

APEX 1, INC.  
Form 10-K  
March 01, 2011

**U.S. SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

**ANNUAL REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

**TRANSITION REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**APEX 1, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

**16-1783194**

(State or other jurisdiction of

(I.R.S. Employer

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incorporation or organization)

Identification No.)

**c/o Richard Chiang**

**4115 Blackhawk Plaza Circle, Suite 100**

**Danville, CA 94506**

(Address of principal executive offices)

E-Mail: [buysellnow@gmail.com](mailto:buysellnow@gmail.com)

(Registrant's telephone number, including area code)

Tel: (925) 648-2080

Securities registered under Section 12(b) of the Exchange Act:

None.

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Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.0001 par value per share

(Title of Class)

Check whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Check whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405 of this chapter) contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Check whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

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Smaller Reporting  
Company

(Do not check if a smaller reporting company.)

Check whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the issuer was \$0.00 on December 31, 2010.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of January 17, 2011, there were 10,000,000 shares of common stock, par value \$.0001, outstanding.

## FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-K are forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Apex 1, Inc. (the Company) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. The Company's plans and objectives are based, in part, on assumptions involving the continued expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance the forward-looking statements included in this Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

## PART I

### Item 1. Description of Business.

#### (a) Business Development

Apex 1, Inc. (the Company or the Registrant) was incorporated in the State of Delaware on June 21, 2010. Since inception, we have been engaged in organizational efforts and obtaining initial financing. We were formed as a vehicle to pursue a business combination and have made no efforts to identify a possible business combination. As a result, we have not conducted negotiations or entered into a letter of intent concerning any target business. Our business purpose is to seek the acquisition of or merger with, an existing company.

#### (b) Business of Issuer

Based on proposed business activities, we are a blank check company. The SEC defines those companies as any development stage company that is issuing a penny stock, within the meaning of Section 3 (a)(51) of the Exchange Act, and that has no specific business plan or purpose, or has indicated that its business plan is to merge with an unidentified company or companies. Many states have enacted statutes, rules and regulations limiting the sale of securities of blank check companies in their respective jurisdictions. Management does not intend to undertake any efforts to cause a market to develop in our securities, either debt or equity, until we have successfully concluded a business combination. We intend to comply with the periodic reporting requirements of the Exchange Act for so long as we are subject to those requirements.

We were organized as a vehicle to investigate and, if such investigation warrants, acquire a target company or business seeking the perceived advantages of being a publicly held corporation. Our principal business objective for the next 12 months and beyond such time will be to achieve long-term growth potential through a combination with a business rather than immediate, short-term earnings. We will not restrict our potential candidate target companies to any specific business, industry or geographical location and, thus, may acquire any type of business.

The analysis of new business opportunities has and will be undertaken by or under the supervision of the officers and directors of the Registrant. The Registrant has considered potential acquisition transactions with several companies, but as of this date has not entered into any Letter of Intent or other agreement with any party. The Registrant has unrestricted flexibility in seeking, analyzing and participating in potential business opportunities. In its efforts to analyze potential acquisition targets, the Registrant will consider the following kinds of factors:

- (a) Potential for growth, indicated by new technology, anticipated market expansion or new products;
- (b) Competitive position as compared to other firms of similar size and experience within the industry segment as well as within the industry as a whole;
- (c) Strength and diversity of management, either in place or scheduled for recruitment;
- (d) Capital requirements and anticipated availability of required funds, to be provided by the Registrant or from operations, through the sale of additional securities, through joint ventures or similar arrangements or from other sources;
- (e) The cost of participation by the Registrant as compared to the perceived tangible and intangible values and potentials;
- (f) The extent to which the business opportunity can be advanced;
- (g) The accessibility of required management expertise, personnel, raw materials, services, professional assistance and other required items; and
- (h) Other relevant factors.

In applying the foregoing criteria, no one of which will be controlling, management will attempt to analyze all factors and circumstances and make a determination based upon reasonable investigative measures and available data. Potentially available business opportunities may occur in many different industries, and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex. Due to the Registrant's limited capital available for investigation, the Registrant may not discover or adequately evaluate adverse facts about the opportunity to be acquired.

### **Form of Acquisition**

The manner in which the Registrant participates in an opportunity will depend upon the nature of the opportunity, the respective needs and desires of the Registrant and the promoters of the opportunity, and the relative negotiating strength of the Registrant and such promoters.

It is likely that the Registrant will acquire its participation in a business opportunity through the issuance of common stock or other securities of the Registrant. Although the terms of any such transaction cannot be predicted, it should be noted that in certain circumstances the criteria for determining whether or not an acquisition is a so-called tax free reorganization under Section 368(a)(1) of the Internal Revenue Code of 1986, as amended (the Code), depends upon whether the owners of the acquired business own 80% or more of the voting stock of the surviving entity. If a transaction were structured to take advantage of these provisions rather than other tax free provisions provided under the Code, all prior stockholders would in such circumstances retain 20% or less of the total issued and outstanding shares of the surviving entity. Under other circumstances, depending upon the relative negotiating strength of the parties, prior stockholders may retain substantially less than 20% of the total issued and outstanding shares of the surviving entity. This could result in substantial additional dilution to the equity of those who were stockholders of the Registrant prior to such reorganization.

The present stockholders of the Registrant will likely not have control of a majority of the voting shares of the Registrant following a reorganization transaction. As part of such a transaction, all or a majority of the Registrant's directors may resign and new directors may be appointed without any vote by stockholders.

In the case of an acquisition, the transaction may be accomplished upon the sole determination of management without any vote or approval by stockholders. In the case of a statutory merger or consolidation directly involving us, it will likely be necessary to call a stockholders meeting and obtain the approval of the holders of a majority of the outstanding shares. The necessity to obtain such stockholder approval may result in delay and additional expense in the consummation of any proposed transaction and will also give rise to certain appraisal rights to dissenting stockholders. Most likely, management will seek to structure any such transaction so as not to require stockholder approval.

It is anticipated that the investigation of specific business opportunities and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial cost for accountants, attorneys and others. If a decision is made not to participate in a specific business opportunity, the costs theretofore incurred in the related investigation would not be recoverable. Furthermore, even if an agreement is reached for the participation in a specific business opportunity, the failure to consummate that transaction may result in the loss to the Registrant of the related costs incurred.

We presently have no employees. Our officers and directors are engaged in outside business activities and anticipate that he will devote to our business only several hours per week until the acquisition of a successful business opportunity has been consummated. We expect no significant changes in the number of our employees other than such changes, if any, incident to a business combination.

#### **Item 1A. Risk Factors.**

##### **Risk Factors**

An investment in the company is highly speculative in nature and involves an extremely high degree of risk.

##### **Our Business Is Difficult To Evaluate Because We Have No Operating History.**

As we have no operating history or revenue and only minimal assets, there is a risk that we will be unable to continue as a going concern and consummate a business combination. We have had no recent operating history nor any revenues or earnings from operations since inception. We have no significant assets or financial resources. We will, in all likelihood, sustain operating expenses without corresponding revenues, at least until the consummation of a business combination. This may result in our incurring a net operating loss that will increase continuously until we can consummate a business combination with a profitable business opportunity. We cannot assure you that we can identify a suitable business opportunity and consummate a business combination.

##### **There Is Competition For Those Private Companies Suitable For A Merger Transaction Of The Type Contemplated By Management.**

We are in a highly competitive market for a small number of business opportunities which could reduce the likelihood of consummating a successful business combination. We are and will continue to be an insignificant participant in the business of seeking mergers with, joint ventures with and acquisitions of small private and public entities. A large



number of established and well-financed entities, including small public companies and venture capital firms, are active in mergers and acquisitions of companies that may be desirable target candidates for us. Nearly all these entities have significantly greater financial resources, technical expertise and managerial capabilities than we do; consequently, we will be at a competitive disadvantage in identifying possible business opportunities and successfully completing a business combination. These competitive factors may reduce the likelihood of our identifying and consummating a successful business combination.

**Future Success Is Highly Dependent On The Ability Of Management To Locate And Attract A Suitable Acquisition.**

The nature of our operations is highly speculative and there is a consequent risk of loss of your investment. The success of our plan of operation will depend to a great extent on the operations, financial condition and management of the identified business opportunity. While management intends to seek business combination(s) with entities having established operating histories, we cannot assure you that we will be successful in locating candidates meeting that criterion. In the event we complete a business combination, the success of our operations may be dependent upon management of the successor firm or venture partner firm and numerous other factors beyond our control.

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**The Company Has No Existing Agreement For A Business Combination Or Other Transaction.**

We have no arrangement, agreement or understanding with respect to engaging in a merger with, joint venture with or acquisition of, a private or public entity. No assurances can be given that we will successfully identify and evaluate suitable business opportunities or that we will conclude a business combination. Management has not identified any particular industry or specific business within an industry for evaluation. We cannot guarantee that we will be able to negotiate a business combination on favorable terms, and there is consequently a risk that funds allocated to the purchase of our shares will not be invested in a company with active business operations.

**Management Intends To Devote Only A Limited Amount Of Time To Seeking A Target Company Which May Adversely Impact Our Ability To Identify A Suitable Acquisition Candidate.**

While seeking a business combination, management anticipates devoting no more than a few hours per week to our affairs. Our officers have not entered into written employment agreements with us and are not expected to do so in the foreseeable future. This limited commitment may adversely impact our ability to identify and consummate a successful business combination.

**The Time And Cost Of Preparing A Private Company To Become A Public Reporting Company May Preclude Us From Entering Into A Merger Or Acquisition With The Most Attractive Private Companies.**

Target companies that fail to comply with SEC reporting requirements may delay or preclude acquisition. Sections 13 and 15(d) of the Exchange Act require reporting companies to provide certain information about significant acquisitions, including certified financial statements for the company acquired, covering one, two, or three years, depending on the relative size of the acquisition. The time and additional costs that may be incurred by some target entities to prepare these statements may significantly delay or essentially preclude consummation of an acquisition. Otherwise suitable acquisition prospects that do not have or are unable to obtain the required audited statements may be inappropriate for acquisition so long as the reporting requirements of the Exchange Act are applicable.

**The Company May Be Subject To Further Government Regulation Which Would Adversely Affect Our Operations.**

Although we will be subject to the reporting requirements under the Exchange Act, management believes we will not be subject to regulation under the Investment Company Act of 1940, as amended (the Investment Company Act), since we will not be engaged in the business of investing or trading in securities. If we engage in business combinations which result in our holding passive investment interests in a number of entities, we could be subject to regulation under the Investment Company Act. If so, we would be required to register as an investment company and could be expected to incur significant registration and compliance costs. We have obtained no formal determination from the Securities and Exchange Commission as to our status under the Investment Company Act and, consequently, violation of the Act could subject us to material adverse consequences.

**Any Potential Acquisition Or Merger With A Foreign Company May Subject Us To Additional Risks.**

If we enter into a business combination with a foreign concern, we will be subject to risks inherent in business operations outside of the United States. These risks include, for example, currency fluctuations, regulatory problems, punitive tariffs, unstable local tax policies, trade embargoes, risks related to shipment of raw materials and finished goods across national borders and cultural and language differences. Foreign economies may differ favorably or unfavorably from the United States economy in growth of gross national product, rate of inflation, market development, rate of savings, and capital investment, resource self-sufficiency and balance of payments positions, and in other respects.

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**There Is Currently No Trading Market For Our Common Stock.**

Outstanding shares of our Common Stock cannot be offered, sold, pledged or otherwise transferred unless subsequently registered pursuant to, or exempt from registration under, the Securities Act and any other applicable federal or state securities laws or regulations. These restrictions will limit the ability of our stockholders to liquidate their investment.

**Our Business Will Have No Revenues Unless And Until We Merge With Or Acquire An Operating Business.**

We are a development stage company and have had no revenues from operations. We may not realize any revenues unless and until we successfully merge with or acquire an operating business.

**The Company Intends To Issue More Shares In A Merger Or Acquisition, Which Will Result In Substantial Dilution.**

Our certificate of incorporation authorizes the issuance of a maximum of 100,000,000 shares of common stock and a maximum of 5,000,000 shares of preferred stock. Any merger or acquisition effected by us may result in the issuance of additional securities without stockholder approval and may result in substantial dilution in the percentage of our common stock held by our then existing stockholders. Moreover, the common stock issued in any such merger or acquisition transaction may be valued on an arbitrary or non-arm's-length basis by our management, resulting in an additional reduction in the percentage of common stock held by our then existing stockholders. Our Board of Directors has the power to issue any or all of such authorized but unissued shares without stockholder approval. To the extent that additional shares of Common Stock or Preferred Stock are issued in connection with a business combination or otherwise, dilution to the interests of our stockholders will occur and the rights of the holders of Common Stock might be materially adversely affected.

**The Company Has Conducted No Market Research Or Identification Of Business Opportunities, Which May Affect Our Ability To Identify A Business To Merge With Or Acquire.**

We have neither conducted nor have others made available to us results of market research concerning prospective business opportunities. Therefore, we have no assurances that market demand exists for a merger or acquisition as contemplated by us. Our management has not identified any specific business combination or other transactions for formal evaluation by us, such that it may be expected that any such target business or transaction will present such a level of risk that conventional private or public offerings of securities or conventional bank financing will not be available. There is no assurance that we will be able to acquire a business opportunity on terms favorable to us. Decisions as to which business opportunity to participate in will be unilaterally made by our management, which may act without the consent, vote or approval of our stockholders.

**Because We May Seek To Complete A Business Combination Through A Reverse Merger , Following Such A Transaction We May Not Be Able To Attract The Attention Of Major Brokerage Firms.**

Additional risks may exist since we will assist a privately held business to become public through a reverse merger. Securities analysts of major brokerage firms may not provide coverage of our Company since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will want to conduct any secondary offerings on behalf of our post-merger company in the future.

**We Cannot Assure You That Following A Business Combination With An Operating Business, Our Common Stock Will Be Listed On NASDAQ Or Any Other Securities Exchange.**

Following a business combination, we may seek the listing of our common stock on NASDAQ or the American Stock Exchange. However, we cannot assure you that following such a transaction, we will be able to meet the initial listing standards of either of those or any other stock exchange, or that we will be able to maintain a listing of our common stock on either of those or any other stock exchange. After completing a business combination, until our common stock is listed on the NASDAQ or another stock exchange, we expect that our common stock would be eligible to trade on the OTC Bulletin Board, another over-the-counter quotation system, or on the pink sheets, where our stockholders may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our common stock. In addition, we would be subject to an SEC rule that, if it failed to meet the criteria set forth in such rule, imposes various practice requirements on broker-dealers who sell securities governed by the rule to persons other than established customers and accredited investors. Consequently, such rule may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital following a business combination.

**There Is No Public Market For Our Common Stock, Nor Have We Ever Paid Dividends On Our Common Stock.**

There is no public trading market for our common stock and none is expected to develop in the foreseeable future unless and until we complete a business combination with an operating business and such business files a registration statement under the Securities Act of 1933, as amended.

Additionally, we have never paid dividends on our Common Stock and do not presently intend to pay any dividends in the foreseeable future. We anticipate that any funds available for payment of dividends will be re-invested into the Company to further its business strategy.

**Authorization of Preferred Stock.**

Our Certificate of Incorporation authorizes the issuance of up to 5,000,000 shares of preferred stock with designations, rights and preferences determined from time to time by its Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights which could adversely affect the voting power or other rights of the holders of the common stock. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company. Although we have no present intention to issue any shares of its authorized preferred stock, there can be no assurance that we will not do so in the future.

**Control by Management.**

Management currently owns 100% of all the issued and outstanding capital stock of the Company. Consequently, management has the ability to control the operations of the Company and will have the ability to control substantially all matters submitted to stockholders for approval, including:

Election of the board of directors;

Removal of any directors;

Amendment of the Company's certificate of incorporation or bylaws; and

Adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination.

Our CEO and Director also own 100% of our issued and outstanding common stock. Accordingly, this concentration of ownership by itself may have the effect of impeding a merger, consolidation, takeover or other business consolidation, or discouraging a potential acquirer from making a tender offer for the common stock.

**This Report Contains Forward-Looking Statements And Information Relating To Us, Our Industry And To Other Businesses.**

These forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. When used in this prospectus, the words estimate, project, believe, anticipate, intend, expect and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks and uncertainties that may cause our actual results to differ materially from those contemplated in our forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Description of Property.**

We neither rent nor own any properties. We currently have no policy with respect to investments or interests in real estate, real estate mortgages or securities of, or interests in, persons primarily engaged in real estate activities.

**Item 3. Legal Proceedings.**

There are not presently any material pending legal proceedings to which the Registrant is a party or as to which any of its property is subject, and no such proceedings are known to the Registrant to be threatened or contemplated against it.

**Item 4. Submission of Matters to Vote of Security Holders.**

For the period from the inception of the Company on June 21, 2010 to December 31, 2010 there have been no matters submitted to the vote of the security holders.

**PART II**

**Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.**

**Common Stock**

Our Certificate of Incorporation authorizes the issuance of up to 100,000,000 shares of common stock, par value \$.0001 per share (the Common Stock). The Common Stock is not listed on a publicly-traded market. As of January 17, 2011, there was one holder of record of the Common Stock.

**Preferred Stock**

Our Certificate of Incorporation authorizes the issuance of up to 5,000,000 shares of preferred stock, par value \$.0001 per share (the Preferred Stock). The Company has not yet issued any of its preferred stock.

**Dividends**

We have not paid any dividends on our common stock to date and do not intend to pay dividends prior to the completion of a business combination. The payment of dividends in the future will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition subsequent to completion of a business combination. The payment of any dividends subsequent to a business combination will be within the discretion of our then board of directors. It is the present intention of our board of directors to retain all earnings, if any, for use in our business operations and, accordingly, our board does not anticipate declaring any dividends in the foreseeable future.

### **Securities Authorized for Issuance under Equity Compensation Plans**

The Company does not have any equity compensation plans or any individual compensation arrangements with respect to its common stock or preferred stock. The issuance of any of our common or preferred stock is within the discretion of our Board of Directors, which has the power to issue any or all of our authorized but unissued shares without stockholder approval.

### **Recent Sales of Unregistered Securities**

On June 21, 2010, the Company offered and sold 10,000,000 shares of Common Stock to Richard Chiang, its sole officer and director, in exchange for incorporation fees and annual resident agent fees in the State of Delaware, and developing our business concept and plan. The Company sold these shares of Common Stock under the exemption from registration provided by Section 4(2) of the Securities Act.

We relied upon Section 4(2) of the Securities Act of 1933, as amended for the above issuances. We believed that Section 4(2) was available because:

None of these issuances involved underwriters, underwriting discounts or commissions;

We placed restrictive legends on all certificates issued;



No sales were made by general solicitation or advertising;

Sales were made only to accredited investors

In connection with the above transactions, we provided the following to all investors:

Access to all our books and records.

Access to all material contracts and documents relating to our operations.

The opportunity to obtain any additional information, to the extent we possessed such information, necessary to verify the accuracy of the information to which the investors were given access.

The Company's Board of Directors has the power to issue any or all of the authorized but unissued Common Stock without stockholder approval. The Company currently has no commitments to issue any shares of common stock. However, the Company will, in all likelihood, issue a substantial number of additional shares in connection with a business combination. Since the Company expects to issue additional shares of common stock in connection with a business combination, existing stockholders of the Company may experience substantial dilution in their shares. However, it is impossible to predict whether a business combination will ultimately result in dilution to existing

shareholders. If the target has a relatively weak balance sheet, a business combination may result in significant dilution. If a target has a relatively strong balance sheet, there may be little or no dilution.

### **Issuer Purchases of Equity Securities**

None.

## **Item 6. Selected Financial Data**

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

We were organized as a vehicle to investigate and, if such investigation warrants, acquire a target company or business seeking the perceived advantages of being a publicly held corporation. Our principal business objective for the next 12 months and beyond such time will be to achieve long-term growth potential through a combination with a business rather than immediate, short-term earnings. We will not restrict our potential candidate target companies to any specific business, industry or geographical location and, thus, may acquire any type of business.

We do not currently engage in any business activities that provide cash flow. The costs of investigating and analyzing business combinations for the next 12 months and beyond such time will be paid with amounts to be loaned to or invested in us by our stockholders, management or other investors.

During the next twelve months we anticipate incurring costs related to:

- (i) filing of Exchange Act reports, and
- (ii) costs relating to consummating an acquisition.

We believe we will be able to meet these costs through amounts, as necessary, to be loaned to or invested in us by our stockholders, management or other investors.

We may consider a business which has recently commenced operations, is a developing company in need of additional funds for expansion into new products or markets, is seeking to develop a new product or service, or is an established business which may be experiencing financial or operating difficulties and is in need of additional capital. In the alternative, a business combination may involve the acquisition of, or merger with, a company which does not need substantial additional capital, but which desires to establish a public trading market for its shares, while avoiding, among other things, the time delays, significant expense, and loss of voting control which may occur in a public offering.

Any target business that is selected may be a financially unstable company or an entity in its early stages of development or growth, including entities without established records of sales or earnings. In that event, we will be subject to numerous risks inherent in the business and operations of financially unstable and early stage or potential emerging growth companies. In addition, we may effect a business combination with an entity in an industry characterized by a high level of risk, and, although our management will endeavor to evaluate the risks inherent in a particular target business, there can be no assurance that we will properly ascertain or assess all significant risks.

Our management anticipates that it will likely be able to effect only one business combination, due primarily to our limited financing, and the dilution of interest for present and prospective stockholders, which is likely to occur as a result of our management's plan to offer a controlling interest to a target business in order to achieve a tax-free reorganization. This lack of diversification should be considered a substantial risk in investing in us, because it will not permit us to offset potential losses from one venture against gains from another.

We anticipate that the selection of a business combination will be complex and extremely risky. Because of general economic conditions, rapid technological advances being made in some industries and shortages of available capital,

our management believes that there are numerous firms seeking even the limited additional capital which we will have and/or the perceived benefits of becoming a publicly traded corporation. Such perceived benefits of becoming a publicly traded corporation include, among other things, facilitating or improving the terms on which additional equity financing may be obtained, providing liquidity for the principals of and investors in a business, creating a means for providing incentive stock options or similar benefits to key employees, and offering greater flexibility in structuring acquisitions, joint ventures and the like through the issuance of stock. Potentially available business combinations may occur in many different industries and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex.

We do not currently intend to retain any entity to act as a finder to identify and analyze the merits of potential target businesses.

#### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### **Contractual Obligations**

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### **Item 8. Financial Statements and Supplementary Data.**

Please see the financial statements beginning on page F-1 located elsewhere in this annual report on Form 10-K and incorporated herein by reference.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There are not and have not been any disagreements between the Company and its accountants on any matter of accounting principles, practices or financial statement disclosure.

#### **Item 9A(T). Controls and Procedures.**

##### Evaluation of Disclosure Controls and Procedures

The Company's management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that is designed to ensure that

information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, an evaluation was completed under the supervision and with the participation of the Company's management, including the Company's President, Principal Financial Officer and Secretary, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on that evaluation, the Company's sole officer concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act was recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms.

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### **Evaluation of Internal Controls over Financial Reporting**

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

### **Changes in Internal Controls over Financial Reporting**

There have been no significant changes to the Company's internal controls over financial reporting that occurred during our last fiscal quarter of the year ended December 31, 2010, that materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

### **Item 9B. Other Information.**

Not applicable.

## **PART III**

### **Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.**

(a) Identification of Directors and Officers.

A. Identification of Directors and Officers. The current officers and directors will serve for one year or until their respective successors are elected and qualified. They are:

**Name**

**Age**

**Position(s)**

Richard Chiang

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Chairman of the Board of Directors, Chief Executive Officer, President, Secretary and Treasurer

**Richard Chiang** is the Chairman of the Board of Directors, Chief Executive Officer, President, Secretary and Treasurer of the Company. Mr. Chiang has served as an officer and Director of the Company since June 21, 2010. His business experience is as follows:

**Richard Chiang** has been the Chief Executive Officer, Secretary, Treasurer and Director of the Company since its inception on June 21, 2010. From January 2010 to May 2010 to present, Mr. Chiang works for Redwood Capital, Inc., a financial advisory firm engaged in cross borders transactions in The People's Republic of China, as a Managing Director of private equity. January 2009-January 2010, Mr. Chiang was an Associate Partner of BayPeak LLC, a financial advisor engaged in cross borders transactions in The People's Republic of China. From 2005 to 2009, he was an independent consultant specializing in corporate and securities consulting services for small and medium sized companies. Prior to that he was a licensed National Association of Securities Dealers (NASD) Series 7 Registered Representative and an Associate Director for Bear, Stearns & Co., Inc, from December 1994-November 1998, a Senior Vice President for Cruttenden Roth, Inc. from December 1998-April 1999, and a Vice President for Wedbush

Morgan Securities, Inc. from June 1990-December 1994. His background in the securities industry and knowledge of financial structures provide us with sufficient management experience to serve as our officer and director. entrepreneurial companies.

**B. Significant Employees.**

As of the date hereof, the Company has no significant employees.

**C. Family Relationships.**

There are no family relationships among directors, executive officers, or persons nominated or chosen by the issuer to become directors or executive officers.

**D. Involvement in Certain Legal Proceedings.**

There have been no events under any bankruptcy act, no criminal proceedings and no judgments, injunctions, orders or decrees material to the evaluation of the ability and integrity of any director, executive officer, promoter or control person of Registrant during the past five years.

**Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Exchange Act requires the Company's directors and officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company's securities with the SEC on Forms 3, 4 and 5. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on the Company's review of the copies of the forms received by it during the fiscal year ended December 31, 2010 and written representations that no other reports were required, the Company believes that believes that no person who, at any time during such fiscal year, was a director, officer or beneficial owner of more than 10% of the Company's common stock failed to comply with all Section 16(a) filing requirements during such fiscal years.

**Code of Ethics**

We have not adopted a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions in that our sole officer and director serve in these capacities.

**Nominating Committee**

We have not adopted any procedures by which security holders may recommend nominees to our Board of Directors.

**Audit Committee**

The Board of Directors acts as the audit committee. The Company does not have a qualified financial expert at this time because it has not been able to hire a qualified candidate. Further, the Company believes that it has inadequate financial resources at this time to hire such an expert. The Company intends to continue to search for a qualified individual for hire.

**Item 11. Executive Compensation.**

Our officer and director does not receive any compensation for services rendered to the Company since inception, has not received such compensation in the past, and is not accruing any compensation pursuant to any agreement with the Company. No remuneration of any nature has been paid for or on account of services rendered by a director in such capacity. Our officers and directors intend to devote no more than (25) twenty five hours per week to our affairs.



Our officers and directors will not receive any finder's fee, either directly or indirectly, as a result of any efforts to implement our business plan outlined herein.

It is possible that, after we successfully consummates a business combination with an unaffiliated entity, that entity may desire to employ or retain one or a number of members of our management for the purposes of providing services to the surviving entity. However, we have adopted a policy whereby the offer of any post-transaction employment to members of management will not be a consideration in our decision whether to undertake any proposed transaction.

No retirement, pension, profit sharing, stock option or insurance programs or other similar programs have been adopted for the benefit of its employees.

There are no understandings or agreements regarding compensation our management will receive after a business combination that is required to be included in this table, or otherwise.

#### **Director Compensation**

We do not currently pay any cash fees to our directors, nor do we pay directors' expenses in attending board meetings.

#### **Employment Agreements**

The Company is not a party to any employment agreements.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

(a) Security ownership of certain beneficial owners.

The following table sets forth, as of January 17, 2011, the number of shares of Common Stock owned of record and beneficially by executive officers, directors and persons who hold 5% or more of the outstanding Common Stock of the Company. Also included are the shares held by all executive officers and directors as a group.

**Name and  
Address**

**Amount  
and Nature  
of  
Beneficial  
Ownership**

**Percentage  
of Class**

Richard  
Chiang  
4115  
Blackhawk  
Plaza Circle  
Suite 100  
Danville,  
CA 94506

10,000,000

100%

All Officers  
and  
Directors as  
a group

10,000,000

100%

**Item 13. Certain Relationships and Related Transactions.**

Except as otherwise indicated herein, there have been no related party transactions, or any other transactions or relationships required to be disclosed pursuant to Item 404 of Regulation S-K.

**Item 14. Principal Accounting Fees and Services.**

Stan J.H. Lee, CPA ( SJHL ) is the Company s independent registered public accounting firm.

**Audit Fees**

The firm of SJHL acts as our principal accountant. Our sole officer and director, Mr. Richard Chiang, paid \$2650 on our behalf to SJHL during the period from June 21, 2010 (inception) to December 31, 2010 for its audit of our financial statements which were included in our Form 10-12G filed with the United States Securities and Exchange Commission on September 8, 2010, and as amended on October 15, 2010, November 9, 2010 and November 29, 2010.

**Tax Fees**

There were no fees billed by SJHL for professional services for tax compliance, tax advice, and tax planning for the fiscal year ended December 31, 2010.

**All Other Fees**

There were no fees billed by SJHL for other products and services for the fiscal year ended December 31, 2010.

**Audit Committee s Pre-Approval Process**

The Board of Directors acts as the audit committee of the Company, and accordingly, all services are approved by all the members of the Board of Directors.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

**(a) Exhibits:**

Exhibit No.

Description

3.1\*

Certificate of Incorporation

3.2\*

By-laws

31.1

Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010

31.2

Certification of the Company's Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010

32.1

Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

32.2

Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

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\* Filed as an exhibit to the Company's registration statement on Form 10-12G, as filed with the United States Securities and Exchange Commission on September 8, 2010 and incorporated herein by this reference.

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**(b) The following documents are filed as part of the report:**

1. Financial Statements: Balance Sheet, Statement of Operations, Statement of Stockholder's Equity, Statement of Cash Flows, and Notes to Financial Statements.

We are an inactive entity as defined by Section 3-11 of Regulation S-X. Accordingly, the financial statements required for purposes of reports pursuant to the Securities Exchange Act of 1934 are unaudited.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**APEX 1, INC.**

Dated: January 17, 2011

By:

/s/ Richard Chiang

Richard Chiang

President and Director

Principal Executive Officer

Principal Financial Officer

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**Title**

**Date**

/s/ Richard  
Chiang

Richard  
Chiang

President,  
Secretary,  
Chief

January  
17, 2011

Financial  
Officer  
and Sole  
Director



**APEX 1 INC.**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2010**  
**AND FOR THE PERIOD FROM JUNE 21, 2010**  
**(DATE OF INCEPTION) TO DECEMBER 31, 2010**

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Changes in  
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(June 21

2010)  
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December  
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Stan J.H. Lee, CPA

2160 North Central Rd. Suite 203 tFort Lee t NJ 07024

P.O. Box 436402 t San Diego t CA 92143-9402

619-623-7799 tFax 619-564-3408 t E-mail) stan2u@gmail.com

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
APEX 1, Inc.  
(A Development Stage Company)

We have audited the accompanying balance sheet of APEX 1, Inc. as of December 31, 2010 and the related statements of operation, changes in shareholders' equity and cash flows for the period from June 21, 2010 (inception) to December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of APEX 1, Inc. as of December 31, 2010 and the results of its operation and its cash flows for the period from June 21, 2010( inception) to December 31, 2010 in conformity with U.S. generally accepted accounting principles.

The financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the note to the financial statements, the Company's lack of liquidity and losses from operations raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Stan J.H. Lee, CPA

Stan J.H. Lee, CPA  
Fort Lee, NJ 07024  
February 1, 2011

Registered with the Public Company Accounting Oversight Board  
Member of New Jersey Society of Certified Public Accountants

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**APEX 1, Inc.**

**(A  
DEVELOPMENT  
STAGE  
COMPANY)**

**BALANCE  
SHEET**

December 31, 2010

(Audited)

ASSETS

Current Assets:

Cash

\$

-

Total Current Assets

-

Total Assets

\$

-

LIABILITIES AND  
STOCKHOLDERS'  
DEFICIT

Current Liabilities:

-

Accrued expenses

\$

1,000

Advance from a  
related party

3,457

Total Current  
Liabilities

4,457

Total Liabilities

4,457

Stockholders'  
Deficit

Preferred stock,  
\$0.001 par value,  
5,000,000 shares  
authorized

none issued and  
outstanding

\$

-

Common stock,  
\$0.001 par value,  
100,000,000 shares  
authorized

10,000,000 issued  
and outstanding as  
of December 31,  
2010

1,000

Deficit  
accumulated during  
development stage

(5,457)

Total Stockholders'  
Deficit

(4,457)

Total Liabilities  
and Stockholders'  
Deficit

\$



See notes to  
financial statements

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**APEX 1, Inc.**  
**(A DEVELOPMENT  
STAGE COMPANY)**  
**STATEMENTS OF  
OPERATIONS**

From June 21, 2010  
(inception) to

December 31, 2010

Revenues

\$

-

Operating Expenses

1,447

5,120,698

Interest on Mortgage Notes Payable

1,413,621

1,592,895

Interest on Notes Payable to Banks

19,649

15,947

Interest on Notes Payable and Advances to Related Parties

7,863

100,411

Interest on Other Notes  
Payable

12,800

20,454

TOTAL INTEREST  
EXPENSE

1,453,933

1,729,707

INCOME (LOSS) BEFORE  
MINORITY INTEREST,  
INCOME TAXES AND  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE

(1,117,046

)

3,427,738

LESS MINORITY  
INTEREST

(656,670

)

1,717,046

INCOME (LOSS)  
ATTRIBUTABLE TO  
SHARES OF BENEFICIAL  
INTEREST BEFORE  
INCOME TAXES AND  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE

\$

(460,376

)

1,710,692

INCOME TAX PROVISION  
(Note 7)

(89,175

)

(52,000

)

CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE

(854,402  
)

INCOME (LOSS)  
ATTRIBUTABLE TO  
SHARES OF BENEFICIAL  
INTEREST

\$  
(549,551  
)

804,290

NET INCOME (LOSS) PER  
SHARE BEFORE  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE  
- BASIC

\$  
(0.06  
)

0.72

NET LOSS FROM  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE  
- BASIC

(0.37

)

NET INCOME (LOSS) PER  
SHARE - BASIC

\$

(0.06

)

0.35

WEIGHTED AVERAGE  
NUMBER OF SHARES  
OUTSTANDING - BASIC

9,064,272

2,291,003

NET INCOME (LOSS) PER  
SHARE BEFORE  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE  
- DILUTED

\$

(0.06

)

0.39

NET LOSS FROM  
CUMULATIVE EFFECT  
OF ADOPTION OF  
ACCOUNTING PRINCIPLE  
- DILUTED

(0.11

)

NET INCOME (LOSS) PER  
SHARE - DILUTED

\$

(0.06

)

0.28

WEIGHTED AVERAGE  
NUMBER OF SHARES  
OUTSTANDING -  
DILUTED

9,064,077

8,005,450

See accompanying notes to unaudited  
consolidated financial statements





INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED OCTOBER 31,	
	2005	2004
<b>REVENUE</b>		
Room	\$ 3,382,957	3,680,952
Food and Beverage	251,952	306,514
Telecommunications	11,534	24,623
Other	103,424	191,648
Management and Trademark Fees, including \$56,149 and \$20,084 from related parties, respectively	106,311	84,539
Payroll Reimbursements, including \$644,094 and \$587,788 from related parties, respectively	841,980	774,315
<b>TOTAL REVENUE</b>	<b>4,698,158</b>	<b>5,062,591</b>
<b>OPERATING EXPENSES</b>		
Room	964,435	1,158,758
Food and Beverage	286,785	300,364
Telecommunications	26,667	59,131
General and Administrative	738,171	825,317
Sales and Marketing	334,646	378,241
Repairs and Maintenance	385,413	328,245
Hospitality	144,530	195,149
Utilities	323,132	324,575
Hotel Property Depreciation	526,641	666,041
Real Estate and Personal Property Taxes, Insurance and Ground Rent	274,187	315,222
Other	48,015	21,215
Payroll Expenses	841,980	774,315
<b>TOTAL OPERATING EXPENSES</b>	<b>4,894,602</b>	<b>5,346,573</b>
<b>OPERATING LOSS</b>	<b>(196,444)</b>	<b>(283,982)</b>
Interest Income	574	518
<b>TOTAL OTHER INCOME</b>	<b>574</b>	<b>518</b>
Interest on Mortgage Notes Payable	431,670	496,280
Interest on Notes Payable to Banks	9,235	4,614
Interest on Notes Payable and Advances to Related Parties	2,676	10,831
Interest on Other Notes Payable	4,482	6,943
<b>TOTAL INTEREST EXPENSE</b>	<b>448,063</b>	<b>518,668</b>
<b>LOSS BEFORE MINORITY INTEREST AND INCOME TAXES</b>	<b>(643,933)</b>	<b>(802,132)</b>
<b>LESS MINORITY INTEREST</b>	<b>(279,440)</b>	<b>(404,630)</b>
<b>LOSS ATTRIBUTABLE TO SHARES OF BENEFICIAL INTEREST BEFORE INCOME TAXES</b>	<b>(364,493)</b>	<b>(397,502)</b>
<b>INCOME TAX PROVISION (Note 7)</b>	<b>(7,175)</b>	<b>57,000</b>
<b>LOSS ATTRIBUTABLE TO SHARES OF BENEFICIAL INTEREST</b>	<b>\$ (371,668)</b>	<b>(340,502)</b>
<b>NET LOSS PER SHARE BASIC AND DILUTED</b>	<b>\$ (0.04)</b>	<b>(0.14)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC AND DILUTED</b>	<b>9,209,205</b>	<b>2,351,342</b>

See accompanying notes to unaudited  
consolidated financial statements



INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE NINE MONTHS ENDED OCTOBER 31,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Loss) Income Attributable to Shares of Beneficial Interest	\$ (549,551)	804,290
Adjustments to Reconcile Net (Loss) Income Attributable to Shares of Beneficial Interest to Net Cash Provided By (Used In) Operating Activities:		
Cumulative Effect of Adoption of Accounting Principle		854,402
Minority Interest	(656,670)	1,408,700
Net Income from Variable Interest Entity		308,347
Issuance of Shares for Variable Interest Entity		155,000
Provision for Uncollectible Receivables	312,697	184,082
Depreciation and Amortization	1,597,944	2,105,469
Gain (Loss) on Disposal	12,146	(5,135,422)
Changes in Assets and Liabilities, net of effect of consolidation of Suite Hospitality Management and InnSuites Licensing Corp:		
(Increase) Decrease in Accounts Receivable	46,751	(169,088)
Decrease (Increase) in Prepaid Expenses and Other Assets	(88,703)	13,630
(Decrease) in Accounts Payable and Accrued Expenses	(320,915)	(1,162,625)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>353,699</b>	<b>(633,215)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in Restricted Cash	8,000	4,672
Cash Received from Disposition of Hotel Properties	1,190,192	9,612,137
Improvements and Additions to Hotel Properties	(808,389)	(864,213)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>389,803</b>	<b>8,752,596</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Mortgage Notes Payable	(725,032)	(5,838,082)
Payments on Notes Payable to Banks	(1,797,000)	(720,000)
Borrowings on Notes Payable to Banks	1,597,000	500,000
Repurchase of Partnership Units	(774)	(453,223)
Repurchase of Treasury Stock	(26,759)	(62,997)
Payments on Notes and Advances Payable to Related Parties	(29,896)	(1,660,056)
Borrowings on Notes and Advances Payable to Related Parties	400,000	398,000
Payments on Other Notes Payable	(67,621)	(89,172)
Distribution to Owners from Variable Interest Entities		(85,683)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(650,082)</b>	<b>(8,011,213)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>93,420</b>	<b>108,168</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,343</b>	
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 94,763</b>	<b>108,168</b>

See Supplemental Disclosures at Note 5

See accompanying notes to unaudited  
consolidated financial statements



INNSUITES HOSPITALITY TRUST AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE NINE MONTHS ENDED OCTOBER 31, 2005 AND 2004

I. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

InnSuites Hospitality Trust (the Trust) is an unincorporated real estate investment trust in the State of Ohio that at October 31, 2005 owned, through a partnership interest in RRF Limited Partnership (the Partnership), four hotels and one hotel directly (the Hotels) with an aggregate of 843 suites in Arizona, southern California and New Mexico. The Trust is the sole general partner in the Partnership. The Hotels are managed by InnSuites Hotels, Inc. (InnSuites Hotels), which is a wholly-owned subsidiary of the Trust.

InnSuites Hotels holds management contracts under which it provides hotel management services to the Hotels, as well as four hotels with an aggregate of 544 suites owned by affiliates of James F. Wirth (Wirth) and one unrelated hotel property with 131 suites. Under the management agreements, InnSuites Hotels provides the personnel at the hotels, the expenses of which are reimbursed at cost, and manages the hotels' daily operations. All such expenses and reimbursements between InnSuites Hotels and the Partnership have been eliminated in consolidation. InnSuites Hotels also holds licensing agreements and the InnSuites trademarks and provides licensing services to the Hotels, as well as the four hotels owned by affiliates of Wirth with an aggregate of 544 suites and two unrelated hotel properties with an aggregate of 305 suites. All such expenses and reimbursements between InnSuites Hotels and the Partnership have been eliminated in consolidation.

The Trust's general partnership interest in the Partnership was 69.08% and 57.18% on October 31, 2005 and 2004, respectively, and the weighted average for the nine months ended October 31, 2005 and 2004 was 67.45% and 56.65%, respectively. The weighted average for the three months ended October 31, 2005 and 2004 was 68.71% and 57.18%, respectively.

PARTNERSHIP AGREEMENT

The Partnership Agreement of the Partnership (the Partnership Agreement) provides for the issuance of two classes of limited partnership units, Class A and Class B. Such classes are identical in all respects, except that each Class A limited partnership unit is convertible into a like number of Shares of Beneficial Interest of the Trust at any time at the option of the particular limited partner. As of October 31, 2005, a total of 677,249 Class A limited partnership units were issued and outstanding. Additionally, a total of 3,407,938 Class B limited partnership units were held by Wirth and his affiliates on that date, in lieu of the issuance of Class A limited partnership units. Each Class B limited partnership unit is convertible only with the approval of the Board of Trustees, in its sole discretion. As of October 31, 2005, 1,160,000 Class B limited partnership units had been converted into Shares of Beneficial Interest. If all of the Class A and B limited partnership units were converted, the limited partners in the Partnership would receive 4,085,187 Shares of Beneficial Interest of the Trust.

BASIS OF PRESENTATION

The financial statements of the Partnership, InnSuites Hotels and Yuma Hospitality LP are consolidated with the Trust, and all significant intercompany transactions and balances have been eliminated. For the nine months ended October 31, 2004, financial results of Suite Hospitality Management, Inc. (the Management Company) and InnSuites Licensing Corp. (Licensing Corp.) are consolidated with the

## Edgar Filing: APEX 1, INC. - Form 10-K

Trust in compliance with Financial Accounting Standards Board Interpretation No. 46R ( FIN 46R ), and all significant intercompany transactions and balances have been eliminated. As of June 8, 2004, when the Trust acquired the management and licensing agreements, the Management Company and Licensing Corp. no longer met the criteria to be considered variable interest entities under FIN 46R and have not been consolidated subsequent to June 8, 2004.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended October 31, 2005 are not necessarily indicative of the results that may be expected for the year ended January 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Trust's Annual Report on Form 10-K as of and for the year ended January 31, 2005.

## RECLASSIFICATIONS

The Trust has reclassified certain balances on the January 31, 2005 balance sheet to conform to the October 31, 2005 presentation of a classified balance sheet. The reclassifications had no effect on net income or total shareholders' equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### USE OF ESTIMATES

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

The accounting policies that the Trust believes are most critical and involve the most subjective judgments include estimates and assumptions of future revenue and expenditures used to project cash flows. Future cash flows are used to determine the recoverability (or impairment) of the carrying values of the Trust's assets in the event management is required to test an asset for recoverability of carrying value under Statement of Financial Accounting Standards No. 144. If the carrying value of an asset exceeds the estimated future undiscounted cash flows over its estimated remaining life, the Trust recognizes an impairment expense to reduce the asset's carrying value to its fair value. Fair value is determined by either the most current third-party property appraisal, if available, or the present value of future undiscounted cash flows over the remaining life of the asset. The Trust's evaluation of future cash flows is based on historical experience and other factors, including certain economic conditions and committed future bookings. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows.

### REVENUE RECOGNITION

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

### EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share have been computed based on the weighted-average number of shares outstanding during the periods and potentially dilutive securities.

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For the nine months ended October 31, 2005 and 2004, there were Class A and Class B limited partnership units outstanding, which are convertible to Shares of Beneficial Interest of the Trust. Assuming conversion, the aggregate weighted-average of these Shares of Beneficial Interest would be 4,300,150 and 5,714,447 for the first nine months of fiscal year 2006 and 2005, respectively.

For the nine months ended October 31, 2004, 243,600 stock options are not included in the computation of diluted earnings (loss) per share as their inclusion would have an anti-dilutive effect because the option exercise prices were higher than the average market price of the Trust's Shares of Beneficial Interest. As of October 31, 2005, the Trust has no stock options outstanding. During the second quarter of fiscal year of 2006, the Trust accepted the voluntary surrender of all outstanding stock options. The options were surrendered in order to reduce costs and simplify the Trust's reporting and compliance obligations to the Securities and Exchange Commission and the American Stock Exchange. The Trust made no payments to the holders of the options for their surrender. The Trust has no obligation, explicit or implied, for the surrender of the options, including but not limited to the reissuance of options at some time in the future.

### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28*. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle (unless a different method is prescribed by the new standard) and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on Trust's financial position or results of operations.



## 3. RELATED PARTY TRANSACTIONS

As of October 31, 2005 and 2004, Wirth and his affiliates held 3,407,938 and 4,467,938 Class B limited partnership units in the Partnership, respectively. As of October 31, 2005 and 2004, Wirth and his affiliates held 5,832,866 and 610,563 Shares of Beneficial Interest of the Trust, respectively.

The Trust paid interest on related party notes to Wirth and his affiliates in the amounts of \$8,905 and \$418,189 (most of which was accrued in prior periods) for the nine months ended October 31, 2005 and 2004, respectively. The Trust recognized interest expense on related party notes to Wirth and his affiliates in the amounts of \$3,701 and \$100,411 for the nine months ended October 31, 2005 and 2004, respectively. The Trust had accrued but unpaid interest on related party notes to Wirth and his affiliates in the amounts of \$1,478 and \$6,682 as of October 31, 2005 and January 31, 2005, respectively.

The Trust recognized interest expense on other related party notes in the amounts of \$4,162 and \$0 for the nine months ended October 31, 2005 and 2004, respectively, which was paid during the same time periods. The Trust had no unpaid interest on these notes as of October 31, 2005 and January 31, 2005.

Notes and advances payable to related parties at October 31, 2005 and January 31, 2005 consist of notes payable to Rare Earth Financial, LLC, an affiliate of Wirth and notes payable to Mason Anderson, Trustee of the Trust, and his affiliates to repurchase Shares of Beneficial Interest in the Trust. As of August 25, 2005, Mr. Anderson was replaced on the Board of Trustees. The aggregate amounts outstanding were approximately \$464,000 and \$94,000 as of October 31, 2005 and January 31, 2005, respectively. The notes and advances payable to related parties consist of:

	October 31, 2005	January 31, 2005
Note payable to The Anderson Charitable Remainder Unitrust, an affiliate of Mason Anderson, Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$2,408 through September 2005.	\$	\$ 18,771
Note payable to Wayne Anderson, son of Mason Anderson, Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$574 through June 2009.	22,227	26,114
Note payable to Karen Anderson, daughter of Mason Anderson, Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$574 through June 2009.	22,227	26,115
Note payable to Kathy Anderson, daughter of Mason Anderson, Trustee of the Trust, bearing interest at 7% per annum, and secured by Shares of Beneficial Interest in the Trust. Due in monthly principal and interest payments of \$495 through June 2009.	19,162	22,512
Note payable to Rare Earth Financial, LLC, affiliate of Wirth, bearing interest at 7% per annum, and secured by the Partnership's ownership interest in Tucson St. Mary's Hospitality LLC. Due in one payment of principal and accrued interest in April 2006.	400,000	

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Totals	\$	463,616	\$	93,512
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On July 28, 2005, the Trust sold its Phoenix, Arizona property to an affiliate of Wirth. (See Note 6 - Sale of Hotel Property. )

4. NOTES PAYABLE TO BANKS

The Trust has a bank line of credit secured by a security agreement, business loan agreement and commercial guaranty of the Partnership, all dated July 21, 2004. The line of credit is secured by the assets of the Trust alone, which is comprised mainly of its investment in its subsidiaries. Under the terms of the line of credit, the Trust can draw up to \$500,000, bearing interest at prime plus 1.0% (7.75% as of October 31, 2005) per annum, and is required to make monthly interest-only payments. The line of credit was scheduled to mature on September 20, 2005 but that maturity date has been extended on an interim basis by the lender, pending documentation of the line of credit's new maturity date.

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The Trust expects to receive documentation evidencing its agreement with the lender to extend the maturity date until May 31, 2006 by mid-December. As of October 31, 2005, the Trust had an outstanding balance of \$300,000 under the line of credit.

### 5. STATEMENTS OF CASH FLOWS, SUPPLEMENTAL DISCLOSURES

The Trust paid \$1,452,356 and \$2,036,788 in cash for interest for the nine months ended October 31, 2005 and 2004, respectively.

During the first quarter of fiscal year 2005, the Trust issued five promissory notes totaling \$971,831 to Wirth and his affiliates in exchange for 433,036 Class B limited partnership units in the Partnership.

During the first quarter of fiscal year 2005, the Trust issued two promissory notes totaling \$166,000 to unrelated third parties in exchange for 91,409 Class A limited partnership units in the Partnership.

During the first quarter of fiscal year 2005, an affiliate of Wirth assumed the Trust's \$1.7 million mortgage note payable secured by its Tempe, Arizona property and \$5.1 million of related party notes payable by the Trust in connection with the sale of the Tempe, Arizona property.

For purposes of preparing the Trust's Unaudited Consolidated Statements of Cash Flows for the first six months of fiscal year 2005, the following adjustments were made to the January 31, 2004 balances of certain assets and liabilities as a result of the consolidation of the financial results of the Management Company and Licensing Corp. with the financial results of the Trust:

Accounts Receivable	\$	120,705
Prepays and Other Assets	\$	2,515
Accounts Payable and Accrued Expenses	\$	214,526
Notes Payable to Banks	\$	720,000
Other Notes Payable	\$	43,026

During the first quarter of fiscal year 2005, the Trust reduced the principal balance of its note payable to Hulsey Hotels Corporation, an affiliate of Wirth, by \$11,427 to offset receivables in the same amount that were owed to the Trust by other entities affiliated with Wirth.

During the first quarter of fiscal year 2005, J.R. Chase, the sole shareholder of the Management Company, agreed to transfer 32,363 Shares of Beneficial Interest to the Management Company in order to facilitate the Management Company's acquisition of Licensing Corp. from Wirth. In consideration of the transfer of those Shares of Beneficial Interest, the Management Company agreed to pay Mr. Chase \$72,817. The Management Company fully satisfied this obligation during June 2004.

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During the first quarter of fiscal year 2005, the Trust issued 30,800 Shares of Beneficial Interest with an aggregate value of \$49,280 to its Trustees and an officer in exchange for services rendered.

During the first quarter of fiscal year 2005, the Trust recorded an increase in its hotel properties carrying values in the aggregate amount of \$98,684 which reflected the excess of the amount paid by the Trust to purchase limited partnership units in the Partnership from minority interest holders over the book value of such purchased units.

During the second quarter of fiscal year 2005, the Trust recorded an increase in its hotel properties carrying values in the aggregate amount of \$3,299 which reflected the excess of the amount paid by the Trust to purchase limited partnership units in the Partnership from minority interest holders over the book value of such purchased units.

During the second quarter of fiscal year 2005, the Trust issued 100,000 Shares of Beneficial Interest to acquire the management and license agreements from the Management Company, reflecting a transaction value of \$155,000.

During the third quarter of fiscal year 2005, the Trust issued a promissory note in the principal amount of \$2,435 to an unrelated third party in exchange for 1,623 Shares of Beneficial Interest in the Trust.

During the first quarter of fiscal year 2006, the Trust issued 29,600 Shares of Beneficial Interest with an aggregate value of \$37,888 to its Trustees and an officer in exchange for services rendered.

During the first quarter of fiscal year 2006, the Trust issued 322,242 Shares of Beneficial Interest with an

aggregate value of \$406,025 in exchange for 322,242 Class A limited partnership units in the Partnership held by unrelated third parties.

During the second quarter of fiscal year 2006, the Trust issued 74,545 Shares of Beneficial Interest with an aggregate value of \$91,690 in exchange for 74,545 Class A limited partnership units in the Partnership held by unrelated third parties.

During the second quarter of fiscal year 2006, the Trust issued 60,000 Shares of Beneficial Interest with an aggregate value of \$85,800 in exchange for 60,000 Class B limited partnership units in the Partnership held by unrelated third parties.

During the second quarter of fiscal year 2006, the Trust issued a promissory note in the principal amount of \$52,000 to an unrelated third party in exchange for 30,000 Class A limited partnership units in the Partnership.

During the third quarter of fiscal year 2006, the Trust issued promissory notes in the principal amount of \$26,500 to an unrelated third party in exchange for 13,668 Class A limited partnership units in the Partnership and 5,324 Shares of Beneficial Interest in the Trust.

## 6. SALE OF HOTEL PROPERTY

On July 28, 2005, the Trust sold its Phoenix, Arizona hotel to Phoenix Northern Resort LLC, an affiliate of Wirth, for its appraised value of \$5.1 million. The buyer satisfied the purchase price by assuming the Trust's \$3.2 million mortgage note payable secured by the property, paying \$1.7 million in cash prior to the closing, and paying \$192,000 in cash at the closing. The total gain on the sale in the amount of \$1.8 million was recorded as a capital contribution due to the relationship between Wirth and the Trust. This capital contribution had a positive net effect on the Trust's shareholders' equity of \$1.3 million, which is net of the 30.9% minority interest in the Phoenix, Arizona hotel property.

## 7. INCOME TAXES

The Trust has recorded income tax provisions of \$89,000 and \$52,000 for the nine months ended October 31, 2005 and 2004, respectively. The Trust has a net deferred tax asset of \$170,000 at both October 31, 2005 and January 31, 2005. The Trust has a current income tax liability of \$249,000 and \$330,000 as of October 31, 2005 and January 31, 2005, respectively.

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

GENERAL

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

The Trust owns the sole general partner's interest in the Partnership. The Trust's principal source of cash flows is the operations of the Hotels and management and licensing contracts held with affiliated and third-party hotels outside the Trust.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle (unless a different method is prescribed by the new standard) and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on Trust's financial position or results of operations.

RESULTS OF OPERATIONS

The expenses of the Trust consist primarily of property taxes, insurance, corporate overhead, interest on mortgage debt, professional fees, depreciation of the Hotels and hotel operating expenses. The operating performance of the Trust is principally related to the performance of the Hotels. Therefore, management believes that a review of the historical performance of the operations of the Hotels, particularly with respect to occupancy, calculated as rooms sold divided by the number of rooms available, average daily rate (ADR), calculated as total room revenue divided by number of rooms sold, and revenue per available room (REVPAR), calculated as total room revenue divided by the total number of rooms available, is appropriate for understanding revenue from the Hotels. Occupancy improved to 69.1%, an increase of 0.5% from the prior year period. ADR increased \$0.70 to \$71.60 from \$70.90 in the prior year period. REVPAR increased \$0.85 to \$49.46 from \$48.61 in the prior year period due to the increased occupancy and ADR.

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

	FOR THE NINE MONTHS ENDED OCTOBER 31,	
	2005	2004
OCCUPANCY	69.1%	68.6%

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AVERAGE DAILY RATE (ADR)	\$	71.60	70.90
REVENUE PER AVAILABLE ROOM (REVPAR)	\$	49.46	48.61

No assurance can be given that the trends reflected in this data will continue or that occupancy, ADR or REVPAR will not decrease as a result of changes in national or local economic or hospitality industry conditions.

RESULTS OF OPERATIONS OF THE TRUST FOR THE NINE MONTHS ENDED OCTOBER 31, 2005 COMPARED TO THE NINE MONTHS ENDED OCTOBER 31, 2004

A summary of the operating results for the nine months ended October 31, 2005 and 2004 is:

	2005	2004	Change	% Change
Revenue	\$ 16,124,371	\$ 17,352,109	\$ (1,227,738)	(7.1)%
Operating Income	\$ 335,440	\$ 36,747	\$ 298,693	>100.0%
Gain on Disposition of Hotels	\$	\$ 5, 113,540	\$ (5, 113,540)	(100.0)%
Loss from Cumulative Effect of Adoption of Accounting Principle	\$	\$ (854,402)	\$ 854,402	100.0%
Net Income (Loss) Attributable to Shares of Beneficial Interest	\$ (549,551)	\$ 804,290	\$ (1,353,841)	>(100.0)%
Net Income (Loss) Per Share - Basic	\$ (0.06)	\$ 0.35	\$ (0.41)	>(100.0)%
Net Income (Loss) Per Share - Diluted	\$ (0.06)	\$ 0.28	\$ (0.34)	>(100.0)%

Total Trust revenue decreased \$1.2 million, or 7.1%, to \$16.1 million from \$17.4 million when comparing the nine months ended October 31, 2005 and 2004, respectively. The decrease was primarily due to the disposition of the Tempe, Arizona and San Diego, California properties during the first quarter of fiscal year 2005.

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These properties resulted in \$905,000 in total revenues reported in the consolidated Trust financials for the nine months ended October 31, 2004. The disposition of the Phoenix, Arizona property during the second quarter of fiscal year 2006 accounted for \$244,000 of the decrease. Revenues from hotel operations, which include Room, Food and Beverage, Telecommunications and Other revenues, decreased \$1.4 million, or 9.2%, due primarily to the dispositions discussed above.

Total expenses decreased \$1.8 million, or 9.5%, to \$17.2 million from \$19.0 million when comparing the nine months ended October 31, 2005 and 2004. Total operating expenses decreased \$1.5 million, or 8.8%, to \$15.8 million from \$17.3 million for the nine months ended October 31, 2005 and 2004, respectively. The decrease was primarily due to the disposition of the Tempe, Arizona and San Diego, California properties during the first quarter of fiscal year 2005, which resulted in \$574,000 of reduced expenses and reduced depreciation expenses due to a large portion of the Trust's assets becoming fully depreciated at the end of fiscal year 2005 and the cessation of depreciation on the Phoenix, Arizona hotel in the first six months of fiscal year 2006, as it was classified as held for sale.

General and administrative expenses for the nine months ended October 31, 2005 decreased \$95,000, or 3.0%, to \$3.0 million from \$3.1 million in the prior year period. This is primarily due to the disposition of the Phoenix, Arizona hotel during the second quarter of fiscal year 2006, which accounts for \$84,000 of the decrease in these expenses.

Hotel property depreciation decreased \$506,000, or 24.4%, to \$1.6 million from \$2.1 million when comparing the nine months ended October 31, 2005 and 2004, respectively. The decrease was primarily due to a large portion of the Trust's assets becoming fully depreciated at the end of fiscal year 2005 and the cessation of depreciation on the Phoenix, Arizona hotel in the first six months of fiscal year 2006, as it was classified as held for sale.

Total interest expense decreased \$276,000, or 15.9%, to \$1.5 million from \$1.7 million when comparing the nine months ended October 31, 2005 and 2004, respectively. Interest on mortgage notes payable decreased \$179,000, or 11.3%, due to the sale of properties discussed above. Interest on notes payable and advances payable to related parties decreased \$93,000, or 92.2%, to \$8,000 from \$100,000 when comparing the nine months ended October 31, 2005 and 2004, respectively, due to the reduction of debt owed to related parties in connection with the sales of the Tempe, Arizona and San Diego, California properties.

On July 28, 2005, the Trust sold its Phoenix, Arizona hotel to Phoenix Northern Resort LLC, an affiliate of Wirth, for its appraised value of \$5.1 million. The buyer satisfied the purchase price by assuming the Trust's \$3.2 million mortgage note payable secured by the property, paying \$1.7 million in cash prior to the closing, and paying \$192,000 in cash at the closing. In accordance with U.S. generally accepted accounting principles, the total gain on the sale of \$1.8 million was recorded as a capital contribution to the Trust due to the relationship between Wirth and the Trust. This capital contribution had a positive net effect on the Trust's shareholders' equity in the amount of \$1.3 million. If the sale were to an unaffiliated party, the Trust would have recorded a gain on disposition in the amount of \$1.2 million, or \$0.14 per basic share, for the nine months ended October 31, 2005. Such a transaction would have increased the Trust's earnings per share from a loss of \$(0.06) to income of \$0.08.

### RESULTS OF OPERATIONS OF THE TRUST FOR THE THREE MONTHS ENDED OCTOBER 31, 2005 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2004

A summary of the operating results for the three months ended October 31, 2005 and 2004 is:



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	2005		2004		Change	% Change
Revenue	\$ 4,698,158	\$	5,062,591	\$	(364,433)	(7.2)%
Operating Loss	\$ (196,444)	\$	(283,982)	\$	87,538	30.8%
Net Loss Attributable to Shares of Beneficial Interest	\$ (371,668)	\$	(340,502)	\$	(31,166)	(9.2)%
Net Loss Per Share Basic and Diluted	\$ (0.04)	\$	(0.14)	\$	0.10	71.4%

Total Trust revenue was \$4.7 million for the three months ended October 31, 2005, a decrease of \$364,000, or 7.2%, from the prior year total. The decrease is primarily due to the disposition of the Phoenix, Arizona property during the second quarter of fiscal year 2006, which accounted for a \$244,000 decrease in revenues in the third quarter. Revenues from hotel operations, which include Room, Food and Beverage, Telecommunications and Other revenues, decreased 10.8% to \$3.7 million from \$4.2 million when comparing the three months ended October 31, 2005 and 2004, respectively, primarily due to the reasons stated above.

Total expenses decreased \$523,000, or 8.9%, to \$5.3 million from \$5.9 million when comparing the three months ended October 31, 2005 and 2004. Total operating expenses decreased \$452,000, or 8.5%, to \$4.9 million from \$5.3 million for three months ended October 31, 2005 and 2004, respectively. The decreases in these totals is primarily due to the disposition of the Phoenix, Arizona hotel and lower revenue at the hotels.

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General and administrative expenses decreased \$87,000, or 10.6%, to \$738,000 from \$825,000 when comparing the three months ended October 31, 2005 and 2004, respectively. This is primarily due to the disposition of the Phoenix, Arizona hotel during the second quarter of fiscal year 2006, which accounts for \$84,000 of the decrease in these expenses.

Hotel property depreciation decreased \$139,000, or 20.9%, to \$527,000 from \$666,000 when comparing the three months ended October 31, 2005 and 2004, respectively. The decrease was primarily due to a large portion of the Trust's assets becoming fully depreciated at the end of fiscal year 2005.

Total interest expense was \$448,000 for the three months ended October 31, 2005, a decrease of \$71,000, or 13.6%, from the prior year period total of \$519,000. The decrease was primarily due to the disposition of the Phoenix, Arizona property in the second quarter of fiscal year 2006, which reduced mortgage interest expense by \$70,000 in the third quarter.

### LIQUIDITY AND CAPITAL RESOURCES

Through its ownership interest in the Partnership, Yuma Hospitality LP and InnSuites Hotels, the Trust has its proportionate share of the benefits and obligations of the Partnership's and Yuma Hospitality LP's ownership interests, as well as InnSuites Hotels' operational interests, in the Hotels. The Trust's principal source of cash to meet its cash requirements, including distributions to its shareholders, is its share of these cash flows. The Trust's liquidity, including its ability to make distributions to its shareholders, will depend upon the ability to generate sufficient cash flows from Hotel operations.

The Trust has principal of \$206,928 due and payable for the remainder of fiscal year 2006 under mortgage notes payable. For the twelve months between November 1, 2005 and October 31, 2006, the Trust has principal of \$794,603 due and payable under mortgage notes payable. The Trust anticipates that cash flows from operations will be sufficient to satisfy these obligations as they become due.

The Trust has no principal due and payable in fiscal year 2006 under notes and advances payable to Wirth and his affiliates. For the twelve months between November 1, 2005 and October 31, 2006, the Trust has principal of \$400,000 due and payable under notes payable to Wirth and his affiliates.

The Trust expects to extend the maturity date of its line of credit to May 31, 2006. The Trust anticipates that, if necessary, it will be able to satisfy this obligation at maturity from cash flows from operations or other sources.

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

The Trust continues to contribute to a Capital Expenditures Fund (the Fund) an amount equal to 4% of the InnSuites Hotels' revenues from operation of the Hotels. The Fund is restricted by the mortgage lender for five of the Trust's properties. As of October 31, 2005, \$236,000 was

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held in restricted capital expenditure funds and is included on the Trust's Balance Sheet as Restricted Cash. The Fund is intended to be used for capital improvements to the Hotels and for refurbishment and replacement of furniture, fixtures and equipment, in addition to other uses of amounts in the Fund considered appropriate from time to time. During the nine months ended October 31, 2005, the Hotels spent approximately \$808,000 for capital expenditures. The Trust 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. The Hotels also spent approximately \$1.1 million during the nine months ended October 31, 2005 on repairs and maintenance and these amounts have been charged to expense as incurred.

As of October 31, 2005, the Trust has no commitments for capital expenditures beyond the 4% reserve for refurbishment and replacements set aside annually for each hotel property.

The Trust may acquire or develop additional hotels only as suitable opportunities arise, and the Trust will not undertake acquisition or redevelopment of properties unless adequate sources of financing are available. Funds for future acquisitions or development of hotels are expected to be derived, in whole or in part, from borrowings or from the proceeds of additional issuances of Shares of Beneficial Interest or other securities. However, there can be no assurance that the Trust will successfully acquire or develop additional hotels.

### FUTURE POSITIONING

The Trust's management has identified condo-hotel conversions as a potential opportunity for the Trust. The conversion concept has become increasingly popular throughout the country, and may have the potential to eclipse time-share or fractional ownership as the preferred vacation, second or third home ownership vehicle.

The Trust, through its wholly-owned subsidiary, InnSuites Hotels, is currently evaluating the potential for condo-hotel ownership primarily for its Arizona locations. If the Trust determines this concept to be feasible for its current hotel properties, the Trust may realize condominium sales revenue and revenue from long-term management and trademark agreements with potential homeowners' associations and/or future condominium owners.

#### OFF-BALANCE SHEET FINANCINGS AND LIABILITIES

Other than lease commitments, legal contingencies incurred in the normal course of business and an employment contract with Wirth, the Trust does not have any off-balance sheet financing arrangements or liabilities. The Trust does not have any majority-owned subsidiaries that are not included in the consolidated financial statements. (See Note 2 - Summary of Significant Accounting Policies. )

#### SEASONALITY

The Hotels' operations historically have been seasonal. The three southern Arizona hotels experience their highest occupancy in the first fiscal quarter and, to a lesser extent, the fourth fiscal quarter. The second fiscal quarter tends to be the lowest period of occupancy at those three southern Arizona hotels. This seasonality pattern can be expected to cause fluctuations in the Trust's quarterly revenue. 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. To the extent that cash flows from operations are insufficient during any quarter, because of temporary or seasonal fluctuations in revenue, the Trust may utilize other cash on hand or borrowings to make distributions to its shareholders or to meet operating needs. No assurance can be given that the Trust will make distributions in the future.

#### FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including statements containing the phrases "believes," "intends," "expects," "anticipates," "predicts," "should be looking ahead," "may" or similar words, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Trust intends that such forward-looking statements be subject to the safe harbors created by such Acts. These forward-looking statements include statements regarding the intent, belief or current expectations of the Trust, its Trustees or its officers in respect of (i) the declaration or payment of dividends; (ii) the management or operation of the Hotels; (iii) the adequacy of reserves for renovation and refurbishment; (iv) the Trust's financing plans; (v) the Trust's position regarding investments, acquisitions, developments, financings, conflicts of interest and other matters; and (vi) trends affecting the Trust's or any Hotel's financial condition or results of operations.

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

fluctuations in hotel occupancy rates;

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

interest rate fluctuations;

changes in federal income tax laws and regulations;

competition;

any changes in the Trust's financial condition or operating results due to acquisitions or dispositions of hotel properties;

real estate and hospitality market conditions;

hospitality industry factors;

terrorist attacks or other acts of war;

outbreaks of communicable diseases;

natural disasters;

local or national economic and business conditions, including, without limitation, conditions which may affect public securities markets generally, the hospitality industry or the markets in which the Trust operates or will operate; and

uncertainties the Trust might encounter in changing from a real estate investment trust to a tax-paying entity.

The Trust does not undertake any obligation to update publicly or revise any forward-looking statements whether as a result of new information, future events or otherwise. Pursuant to Section 21E(b)(2)(E) of the Securities Exchange Act of 1934, the qualifications set forth hereinabove are inapplicable to any forward-looking statements in this Form 10-Q relating to the operations of the Partnership.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Trust is exposed to interest rate risk primarily as a result of its mortgage notes payable, notes payable to banks and other notes payable. Proceeds from these loans were used to maintain liquidity, fund capital expenditures and expand the Trust's real estate investment portfolio and operations.

The Trust's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Trust borrows using fixed rate debt, when possible. There have been no significant changes in the Trust's debt structure during the nine months ended October 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Trust conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Trust's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Trust's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Trust in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the Trust's internal control over financial reporting during the Trust's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

## PART II

## OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

None.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 2, 2001, the Board of Trustees approved a share repurchase program under Rule 10b-18 of the Securities Exchange Act of 1934, as amended, for the purchase of up to 250,000 limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Additionally, on September 10, 2002, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. On August 18, 2005, the Board of Trustees approved the purchase of up to 350,000 additional limited partnership units in the Partnership and/or Shares of Beneficial Interest in open market or privately negotiated transactions. Acquired Shares of Beneficial Interest will be held in treasury and will be available for future acquisitions and financings and/or for awards granted under the InnSuites Hospitality Trust 1997 Stock Incentive and Option Plan. During the three months ended October 31, 2005, the Trust acquired 9,824 Shares of Beneficial Interest in open market transactions at an average price of \$1.38 per share. The Trust intends to continue repurchasing Shares of Beneficial Interest in compliance with applicable legal and American Stock Exchange requirements. The Trust remains authorized to repurchase an additional 328,928 limited partnership units and/or Shares of Beneficial Interest pursuant to the share repurchase program, which has no expiration date.

		Issuer Purchases of Equity Securities			
Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Be Yet Purchased Under the Plans
August 1	August 31, 2005	9,524	\$ 1.39	9,524	342,896
September 1	September 30, 2005	300	\$ 1.28	300	328,928*
October 1	October 31, 2005				

\*During the month of September 2005, the Trust repurchased 13,668 Class A limited partner units in the Partnership under the repurchase plan for an average price of \$1.45.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On October 14, 2005, the Partnership borrowed \$400,000 from Rare Earth Financial, LLC, an affiliate of Wirth. A copy of the Promissory Note evidencing that debt is being filed as Exhibit 10.1 to this Form 10-Q.

ITEM 6. EXHIBITS

a) Exhibits

- 10.1 Promissory Note dated October 14, 2005 by RRF Limited Partnership in favor of Rare Earth Financial, LLC
- 31.1 Section 302 Certification By Chief Executive Officer
- 31.2 Section 302 Certification By Chief Financial Officer
- 32.1 Section 906 Certification of Principal Executive Officer and Principal Financial Officer



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INNSUITES HOSPITALITY TRUST

Dated: December 6, 2005

/s/ James F. Wirth  
James F. Wirth  
Chairman, President and Chief Executive  
Officer

Dated: December 6, 2005

/s/ Anthony B. Waters  
Anthony B. Waters  
Chief Financial Officer