on Advances to Affiliates - Related Party		(163,959)
Collections on Note Receivable - Related Party	-	915,000
Payments on Other Notes Payable	(287,013)	(50,824)
Borrowings on Other Notes Payable	-	23,000
Proceeds from Sale of Non-Controlling Ownership Interest in Subsidiary	2,570,690	1,530,783
Fees Paid For Financing Activities	-	-
Distributions to Non-Controlling Interest Holders	(487,660)	(328,266)
Repurchase of Treasury Stock	(58,786)	(87,638)
NET CASH PROVIDED BY FINANCING ACTIVITIES	353,165	258,963

NET DECREASE IN CASH AND CASH EQUIVALENTS	(206,736)	(1,977)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	507,686	395,903
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 300,950	$ 393,926

See accompanying notes to unaudited

condensed consolidated financial statements

6

INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JULY 31, 2015 AND JANUARY 31, 2015

AND FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2015 AND 2014

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

As of July 31, 2015, InnSuites Hospitality Trust (the “Trust”, “we” or “our”) owns interests directly in and through a partnership interest, five hotels with an aggregate of 843 suites in Arizona, southern California and New Mexico (the “Hotels”). The Hotels operate under the trade name “InnSuites Hotels.”

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

The Trust is the sole general partner of RRF Limited Partnership, a Delaware limited partnership (the “Partnership”), and owned a 72.11% interest in the Partnership as of July 31, 2015 and January 31, 2015. The Trust’s weighted average ownership for the six month period ended July 31, 2015 and 2014 was 72.11% and 72.06%, respectively. As of July 31, 2015, the Partnership owned a 68.09% interest in an InnSuites® hotel located in Tucson, Arizona (“Tucson St. Mary’s”), owned a 51.01% interest in another InnSuites® hotel located in Tucson, Arizona, and a 51.65% interest in an InnSuites® hotel located in Ontario, California. As of July 31, 2015, the Trust owned a direct 61.88% interest in a Yuma, Arizona hotel property, and a direct 50.91% interest in an InnSuites® hotel located in Albuquerque, New Mexico.

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

InnDependent Boutique Collection (“IBC”, “IBC Hotels” or “IBC Developments”), a wholly-owned subsidiary of InnSuites Hospitality Trust, has a network of approximately 6,500 unrelated hotel properties and provides revenue generating services and cost savings solutions to independent boutique hotels subscribing to the IBC system. During the fiscal year ended January 31, 2014, IBC Hotels formed a marketing alliance with the Independent Lodging Industry Association (“ILIA”).

PARTNERSHIP AGREEMENT

The Partnership Agreement of the Partnership provides for the issuance of two classes of Limited Partnership units, Class A and Class B. Class A and Class B Partnership units are identical in all respects, except that each Class A Partnership unit is convertible into one newly-issued Share of Beneficial Interest of the Trust at any time at the option of the particular limited partner. The Class B Partnership units may only become convertible, each into one newly-issued Share of Beneficial Interest of the Trust, with the approval of the Board of Trustees, in its sole discretion. On July 31, 2015 and January 31, 2015, 276,131 Class A Partnership units were issued and outstanding, representing 2.09% of the total Partnership units, respectively. Additionally, as of both July 31, 2015 and January 31, 2015, 3,407,938 Class B Partnership units were outstanding to James Wirth, the Trust’s Chairman and Chief Executive Officer, and Mr. Wirth’s affiliates. If all of the Class A and B Partnership units were converted on July 31, 2015, the limited partners in the Partnership would receive 3,684,069 Shares of Beneficial Interest of the Trust. As of July 31, 2015 and January 31, 2015, the Trust owns 9,527,448 general partner units in the Partnership, representing 72.11% of the total Partnership units.

LIQUIDITY

Our principal source of cash to meet our cash requirements, including distributions to our shareholders, is our share of the Partnership’s cash flow, quarterly distributions from the Albuquerque, New Mexico and Yuma, Arizona properties and more recently, sales of non-controlling interests in certain of our Hotels. The Partnership’s principal source of cash flow is quarterly distributions from the two Tucson, Arizona properties and Ontario, California property. Our liquidity, including our ability to make distributions to our shareholders, will depend upon our ability and the Partnership’s ability to generate sufficient cash flow from hotel operations and sales of non-controlling interests to service our debt.

As of July 31, 2015, the Trust had a related party Demand/Revolving Line of Credit/Promissory Note with an amount payable of $108,270. The Demand/Revolving Line of Credit/Promissory Note bears interest at 7.0% per annum and is interest only quarterly. The Demand/Revolving Line of Credit/Promissory Note has a maximum borrowing capacity to $1,000,000, which is available to December 31, 2017. As of September 2, 2015, the outstanding net balance payable on the Demand/Revolving Line of Credit/Promissory Note was $342,270.

With the expected continued availability of the $1,000,000 related party Demand/Revolving Line of Credit/Promissory Note, and the refinance or extension of one of our mortgage note payables that is due on December 31, 2017, management believes that it will have enough cash on hand and financing available to meet all of our obligations as they become due for at least the next year. In addition, our management is analyzing other strategic options available to us, including the refinancing of another property or raising additional funds through additional non-controlling interest sales; however, such transactions may not be available on terms that are favorable to the Trust.

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

BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information related to the Trust’s organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) has been condensed or omitted. The accounting policies followed in the preparation of these unaudited condensed consolidated financial statements are consistent with those followed in the Trust’s annual consolidated financial statements for the year ended January 31, 2015, as filed on Form 10-K. In the opinion of management, these unaudited condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary to fairly state our financial position, results of operations and cash flows for the periods presented and the presentations and disclosures herein are adequate when read in conjunction with the Trust’s Form 10-K for the year ended January 31, 2015.

As sole general partner of the Partnership, the Trust exercises unilateral control over the Partnership, and the Trust owns all of the issued and outstanding classes of shares of InnSuites Hotels. Therefore, the financial statements of the Partnership and InnSuites Hotels are consolidated with the Trust, and all significant intercompany transactions and balances have been eliminated.

SEASONALITY OF THE HOTEL BUSINESS

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

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

It is too early to determine what the seasonality of the IBC business segment is. The Trust does not anticipate much seasonality due to the diversification of the location of the IBC Hotels.

RECENTLY ISSUED ACCOUNTING GUIDANCE

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

In June 2014, the FASB issued ASU No. 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (“ASU 2014-12”). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, “Compensation—Stock Compensation” (“ASC 718”), as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (i) prospectively to all awards granted or modified after the effective date; or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Trust is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements, but does not expect there to be a material impact at this time.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, ASU 2014-09 provides for the following steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, “Revenue Recognition,” most industry-specific guidance throughout the industry topics of the Accounting Standards Codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 31, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Trust is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis”. This will improve certain areas of consolidation guidance for reporting organizations that are required to evaluate whether to consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures. ASU 2015-02 simplifies and improves GAAP by: eliminating the presumption that a general partner should consolidate a limited partnership, eliminating the indefinite deferral of FASB Statement No. 167, thereby reducing the number of Variable Interest Entity (VIE) consolidation models from four to two (including the limited partnership consolidation model) and clarifying when fees paid to a decision maker should be a factor to include in the consolidation of VIEs. ASU 2015-02 will be effective for periods beginning after December 15, 2015. The Trust is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs”. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The ASU specifies that "issue costs shall be reported in the balance sheet as a direct deduction from the face amount of the note" and that "amortization of debt issue costs shall also be reported as interest expense." According to the ASU's Basis for Conclusions, debt issuance costs incurred before the associated funding is received (i.e., the debt liability) should be reported on the balance sheet as deferred charges until that debt liability amount is recorded. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For entities other than public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period is adjusted). The Trust is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

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

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

REVENUE RECOGNITION

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

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

Revenues primarily consist of room rentals, food and beverage sales, management and trademark fees and other miscellaneous revenues from our properties. Revenues are recorded when rooms are occupied and when food and beverage sales are delivered. Management and trademark fees from hotels include a monthly accounting fee and a percentage of hotel room revenues for managing the daily operations of the Hotels and the three hotels owned by affiliates of Mr. Wirth. IBC Development revenues are recognized after services are rendered by the IBC member hotel.

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

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

INCOME PER SHARE

Basic and diluted income per Share of Beneficial Interest is computed based on the weighted-average number of Shares of Beneficial Interest and potentially dilutive securities outstanding during the period. Dilutive securities are limited to the Class A and Class B units of the Partnership, which are convertible into 3,684,069 Shares of the Beneficial Interest, as discussed in Note 1.

At the beginning of each period, the aggregate weighted-average of these Shares of Beneficial Interest for units of the Partnership would have been 3,684,069 and 3,693,972, respectively. These Shares of Beneficial Interest issuable upon conversion of the Class A and Class B Partnership units were anti-dilutive during the six month period ended July 31, 2015 and 2014. Therefore no reconciliation of basic and diluted income per share is presented.

SEGMENT REPORTING

During the fourth quarter of fiscal year 2015, the Trust determined that its operations are comprised of two reportable segments, a Hotel Operations & Corporate Overhead segment that has ownership interest in five hotel properties with an aggregate of 843 suites in Arizona, southern California and New Mexico, and the IBC Developments segment serving 6,500 unrelated hotel properties. The Trust has a concentration of assets in the southwest United States, and the southern Arizona market. Consistent with the change in reportable segments, the Trust revised its prior period financial information for the new segment structure. Historical financial information presented in this Form 10-Q reflects this change. On an overall basis, the Trust has elected to only put the costs directly attributable to the IBC Developments in that segment. Included in these costs are sales, marketing and technology development costs.

IBC Hotels was formed during the fiscal year ended January 31, 2014. Operating results became significant during the fiscal year ended January 31, 2015. IBC Hotels charges a 10% booking fee which, we believe, increases the independent hotel profits. Competitors of IBC Hotels can charge anywhere from a 30% to 50% booking fee. InnDependent InnCentives, IBC's loyalty program, allows hoteliers to benefit from guests who frequently stay at IBC independent hotels. We are planning significant expansion of IBC Hotels during the next couple of fiscal years as we concentrate our sales and marketing efforts towards consumers, but can provide no assurance that we will be successful.

The Chief Operating Decision Maker ("CODM"), the Trust's CEO, Mr. Wirth, does not see any value in allocating costs for items not directly attributable to the IBC Developments segment for several reasons. The first is that the Trust's base business is the Hotel Operations & Corporate Overhead segment, and the majority of the expenses of the Trust would continue even if the Trust was not in the reservation business. If the Trust were to allocate general expenses to the reservation business based on some allocation method (e.g. on sales), it would not improve the value of segment reporting, it would only serve to make the results of the Hotel Operations & Corporate Overhead segment look better and give investors a false sense of the profitability of the Hotel Operations & Corporate Overhead segment without the IBC Developments segment. The CODM wants to understand the true investment in the reservation business and that result is delivered by allocating only costs directly