

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-17** | Period of Report: **1994-03-31**
SEC Accession No. **0000950148-94-000279**

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FILER

HOTEL INVESTORS CORP

CIK: **316206** | IRS No.: **521193298** | State of Incorporation: **MD** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07959** | Film No.: **94529092**
SIC: **6500** Real estate

Mailing Address
11845 W OLYMPIC BLVD
SUITE 560
LOS ANGELES CA 90064

Business Address
11845 W OLYMPIC BLVD
SUITE 560
LOS ANGELES CA 90064
3105753900

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of
 the Securities and Exchange Act of 1934

For the quarterly period ended March 31, 1994

OR

Transition report pursuant to Section 13 or 15(d)
 of the Securities and Exchange Act of 1934

For the transition period from _____ to _____

<TABLE>

<S>

Commission File Number: 1-6828

HOTEL INVESTORS
 TRUST

(Exact name of registrant as specified in its charter)

Maryland
 (State or other jurisdiction
 of incorporation or organization)

52-0901263
 (I.R.S. employer identification no.)

11845 W. Olympic Blvd., Suite 550
 Los Angeles, California 90064
 (Address of principal executive
 offices, including zip code)

(310) 575-3900
 (Registrant's telephone number,
 including area code)

<C>

Commission File Number: 1-7959

HOTEL INVESTORS
 CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
 (State or other jurisdiction
 of incorporation or organization)

52-1193298
 (I.R.S. employer identification no.)

11845 W. Olympic Blvd., Suite 560
 Los Angeles, California 90064
 (Address of principal executive
 offices, including zip code)

(310) 575-3900
 (Registrant's telephone number,
 including area code)

</TABLE>

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

12,132,948 Shares of Beneficial Interest, \$1.00 par value, of Hotel Investors Trust paired with 12,132,948 Shares of Common Stock, par value \$.10 per share, of Hotel Investors Corporation outstanding as of May 12, 1994.

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HOTEL INVESTORS TRUST AND HOTEL INVESTORS CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q which mandate adherence to Rule 10-01 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of the Trust and the Corporation, all adjustments necessary for a fair presentation have been included. The financial statements presented herein have been prepared in accordance with the accounting policies described in the registrants' Joint Annual Report on Form 10-K for the year ended December 31, 1993, (the "1993 Form 10-K"), and should be read in conjunction therewith.

The accompanying financial statements have been prepared assuming Hotel Investors Trust (the "Trust") and Hotel Investors Corporation (the "Corporation") will continue as going concerns. The Trust was in default at December 31, 1992 on its obligations to repay indebtedness under the Trust's line of credit and certain note agreements. Effective January 28, 1993, the Trust entered into a Credit Agreement with its lenders to restructure such indebtedness. The Credit Agreement, among other things, requires the Trust to comply with specific financial covenants and operating restrictions and to make substantial interim principal and other payments. The Trust's ability to comply with the requirements of the Credit Agreement, for which the inability to comply therewith would result in a default under the Credit Agreement, cannot presently be determined. Because of the substantial operating losses and cash flow deficiencies experienced by the Corporation, which also has a deficiency in net assets, the ultimate recovery of all amounts due to the Trust from the Corporation is highly uncertain. These conditions raise substantial doubt about the ability of the Trust and the Corporation to continue as going concerns. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

See Item 1, Part II, for information regarding legal proceedings and preliminary settlement of shareholder litigation.

Hotel Investors Trust and Hotel Investors Corporation:

Combined Balance Sheets - As of March 31, 1994 and December 31, 1993
 Combined Statements of Operations - For the three months ended March 31, 1994 and 1993
 Combined Statements of Cash Flows - For the three months ended March 31, 1994 and 1993

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Hotel Investors Trust:

Balance Sheets - As of March 31, 1994 and December 31, 1993
 Statements of Operations - For the three months ended March 31, 1994 and 1993
 Statements of Cash Flows - For the three months ended March 31, 1994 and 1993

Hotel Investors Corporation:

Balance Sheets - As of March 31, 1994 and December 31, 1993
 Statements of Operations - For the three months ended March 31, 1994 and 1993
 Statements of Cash Flows - For the three months ended March 31, 1994 and 1993

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HOTEL INVESTORS TRUST AND HOTEL INVESTORS CORPORATION
 COMBINED BALANCE SHEETS
 (Unaudited)

<TABLE>
 <CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
ASSETS		
Hotel assets, net	\$ 165,781,000	\$ 167,249,000
Mortgage notes receivable, net	11,588,000	11,642,000
Investment in joint venture hotel properties	281,000	281,000
	-----	-----
Total real estate investments	177,650,000	179,172,000
Cash and cash equivalents	6,801,000	5,652,000
Accounts receivable	5,158,000	4,360,000
Notes receivable, net	1,704,000	1,717,000

Inventories, prepaid expenses and other assets	3,773,000	4,451,000
	-----	-----
	\$ 195,086,000	\$195,352,000
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Secured notes payable and revolving line of credit	\$ 129,556,000	\$ 128,802,000
Mortgage and other notes payable	41,847,000	42,084,000
Accounts payable and other liabilities	10,681,000	11,140,000
	-----	-----
	182,084,000	182,026,000
	-----	-----
Commitments and contingencies		
 SHAREHOLDERS' EQUITY		
Trust shares of beneficial interest, \$1.00 par value; authorized 30,000,000 shares; outstanding 12,132,948 shares	12,133,000	12,133,000
Corporation common stock, \$0.10 par value; authorized 30,000,000 shares; outstanding 12,132,948 shares	1,213,000	1,213,000
Additional paid-in capital	210,497,000	210,497,000
Share purchase notes	(280,000)	(291,000)
Accumulated deficit	(210,561,000)	(210,226,000)
	-----	-----
	13,002,000	13,326,000
	-----	-----
	\$ 195,086,000	\$ 195,352,000
	=====	=====

</TABLE>

HOTEL INVESTORS TRUST AND HOTEL INVESTORS CORPORATION
COMBINED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
REVENUE		
Hotel	\$20,586,000	\$20,479,000
Gaming	7,188,000	6,679,000
Interest from mortgage and other notes	355,000	337,000
Management fees and other	59,000	149,000
Rents from leased hotel properties	150,000	198,000
	-----	-----
	28,338,000	27,842,000
	-----	-----
EXPENSES		
Hotel operations	15,568,000	16,365,000
Gaming operations	5,993,000	5,735,000
Interest	4,125,000	3,644,000
Depreciation and amortization	2,066,000	2,216,000
Administrative and operating	921,000	1,237,000
Loss on sales of hotel assets		11,000
	-----	-----
	28,673,000	29,208,000
	-----	-----
NET LOSS	\$ (335,000)	\$ (1,366,000)
	=====	=====
NET LOSS PER PAIRED SHARE	\$ (0.03)	\$ (0.11)
	=====	=====
Weighted average number of paired shares	12,132,948	12,132,948
	=====	=====

</TABLE>

HOTEL INVESTORS TRUST AND HOTEL INVESTORS CORPORATION
 COMBINED STATEMENTS OF CASH FLOWS
 (Unaudited)

<TABLE>
 <CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (335,000)	\$ (1,366,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,066,000	2,216,000
Capitalized loan costs and deferred interest	478,000	5,655,000
Loss on sales of hotel assets		11,000
Changes in operating assets and liabilities:		
Accounts receivable, inventories, prepaid expenses and other assets	(120,000)	(528,000)
Accounts payable and other liabilities	(459,000)	(5,995,000)
Net cash provided by operating activities	1,630,000	(7,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to hotel assets	(598,000)	(998,000)
Net proceeds from sales of assets		1,517,000
Principal received on notes receivable	67,000	129,000
Acquisition of minority interest		(1,575,000)
Net cash used in investing activities	(531,000)	(927,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes payable	(237,000)	(309,000)
Principal payments on secured notes payable and revolving line of credit	(324,000)	
Borrowings under mortgage and other notes		335,000
Increase in secured notes payable and revolving line of credit	600,000	
Distributions to minority shareholders		(21,000)
Principal received on share purchase notes	11,000	
Net cash provided by financing activities	50,000	5,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	1,149,000	(929,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
	5,652,000	10,517,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	\$6,801,000	\$ 9,588,000

</TABLE>

HOTEL INVESTORS TRUST
 BALANCE SHEETS
 (Unaudited)

<TABLE>
 <CAPTION>

	March 31,	December 31,
	1994	1993
<S>	<C>	<C>
ASSETS		

Hotel assets, net	\$ 128,924,000	\$ 129,918,000
Mortgage notes receivable, net	11,588,000	11,642,000
Investment in joint venture hotel properties	276,000	276,000
	-----	-----
Total real estate investments	140,788,000	141,836,000
Cash and cash equivalents	516,000	918,000
Accounts receivable	525,000	1,011,000
Notes receivable - Corporation	88,830,000	87,486,000
Notes receivable, net	1,025,000	1,025,000
Prepaid expenses and other assets	505,000	569,000
	-----	-----
	\$ 232,189,000	\$ 232,845,000
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Secured notes payable and revolving line of credit ...	\$ 129,556,000	\$ 128,802,000
Mortgage and other notes payable	27,536,000	27,724,000
Accounts payable and other liabilities	3,035,000	4,114,000
	-----	-----
	\$ 160,127,000	\$ 160,640,000
	-----	-----

Commitments and contingencies

SHAREHOLDERS' EQUITY

Trust shares of beneficial interest, \$1.00 par value; authorized 30,000,000 shares; outstanding 12,132,948 shares	12,133,000	12,133,000
Additional paid-in capital	204,640,000	204,640,000
Share purchase notes	(280,000)	(291,000)
Accumulated deficit	(144,431,000)	(144,277,000)
	-----	-----
	72,062,000	72,205,000
	-----	-----
	\$ 232,189,000	\$ 232,845,000
	=====	=====

</TABLE>

HOTEL INVESTORS TRUST
STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
REVENUE		
Rents from Corporation	\$4,313,000	\$4,159,000
Interest from Corporation	415,000	345,000
Interest from mortgage and other notes	339,000	293,000
Rents from other leased hotel properties	150,000	198,000
Other.....	26,000	106,000
	-----	-----
	5,243,000	5,101,000
	-----	-----
EXPENSES		
Interest.....	3,779,000	3,355,000
Depreciation and amortization	1,252,000	1,419,000
Administrative and operating	366,000	516,000
Loss on sales of hotel assets		19,000
	-----	-----
	5,397,000	5,309,000
	-----	-----
NET LOSS	\$ (154,000)	\$ (208,000)
	=====	=====

</TABLE>

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HOTEL INVESTORS TRUST
STATEMENTS OF CASH FLOWS
(Unaudited)<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (154,000)	\$ (208,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,252,000	1,419,000
Capitalized loan costs and deferred interest	478,000	5,655,000
Loss on sales of hotel assets		19,000
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other assets	550,000	615,000
Accounts payable and other liabilities	(1,079,000)	(5,344,000)
Net cash provided by operating activities	1,047,000	2,156,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to hotel assets	(258,000)	(69,000)
Net proceeds from sales of assets		1,395,000
Principal received on mortgage and other notes receivable	54,000	114,000
Net changes in notes receivable - Corporation	(1,344,000)	(2,344,000)
Acquisition of minority interest		(1,575,000)
Net cash used in investing activities	(1,548,000)	(2,479,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes payable	(188,000)	(202,000)
Principal payments on secured notes payable and revolving line of credit	(324,000)	
Payments to minority shareholders		(18,000)
Increase in secured notes payable and revolving line of credit	600,000	
Principal received on share purchase notes	11,000	
Net cash provided by (used in) financing activities	99,000	(220,000)
DECREASE IN CASH AND CASH EQUIVALENTS		
	(402,000)	(543,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	918,000	2,615,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 516,000	\$ 2,072,000

</TABLE>

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HOTEL INVESTORS CORPORATION
BALANCE SHEETS
(Unaudited)

<TABLE>
<CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
ASSETS		
Hotel assets, net	\$ 36,856,000	\$ 37,331,000
Investment in joint venture hotel properties	5,000	5,000
	-----	-----
Total real estate investments	36,861,000	37,336,000
Cash and cash equivalents	6,286,000	4,734,000
Accounts receivable	4,632,000	3,349,000
Notes receivable	679,000	692,000
Inventories, prepaid expenses and other assets	3,269,000	3,882,000
	-----	-----
	\$ 51,727,000	\$ 49,993,000
	=====	=====
 LIABILITIES AND SHAREHOLDERS' DEFICIT		
 LIABILITIES		
Mortgage and other notes payable	\$ 14,311,000	\$ 14,360,000
Notes payable - Trust	88,830,000	87,486,000
Accounts payable and other liabilities	7,646,000	7,026,000
	-----	-----
	110,787,000	108,872,000
	-----	-----
Commitments and contingencies		
 SHAREHOLDERS' DEFICIT		
Corporation common stock, \$0.10 par value; authorized 30,000,000 shares; outstanding 12,132,948 shares	1,213,000	1,213,000
Additional paid-in capital	5,857,000	5,857,000
Accumulated deficit	(66,130,000)	(65,949,000)
	-----	-----
	(59,060,000)	(58,879,000)
	-----	-----
	\$ 51,727,000	\$ 49,993,000
	=====	=====

</TABLE>

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HOTEL INVESTORS CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	-----	-----
	1994	1993
	-----	-----
<S>	<C>	<C>
REVENUE		
Hotel	\$20,586,000	\$20,479,000
Gaming	7,188,000	6,679,000
Interest from notes receivable	16,000	44,000
Management fees and other income	33,000	43,000
Gain on sales of hotel assets		8,000
	-----	-----
	27,823,000	27,253,000
	-----	-----
EXPENSES		
Hotel operations	15,568,000	16,365,000
Gaming operations	5,993,000	5,735,000
Rent - Trust	4,313,000	4,159,000
Interest - Trust	415,000	345,000
Interest - other	346,000	289,000

Depreciation and amortization	814,000	797,000
Administrative and operating	555,000	721,000
	-----	-----
	28,004,000	28,411,000
	-----	-----
NET LOSS	\$ (181,000)	\$ (1,158,000)
	=====	=====
NET LOSS PER SHARE	\$ (0.01)	\$ (0.10)
	=====	=====

</TABLE>

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HOTEL INVESTORS CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (181,000)	\$ (1,158,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	814,000	797,000
Gain on sales of hotel assets		(8,000)
Changes in operating assets and liabilities:		
Accounts receivable, inventories, prepaid expenses and other assets	(670,000)	(1,143,000)
Accounts payable and other liabilities	620,000	(651,000)
	-----	-----
Net cash provided by (used in) operating activities	583,000	(2,163,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to hotel assets	(339,000)	(929,000)
Net proceeds from sales of hotel assets		122,000
Principal received on notes receivable	13,000	15,000
	-----	-----
Net cash used in investing activities	(326,000)	(792,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in notes payable - Trust	1,344,000	2,344,000
Principal payments on mortgage and other notes payable	(49,000)	(107,000)
Borrowings under mortgage and other notes		335,000
Payments to minority shareholders		(3,000)
	-----	-----
Net cash provided by financing activities	1,295,000	2,569,000
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,552,000	(386,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,734,000	7,902,000
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$6,286,000	\$ 7,516,000
	=====	=====

</TABLE>

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis should be read in conjunction with the Management's Discussion and Analysis included in the 1993 Form 10-K (the "1993 Form 10-K MD&A") for the year ended December 31, 1993. The sections of the "Recent Developments" portion of Items 1 and 2 of Part I of the 1993 Form 10-K captioned "Debt Restructuring", "Acquisition of Assets of U.S. Equity", "Milwaukee Marriott Hotel", "Northview Corporation", "Certain Property Sales and Related Transactions", "Mortgage Notes Payable Maturing in 1994" and the discussions of seasonality, competition, and certain environmental matters included in those Items under the heading "Other Information," are specifically incorporated by reference herein.

As discussed in Items 1 and 2 of the 1993 Form 10-K under the caption "Recent Developments - Debt Restructuring", on January 28, 1993 the Trust entered into the Credit Agreement which restructured its previously unsecured notes payable to two banks and three insurance companies as a secured term loan (the "Term Loan") and a secured revolving line of credit (the "Line of Credit") (together the "Restructured Debt"). Although the Trust is not in default under the Credit Agreement through the date of this Form 10-Q, the Trust's ability to comply in the future with the requirements of the Credit Agreement cannot presently be determined. Further, because of the substantial operating losses and cash flow deficiencies experienced by the Corporation, which also has a deficiency in net assets, the ultimate recovery of all amounts due to the Trust from the Corporation is highly uncertain. These conditions raise substantial doubts about the Companies' ability to continue as going concerns.

The Trust and Corporation must continue to sell properties to meet the principal payment requirements of the Credit Agreement. Further, the Trust may be required to further restructure the indebtedness of the Corporation to the Trust on an annual or long-term basis if the Corporation is to continue to operate.

Sales of hotel properties have impacted and will continue to impact revenues and expenses of the Trust and the Corporation. Because the Credit Agreement requires the net proceeds from hotel sales to be applied to the repayment of debt, sales of hotels will result in decreased interest expense for the Trust. In addition, the income of the Trust will be decreased as the Trust will no longer receive rental income from the Corporation after a property has been sold, which may be offset by interest income on any notes receivable generated from a sale. Sales of hotel properties will also decrease the depreciation and amortization expense of the Trust. The aggregate impact on revenues and expenses will depend on the properties to be sold, the terms of the sales and the timing of the sales.

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Results of Operations for the Three Months Ended March 31, 1994 and 1993

Trust:

Rents from Corporation totalled \$4,313,000 and \$4,159,000 for the three months ended March 31, 1994 and 1993, respectively. The increase in rental income of \$154,000 is due to increased hotel revenues for the hotels leased by the Corporation from the Trust (which resulted in higher percentage rents) offset by a decrease in such rents of \$136,000 resulting from the sale of hotels in Tucker, Georgia (June 1993) and St. Louis, Missouri (December 1993).

Interest from Corporation increased to \$415,000 for the three months ended March 31, 1994 as compared to \$345,000 for the corresponding period in 1993. The increase in interest income is a result of the higher amounts outstanding under the Milwaukee notes, which increased from \$13,667,000 at December 31, 1992 to \$15,185,000 at December 31, 1993 as a result of the making of certain capital improvements. (For information pertaining to such notes, see the 1993 Form 10-K under the caption "Milwaukee Marriott Hotel".)

Interest expense increased by \$424,000 for the three months ended March 31, 1994 as compared to the corresponding period of 1993. The increase is primarily due to an increase in the interest rate payable on borrowings outstanding under the Term Loan and the Line of Credit.

Depreciation and amortization expense decreased by \$167,000 during the three months ended March 31, 1994 as compared to the corresponding period of 1993, principally due to the above mentioned property sales and to provisions

for investment losses recorded in the third and fourth quarters of 1993, which reduced depreciable book values.

Administrative and operating expenses decreased by \$150,000 during the three months ended March 31, 1994 as compared to the corresponding period in 1993. The decreases are a result of lower professional fees and travel and insurance expense.

Corporation:

Hotel revenues increased by \$107,000 for the three months ended March 31, 1994, as compared to the corresponding period of 1993. The hotel sales discussed above resulted in decreased revenue of \$750,000 for the three months ended March 31, 1994, as compared to the corresponding period of 1993. The decreases resulting from property sales were offset by increased revenues of \$857,000 for the three months ended March 31, 1994, as compared to the corresponding period of 1993 resulting from increased average occupancy and average room rates at properties which continue to be operated by the Corporation. The following table summarizes average occupancy and average room rates for properties which continue to be operated by the Corporation under lease from the Trust:

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<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Occupancy Rate	64.2%	57.8%
Average Room Rate	\$56.45	\$55.59

</TABLE>

Management of the Corporation believes that the increases in the average occupancy rate and average room rate resulted primarily from more favorable economic conditions which have created increased business and pleasure travel throughout the United States.

Gaming revenues for the first three months of 1994 as compared to the corresponding period of 1993 increased by \$509,000 to \$7,188,000. Management believes that the higher revenues at the two gaming facilities during the first three months of 1994 are a result of increased travel to the Las Vegas area, and in particular, increased customer traffic due to the proximity of the King 8 Hotel and Casino to several large hotel/casinos completed during 1993.

Hotel expenses for the first quarter of 1994 were \$15,568,000, or 75.6% of hotel revenues, as compared to \$16,365,000, or 79.9% of hotel revenues, for the first quarter of 1993. The decrease in hotel expenses as a percentage of hotel revenues is principally attributable to the sale of the hotel properties discussed above, which properties had expenses in excess of revenues during the three months ended March 31, 1993.

Gaming expenses were \$5,993,000, or 83.4% of gaming revenues, as compared to \$5,735,000, or 85.9% of gaming revenues, for the three months ended March 31, 1994 and 1993, respectively. Management believes that increased gaming revenues, coupled with improved casino win percentages, resulted in the decrease in gaming expenses as a percentage of gaming revenues during the three months of 1994.

Administrative and operating expenses decreased by \$166,000 for the three months ended March 31, 1994 as compared to the corresponding period of 1993. The decreases are primarily a result of a reduction in the level of corporate staff.

Depreciation expense increased from \$797,000 for the first quarter of 1993 to \$814,000 for the same period of 1994. The increase is a result of the \$4,300,000 renovation of the Milwaukee Marriott Hotel completed in December 1993, which was partially offset by decreases resulting from the sale of the hotels (see "Trust" immediately above).

For information with respect to rent and interest to the Trust during the three months ended March 31, 1994 and 1993, see "Trust" immediately above.

Liquidity and Capital Resources

The primary sources of liquidity for the Trust are cash generated from operations (i.e., its rents) and net proceeds from the sale of hotels. The primary demands on the Trust's capital resources are debt service payments, the funding of capital improvements to the Trust's properties and the making of additional loans and advances to the Corporation.

As of December 31, 1992, an aggregate of \$87,490,000 was owed by the Corporation to the Trust as accrued but unpaid rent and other indebtedness. As of January 1, 1993, a total of \$448,000 of then accrued and unpaid rents and interest were added to the intercompany debt. During 1993 and 1994, no interest accrued or will accrue on the Corporation's debt to the Trust; beginning January 1, 1995, the outstanding principal balance of the Corporation's debt to the Trust will bear interest at an annual rate equal to the prime rate of one of the Trust's banks from time to time plus 2%. However, there can be no assurance that the Corporation will be able to meet its debt obligations to the Trust in future years.

The 1993 restructuring of the leases between the Trust and the Corporation, the two-year interest moratorium on the Corporation's debt to the Trust, and the sales of the Trust's hotels which were made in 1993 and that are anticipated to be made in 1994 are expected to lower the rents and interest received by the Trust from the Corporation in 1994. The Trust will seek to generate from its operations sufficient cash flow to pay the interest due on the Term Loan, the Line of Credit and the Trust's other mortgage debt, as well as to fund required capital improvements; however, debt principal payments are expected to be made primarily from the proceeds of hotel sales and (in the case of mortgage debt other than the Restructured Debt) from debt refinancings. (For information with respect to such mortgage debt, see the 1993 Form 10-K under the caption "Mortgage Notes Payable Maturing in 1994".) There can be no assurance, however, that either the Trust's operations or the Trust's sale of hotels will produce sufficient cash to make the required payments of principal and interest. (See "Recent Developments - Debt Restructuring" included in Items 1 and 2 of the 1993 Form 10-K.)

The primary source of liquidity for the Corporation is cash generated from operations - i.e., from sales of rooms, food and beverages at the hotels and hotel/casinos the Corporation leases from the Trust and gaming revenues at the two Nevada properties, net of management fees with respect to the nine hotels managed by independent management companies. The primary demands on the Corporation's capital resources are the payment of rents and interest due to the Trust and the Corporation's general and administrative expenses. The two-year interest moratorium on the Corporation's debt to the Trust and the reduction in future rentals due to the Trust are expected to improve the Corporation's 1994 cash flows and income, although sales of the Trust's hotels managed by the Corporation are expected to reduce the Corporation's revenues. The Corporation may continue to incur cash flow deficiencies and the Corporation expects to continue to request that the Trust loan the Corporation the funds required to meet those deficiencies. The Corporation currently has no other means of obtaining the funds to cover its cash flow deficiencies or to repay the principal amount of the Corporation's debt to the Trust.

As described in Items 1 and 2 of the 1993 Form 10-K under the caption "Recent Developments - Debt Restructuring", the Credit Agreement requires that the Trust and the Corporation apply on a daily basis any cash in excess of certain specified thresholds to borrowings outstanding under the Revolving Line of Credit. Amounts so paid are available for future borrowings to pay interest on the Restructured Debt, to make principal payments on the Term Loan and to pay other expenses incurred in connection with Hotel Investors' operations. As of March 31, 1994, \$3,075,000 was available to the Trust under the Revolving Line of Credit. However, should the Trust or the Corporation fail to comply with its obligations under the Credit Agreement and related documents, the Trust's lenders will have the power to substantially restrict the Trust's and the Corporation's access to and ability to utilize its cash.

The Trust intends to make during 1994, to the extent that the

Trust has the necessary funds available, improvements to the Trust's properties that are necessary to maintain the properties in good condition or that are required by franchisors or applicable health and safety and other laws. The Trust expects that provided funds are available, the cost of such improvements will be approximately \$3,720,000 during 1994. As discussed in Items 1 and 2 of the 1993 Form 10-K, Hotel Investors' capital improvements are subject to the approval of the Trust's lenders.

For information with respect to potential hazardous waste contamination and the presence of asbestos at certain of the Trust's hotels and the possible impact thereof on the Trust's and the Corporation's financial position, see "Other Information - Certain Environmental Matters" included in Items 1 and 2 of the 1993 Form 10-K.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

On May 5, 1994, the U.S. District Court for the Southern District of California entered an order preliminarily approving the settlement of the two purported class actions pending before that court and entitled Naomi Horowitz v. Hotel Investors Trust et al and Joyce Uttan I.R.A. et al v. Hotel Investors Trust et al. For additional information with respect to these actions and the related derivative action pending before the Superior Court of the State of California for San Diego County captioned Richard Carno and Sonem Partners Ltd. v. Ronald A. Young et al., see information included in Item 3 of the 1993 Form 10-K under the caption "Naomi Horowitz v. Hotel Investors Trust et al; Joyce Uttan I.R.A. et al v. Hotel Investors Trust et al", which information is incorporated herein by reference. The Uttan, Horowitz and Carno cases are collectively referred to herein as the "Shareholder Actions".

Pursuant to the court order and a stipulation of settlement entered into among the plaintiffs and defendants in the Shareholder Actions (the "Stipulation"), and subject to conditional certification for settlement purposes of the classes described in the Uttan and Horowitz complaints to additional court approvals and to the satisfaction of certain other conditions, the Carno case will be dismissed with prejudice, and all claims that were or might have been made in the Shareholder Actions will be released, upon the establishment of a \$3,205,000 cash settlement fund to be distributed to members of the certified plaintiff classes. Of the settlement fund amount, \$2,500,000 will be paid by the insurance company that issued Hotel Investors directors and officers policy applicable to the periods to which the Shareholder Actions relate, \$400,000 will be paid by Hotel Investors and \$350,000 will be paid by Messrs. John Rothman and Ronald Young. The defendants in the Shareholder Actions also will establish a separate \$45,000 fund to be used for purposes of notifying the classes and otherwise administering the settlement. Legal fees and other costs incurred by the defendants in the Shareholder Actions prior to October 12, 1993 will be paid by Hotel Investors; subsequent defense costs will be paid by the insurance company.

The Stipulation agreement also requires that the Trust's Board of Trustees and the Corporation's Board of Directors establish a joint transaction committee of independent Trustees and Directors to make recommendations to those Boards with respect to any transaction proposed in the future by management and having a fair market value of \$20 million or more.

In connection with the settlement of the Shareholders Actions, Messrs. Rothman and Young and Hotel Investors also have agreed as follows: Messrs. Young, Rothman and certain of their affiliated partnerships will terminate the management agreements currently existing between those partnerships and the Corporation's subsidiary Western Host, Inc. (the "Management Contracts"), and Western Host will forbear from disputing such action and will withdraw as a general partner of two additional affiliated partnerships. In satisfaction of any damages that Hotel Investors may incur as a result of the termination of the Management Contracts, Messrs. Rothman and Young will provide to Hotel Investors an irrevocable letter of credit in the amount of \$800,000 and having a one-year term.

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At such time as the settlement of the Shareholder Actions provided for in the Stipulation receives final court approval, proceeds from the letter of credit will be paid to Hotel Investors, and the parties to the Management Contracts, Messrs. Rothman and Young and Hotel Investors will release all of their respective claims related to the termination of the Management Contracts. If, however, the Shareholder Actions are not so settled and the Stipulation is terminated, the above-described releases will not take effect and the letter of credit will be canceled.

For additional information with respect to these management obligations, see the information included in Item 13 of the 1993 Form 10-K under the caption "Management Obligations of Western Host".

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

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Item 6. Exhibits and Reports on Form 8-K

(a) The following Exhibits are filed as part of this Form 10-Q:

<TABLE>

<S> EXHIBIT NO. -----	<C> DESCRIPTION OF EXHIBIT -----
10.1	Stipulation of Settlement as of April 13, 1994, among Joyce Uttan I.R.A., et al., Naomi Horowitz, et al., and Richard Carno et al, on the one hand, and the Trust, the Corporation, Ronald A. Young, John F. Rothman, Graeme W. Henderson, Sherwin L. Samuels, Bruce M. Ford, Earle F. Jones and Howard B. Levenson, on the other hand, by their respective counsel.
10.2	Settlement and Release Agreement dated as of April 13, 1994, among Messrs. Rothman and Young, the Trust, the Corporation and Western Host, Inc.
10.3	Agreement dated March 31, 1994, among Reliance Insurance Company, the Trust, the Corporation and Messrs. Young, Rothman, Henderson, Samuels, Jones and Levenson.
99.1	Pages 11 (beginning at "Recent Developments") through 20 (concluding at "Regulation and Licensing") of the Trust's and the Corporation's Joint Annual Report on Form 10-K for the year ended December 31, 1993 (the "1993 Form 10-K") (incorporated by reference to the 1993 Form 10-K (SEC File Nos. 1-6828/1-7959)).

</TABLE>

(b) Reports on Form 8-K

None.

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SIGNATURES

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

HOTEL INVESTORS TRUST
Registrant

HOTEL INVESTORS CORPORATION
Registrant

/s/ MICHAEL W. MOONEY

/s/ KEVIN E. MALLORY

Michael W. Mooney
Vice President and Chief
Financial Officer
Hotel Investors Trust

Kevin E. Mallory
Executive Vice President (Principal
Executive Officer)
Hotel Investors Corporation

Hotel Investors Corporation has no
chief financial officer or
principal accounting officer.

Date: May 13, 1994

Exhibit 10.1

This Stipulation of Settlement (the "Stipulation") is entered into this ___ day of _____, 1993, between plaintiffs JOYCE UTTAN I.R.A, et al., NAOMI HOROWITZ, et al., and RICHARD CARNO, et al., on the one hand, and defendants HOTEL INVESTORS TRUST, INC., a Maryland Real Estate Investment Trust, HOTEL INVESTORS CORPORATION, a Maryland corporation, RONALD A. YOUNG, JOHN F. ROTHMAN, GRAEME W. HENDERSON, SHERWIN L. SAMUELS, BRUCE M. FORD, EARLE F. JONES and HOWARD B. LEVENSON, on the other hand, by and through their respective counsel of record in the Hotel Investors Litigation.

1. RECITALS

This Stipulation is entered into with reference to the following facts and objectives:

1.1 Joyce Uttan I.R.A., et al. v. Hotel Investors Trust, Inc., et al., United States District Court Case No. 92-277B(M) ("Uttan" or the "Uttan action"), is a presently uncertified federal class action. Uttan alleges a variety of causes of action including, but not limited to, violation of federal and state securities laws, the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the Employee Retirement Income Security Act of 1974 ("ERISA"). To date, the class has not

Exhibit 10.1

been certified, but certification is contemplated by and a condition precedent to the effectiveness of this Stipulation.

1.2 The defendants in the Uttan action -- HOTEL INVESTORS, YOUNG and ROTHMAN -- have appeared in the Uttan action.

1.3 Naomi Horowitz, et al. v. Hotel Investors Trust, Inc., et al., United States District Court Case No. 91-1161K(BTM) ("Horowitz" or the "Horowitz action"), is a presently uncertified federal class action. The Horowitz action alleges causes of action including, but not limited to, violations of the RICO Act. To date, the class has not been certified, but certification is contemplated by and a condition precedent to the effectiveness

of this Stipulation.

1.4 All of the defendants in the Horowitz action -- HOTEL INVESTORS, YOUNG, ROTHMAN, SAMUELS, SPEED, HENDERSON and FARRELL -- have appeared in the Horowitz action. Thereafter, plaintiffs in the Horowitz action agreed to dismiss without prejudice SAMUELS, SPEED, HENDERSON, and FARRELL and filed an amended complaint in which SAMUELS, SPEED, HENDERSON and FARRELL were not named as defendants.

1.5 Richard Carno, et al. v. Ronald A. Young, et al., San Diego Superior Court Case No. 650235 ("Carno" or "Carno

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action"), is an action alleging derivative claims for breach of fiduciary duty, gross negligence and corporate waste.

1.6 The defendants in the Carno action -- YOUNG, ROTHMAN, HENDERSON, SAMUELS, FORD, JONES and LEVENSON -- have appeared in the Carno action, have denied plaintiffs' substantive allegations and have asserted various affirmative defenses. The parties expressly agree that State Plaintiffs and their counsel brought this action in good faith. Since the institution of the Carno action, State Plaintiffs and their counsel have had limited formal merits discovery and have learned of no facts which leads them to believe that, at trial, they would be able to establish that defendants SAMUELS, FORD, HENDERSON, LEVENSON and/or JONES engaged in any acts or conduct which would subject them to liability for misfeasance, malfeasance, nonfeasance and/or any other wrongful or unethical conduct.

1.7 Plaintiffs and Settling Defendants desire to settle the Uttan, Horowitz and Carno actions in the manner and upon the terms and conditions set forth below. Settling Defendants and their counsel have concluded that it is desirable that the Uttan, Horowitz and Carno actions be settled as provided herein to avoid the substantial expense, inconvenience and distraction of further legal proceedings and to put to rest Plaintiffs' claims. Plaintiffs and their counsel recognize and acknowledge the substantial expense and length of continued proceedings necessary

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to prosecute all the actions against the Settling Defendants through trial and through any appeal. They are also mindful of the uncertain outcome and risks

of any litigation, especially in complex actions such as these. Plaintiffs and their counsel have also taken into account the financial condition of Hotel Investors, the availability of insurance, if any, for the Settling Defendants, as well as the difficulties and delays inherent in litigation such as this, and the potential problems of collection of any award. Based on the evaluation of counsel, it has been determined that the settlement set forth in this Stipulation is desirable and in the best interests of Plaintiffs, Settlement Class Members and Settling Defendants to finally put these matters to rest.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth below, it is hereby stipulated and agreed by and among the settling parties, through their respective undersigned attorneys that, subject to the approval of the Court, the Hotel Investors Litigation, and all claims that were or could have been asserted therein, shall be finally and fully compromised and settled, and the Hotel Investors Litigation shall be dismissed with prejudice, on and subject to the terms and conditions of this Stipulation, as follows:

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2. DEFINITIONS

As used in this Stipulation, the following terms have the meanings specified below. To the extent terms or phrases used in the Stipulation are not specifically defined below, but are defined elsewhere in the Stipulation, they are incorporated into this Definition section by reference.

2.1 "AUTHORIZED CLAIMANT" shall mean any Class Plaintiff whose claim for recovery has been allowed pursuant to the terms of this Stipulation.

2.2 "CLAIMANT" shall mean any Class Plaintiff who files a Proof of Claim in such form and manner, and within such time, as the District Court shall prescribe.

2.3 "CLASS" shall mean all shareholders who held any interest, beneficial, of record or otherwise, in shares of Hotel Investors at any time from, and including, January 1, 1986 through, and including, the date of execution by all parties to this Stipulation. Excluded from the Class are Hotel Investors, their subsidiaries and affiliates, as well as the individual defendants, their family members, heirs and assigns.

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2.4 "CLASS PERIOD" shall mean from January 1, 1986 through, and including, the date of execution of this Stipulation by all parties to this litigation.

2.5 "CLASS PLAINTIFFS" are all members of the classes or classes to be certified pursuant to this Stipulation in Uttan and Horowitz.

2.6 "CLASS PLAINTIFFS' COUNSEL" shall mean the following counsel for the Class Plaintiffs in the Uttan and Horowitz actions:

(a) Lionel Z. Glancy, Esq., Law Offices of Lionel Z. Glancy, 1299 Ocean Avenue #323, Santa Monica, California 90401, (310) 319-3277; and

(b) Robert I. Harwood, Esq., Jeffrey M. Haber, Esq., Wechsler Skirnick Harwood Halebian & Feffer, 555 Madison Avenue, New York, New York 10022, (212) 935-7400.

2.7 "EFFECTIVE DATE" shall mean the first date on which all of the following have occurred: (1) all orders referred to herein have been entered; (2) the Judgment has become final; and (3) the Carno action has been dismissed with prejudice.

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2.8 "HOTEL INVESTORS" shall mean Hotel Investors, Inc., a Maryland corporation and Hotel Investors Trust, a Maryland Real Estate Investment Trust.

2.9 "FINAL" means the latest of: (1) the date of final affirmance on appeal, (2) the expiration of the time of a petition for a writ of certiorari, and, if certiorari be granted, the date of final affirmance following review pursuant to that grant, or (3) the date of final dismissal of any appeal or proceeding on certiorari; or (4) if no appeal be filed, the expiration of the time for filing any appeal. An appeal or petition for a writ of certiorari pertaining solely to any plan of allocation for attorneys' fees, costs, or expenses shall not in any way delay or preclude the judgment from becoming final.

2.10 "HOTEL INVESTORS LITIGATION" shall mean those certain cases now pending in the United States District Court for the Southern District of California entitled Joyce Uttan I.R.A., Dr. Irwin Hoffman, John Powell and William Bieman, on behalf of themselves and all others similarly situated v.

Hotel Investors Trust, Inc., a Maryland Real Estate Investment Trust, Hotel Investors Corporation, a Maryland corporation, Ronald A. Young and John F. Rothman, United States District Court for the Southern District of California Case No. 92-277 B(M) ("Uttan"), and Naomi Horowitz, on behalf of herself and all others similarly situated v. Hotel Investors Trust, Inc., a Maryland Corporation, Hotel

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Investors Corporation, a Maryland Corporation, Ronald A. Young, John F. Rothman, Sherwin L. Samuels, Leland R. Speed, Graeme W. Henderson, and Brian J. Farrell, United States District Court for the Southern District of California, Case No. 91-1161 K (BTM) ("Horowitz"), and that certain action now pending in the Superior Court for the County of San Diego, California entitled Richard Carno and Sonem Partners, Ltd., derivatively and on behalf of Hotel Investors Trust and Hotel Investors Corporation v. Ronald A. Young, John F. Rothman, Graeme W. Henderson, Sherwin L. Samuels, Bruce M. Ford, Earle F. Jones, and Howard B. Levenson, defendants, and Hotel Investors Trust, a Maryland Real Estate Investment Trust and Hotel Investors Corporation, a Maryland corporation, nominal defendants, Superior Court of the State of California, County of San Diego Case No. 650235 ("Carno").

2.11 "INDEPENDENT DIRECTOR" shall mean, for the purposes of this Settlement, a person who is neither (i) employed by Hotel Investors or any of its subsidiaries on a salaried basis as an officer or employee; nor (ii) an officer, director or employee of a corporation which derives more than 5% of its revenues from goods and/or services supplied to Hotel Investors; nor (iii) a member of any professional firm which derives in excess of 5% of its revenues from services provided to Hotel Investors.

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2.12 "JUDGMENT" shall mean the judgment to be rendered by the District Court in the Uttan and Horowitz actions in the form attached as Exhibit "B."

2.13 "NOTICE AND CLASS ADMINISTRATION FUND" shall mean that fund created pursuant to Paragraph 5.4 of this Stipulation.

2.14 "PERSON" shall mean an individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any

political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

2.15 "PLAINTIFFS" shall mean all persons or entities of any kind which are described in Paragraphs 2.5 and 2.24.

2.16 "PLAN OF ALLOCATION" shall mean a plan or formula of allocation of the Settlement Fund which shall separately be submitted by Class Plaintiffs' Counsel to the District Court, whereby the Settlement Fund shall be distributed to Authorized Claimants.

2.17 "RELEASED CLAIMS" shall mean any and all claims released pursuant to Paragraphs 4.1 through 4.9, inclusive, of this Stipulation.

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2.18 "RELEASED PARTIES" shall mean Settling Defendants and each of a Settling Defendant's past or present directors, officers, employees, agents, trustees, underwriters, issuers, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, accountants, auditors, advisors, representatives, partners, independent contractors, affiliates, subsidiaries, divisions, predecessors, successors, assigns, spouses, heirs and associates and members of their immediate families.

2.18(a) "REPRESENTATIVE PLAINTIFFS" shall mean named Class Plaintiffs.

2.19 "SETTLEMENT CLASS" shall mean the class or classes in Uttan and Horowitz, presently uncertified but to be certified pursuant to this Agreement, except those persons who have timely and validly requested exclusion from the classes.

2.20 "SETTLEMENT CLASS MEMBER" or "MEMBER OF THE SETTLEMENT CLASS" shall mean a person who falls within the definition of the Settlement Class as set forth in Paragraph 2.19.

2.21 "SETTLEMENT FUND" shall mean that fund created pursuant to Paragraph 5.1 of this Stipulation.

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2.22 "SETTLING DEFENDANTS" shall mean HOTEL INVESTORS,

Sherwin L. Samuels ("SAMUELS"), Howard B. Levenson ("LEVENSON"), Graeme W. Henderson ("HENDERSON"), Bruce M. Ford ("FORD"), Earle F. Jones ("JONES"), Ronald A. Young ("YOUNG") and John F. Rothman ("ROTHMAN").

2.23 "SETTLING PARTIES" shall mean, collectively, each of the Settling Defendants, State Plaintiffs and Class Plaintiffs.

2.24 "STATE PLAINTIFFS" shall mean all plaintiffs in Richard A. Carno, et al. v. Ronald A. Young, et al., San Diego Superior Court Case No. 650235.

2.25 "STATE PLAINTIFFS' COUNSEL" shall mean the following counsel for the plaintiffs in the Carno litigation:

(a) Lionel Z. Glancy, Esq., Law Offices of Lionel Z. Glancy, 1299 Ocean Avenue #323, Santa Monica, California 90401, (310) 319-3277;

(b) Scott W. Fisher, Esq., Garwin Bronzaft Gerstein & Fisher, 1501 Broadway, Suite 1416, New York, New York 10036, (212) 398-0055; and

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(c) Zachary A. Starr, Esq., Goodkind Labaton Rudoff & Sucharow, 100 Park Avenue, New York, New York 10017, (212) 907-0700.

2.26 "RECOGNIZED LOSS" shall mean:

1. For Class Members who held Hotel Investors common stock at the beginning of the Class Period, the Recognized Loss shall be the difference between the lesser of the amount paid to purchase the stock or the closing price of the stock on December 31, 1985 and the price at which the stock was sold (or if the stock was held, the price on the last day of the Class Period).

2. For Class Members who purchased Hotel Investors stock during the Class Period and retained stock until after the end of the Class Period, the Recognized Loss shall be the difference between the amount paid to purchase the stock and the price at which the stock traded at close of business on the last day of the Class Period.

3. For Class Members who purchased Hotel Investors stock during the Class Period and sold that stock during the

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be the difference between the price paid for the stock and the price at which the stock was sold.

4. For Class Members who made multiple purchases and/or multiple sales during the Class Period, the earliest purchase shall be matched with the earliest sale and chronologically thereafter for purposes of the Recognized Loss calculations and all profits shall be subtracted from all losses in determining the Recognized Loss of each such Class Member.

3. TERMS OF AGREEMENT OF SETTLEMENT

It is hereby stipulated and agreed by and among all Plaintiffs and all Settling Defendants, by and through their respective attorneys of record, that, subject to the approvals of the appropriate Courts, the Hotel Investors Litigation and all claims that have been or could have been asserted therein, shall be finally and fully compromised and settled, and the litigation shall be dismissed with prejudice, as to all Settling Defendants, upon and subject to the terms and conditions of this Stipulation, as follows:

3.1 Each term set forth herein is a condition which must be fulfilled or this Stipulation and the settlement provided for herein will be null and void.

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3.2 Promptly upon execution of this Stipulation, Class Plaintiffs' Counsel shall amend the complaint in both Horowitz and Uttan such that all Settling Defendants are named as party defendants in both actions.

3.3 Promptly upon execution of this Stipulation, State Plaintiffs' Counsel shall cooperate in the filing by the counsel for certain Settling Defendants in Carno, Scott L. Metzger and Jill Osmars Wolcott of Duckor & Spradling, to be joined by all Settling Defendants as more fully described in Paragraph 7.1, of (a) a notice to all parties of the terms of this Stipulation and (b) an application to the superior court for approval and an order that the Settlement set forth in this Stipulation is in good faith as that term is used in California Code of Civil Procedure section 877.6. It is

an express condition to this Stipulation that Settling Defendants obtain an order finding that the settlement set forth in this Stipulation is in good faith and that all claims for indemnification, partial indemnification, equitable indemnification, total indemnification, or contribution of any kind are forever barred with respect to the Settling Defendants.

3.4 The Settling Parties expressly agree that this Stipulation is to be governed by and interpreted pursuant to the laws of the State of California. Accordingly, the parties agree that they will jointly move for an order in the Horowitz and Uttan actions that the settlement is (a) fair, just, reasonable and

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adequate to the Class Plaintiffs; (b) is in "good faith" as that term is defined in California Code of Civil Procedure section 877.6; and (c) that all claims for contribution or indemnity of any kind against Settling Defendants are forever barred ("bar order"). The procedure is fully set forth in Paragraph 7.2. The motion will be made under the authority of Federal Savings and Loan Assoc. v. Butler, 904 F.2d 505 (9th Cir. 1990). In the event the district court will not grant such an order, the parties shall jointly apply for a bar order to be issued in accordance with Franklin v. Kaypro Corporation, 884 F.2d 1222 (9th Cir. 1989); cert. denied, 498 U.S. 890, 112 L.Ed.2d 192, 111 S.Ct. 232 (1990). Entry of a bar order is a condition precedent to the effectiveness of the settlement set forth in this Stipulation.

3.5 The Class Plaintiffs and the Settling Defendants shall, promptly upon execution hereof, submit this Stipulation to the District Court and shall each request: (a) that the Court conditionally certify the Class for settlement purposes; (b) that the Court enter the Notice Order as described in Paragraphs 6.1 and 6.2 of this Stipulation and attached hereto as Exhibit "A;" and (c) that the District Court approve the settlement as set forth in this Stipulation and enter the Judgment, substantially in the form of Exhibit B hereto, as set forth in Paragraphs 7.1 and 7.2, inclusive, of this Agreement.

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3.6 Class Plaintiffs' Counsel shall obtain an order from the District Court setting forth the procedure for opting out of the Class to be certified. In the event any class member(s) files with the Court a timely request for exclusion, and, Recognized Loss of those persons who timely file a

request for exclusion exceeds the sum set forth in a separate supplemental agreement (the "Supplemental Agreement") between the parties which shall be lodged with the United States District Court under seal, the Settling Defendants, and each of them, and their insurer(s) shall have, in their sole and absolute discretion, the option to terminate this Stipulation, in which case all parties will be restored to the Status Quo Ante and any monies deposited shall be returned to the parties in the same proportion that each deposited such funds, less any money expended in connection with the notice and administration costs in accordance with the terms of this Stipulation.

3.7 Notice of this Stipulation shall be provided to the Class in a format approved by the District Court. This procedure is more fully explained in Paragraphs 6.1 and 6.2. The Notice Order shall also fix a period within which requests for exclusions from the Class and objections to the settlement must be filed. Thereafter, Class Plaintiffs' Counsel shall request and obtain a hearing pursuant to Federal Rule of Civil Procedure 23(e). It is a condition to this Stipulation that the district court find this

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settlement to be entered into at arm's-length and to be fair, proper, adequate and reasonable to the Class.

3.8 Upon execution of this Stipulation, the Board(s) of Hotel Investors shall authorize the formation of a Transaction Committee to consider transactions which have a fair market value of at least \$20 million. The Transaction Committee shall have the authority to hire experts and to make financial evaluations of transactions and its report shall be submitted to the full Boards of Directors for their own independent evaluation of the proposal based on the analysis and recommendation of the Transaction Committee. Any disagreements between the view of the Boards and the Transaction Committee shall be disclosed to the shareholders for their consideration. A majority of the Transaction Committee shall consist of Independent Directors.

4. GENERAL UNLIMITED RELEASES

4.1 Except as to such rights or claims as may be created by this Stipulation, the State Plaintiffs and Class Plaintiffs, on behalf of themselves and the Class Members and their heirs, executors, successors and assigns (the "Releasing Parties"), shall be deemed to and on the Effective Date shall and hereby do release, remise and forever discharge the Released Parties from any and all manner of losses, claims, demands and causes of action of any kind or description whatsoever which were or could have been

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alleged in the Uttan, Horowitz and/or Carno actions, which now do or may exist from the beginning of the World through the date of this Stipulation or which may hereafter arise in the future, insofar as they relate, in any way, to the allegations set forth in the Uttan, Horowitz and Carno actions, whether direct or indirect, at law or in equity, in assumpsit or tort, and whether arising under any federal or state statute or under the common law, which said Releasing Parties, or any of them, are or may become entitled to allege either personally, representatively on behalf of a class or derivatively (on behalf of any other person), including but not limited to the following: (a) any claim for negligence, breach of contract, breach of fiduciary duty, committing or aiding and abetting the commission of a fraud or breaches of federal and/or state securities laws which were or could have been alleged in the Uttan, Horowitz and/or Carno actions; (b) any claim of breach of the covenant of good faith and fair dealing that could have been filed in or concerning the Uttan, Horowitz or Carno action; or (c) any right or claim which is now or might hereafter be assignable to, brought in the name of or be attributable to or belong to HOTEL INVESTORS or its successors. The release shall be set forth in full in the Proof of Claim and Release form to be executed by all Class Members.

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4.2 California Civil Code section 1542 provides that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

4.3 The State Plaintiffs and the Class Plaintiffs (on behalf of themselves and the Class) shall be deemed to have waived, and, on the Effective Date, waive any and all rights and benefits they, or any of them, may have under said section 1542. In connection with this waiver, the State Plaintiffs and the Class Plaintiffs acknowledge that they have been advised by counsel in this matter; they are aware of section 1542; and that they are aware they may hereafter discover claims presently unknown or unsuspected or facts in addition to or

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different from those they now know or believe to be true with respect to the claims released pursuant to this Stipulation. Nevertheless, the State Plaintiffs and the Class Plaintiffs intend to, and on the Effective Date do, release fully, finally and forever all claims released pursuant to this Stipulation. Each of the Class Plaintiffs and the State Plaintiffs and the members of the Class may hereafter discover claims presently unknown or unsuspected or facts in addition to or different from those they now know or believe to be true with respect to the subject matter of Released Claims, but hereby stipulate and agree to the releases given by this Stipulation. Each State Plaintiff, Class Plaintiff, and Class member shall and does, on the Effective Date, release fully, finally and forever all claims released pursuant to this Stipulation.

4.4 The State Plaintiffs expressly acknowledge, and the Class Plaintiffs will be informed through the Notice Order of the risk, that, subsequent to their execution of the release referred to in paragraph ____, above, said Plaintiffs may suffer further damages relating to the matters herein released, or which are unknown or unanticipated at the time the releases are signed. Said Plaintiffs further expressly recognize the risk that the damage presently known may hereafter become more serious than said Plaintiffs now expect or anticipate. Said Plaintiffs assume the above-mentioned risks, and these releases shall otherwise apply to all unknown or unanticipated results of the matters described above.

4.5 It is the intent of the Settling Parties that this Stipulation shall provide the Released Parties with complete peace in respect to any and all manner of claims, including as to any claims now in being but presently unknown. Upon final court approval of this Stipulation and the Settlement set forth herein the State Plaintiffs and the Class Plaintiffs shall be forever

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hereafter barred and enjoined from commencing, instituting or prosecuting (individually, as members of a class or derivatively on behalf of HOTEL INVESTORS or any other person) any action, case or other proceeding in any court of law or equity, arbitration tribunal, or administrative forum, directly, representatively or derivatively which asserts against any of the Released Parties any claims arising out of, relating to or constituting any of the Released Claims.

4.6 Plaintiffs hereby represent through their respective counsel that none of them has heretofore assigned to any other Person any cause

of action which any of them has or may have against any of the Released Parties.

4.7 The State Plaintiffs, and each of them, shall cause to be executed and delivered to counsel for the Settling Defendants dismissals with prejudice as to Settling Defendants at such time as this Stipulation receives all necessary court approvals described herein and shall be filed upon the Effective Date. Said dismissals shall be substantially in the form attached hereto as Exhibit "C."

4.8 The Plaintiffs shall apply to the federal court to send and shall send a notice to the Class concerning settlements with Settling Defendants in the form of Exhibit "A-1" to Exhibit "A," and of the Class Plaintiffs' intent to obtain a Final Judgment

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containing a release and dismissal with prejudice substantially in the form attached hereto as Exhibit "B."

4.9 Plaintiffs shall also dismiss with prejudice any other proceeding brought by them, or any of them, in any other jurisdiction in the world based in whole or in part on the claims released herein.

4.10 State Plaintiffs' Counsel agree that they will not seek, directly or indirectly, to receive any fees for services or cost reimbursement from Hotel Investors, and expressly waive the right to do so, except as provided for herein. State Court Plaintiffs' Counsel further agree that the sole source of any fee to be awarded to them shall be from the Settlement Fund described in Paragraph 5.1 of this Stipulation.

5. THE SETTLEMENT FUNDS

5.1 Settlement Fund. Upon execution of this Stipulation, or any other definitive agreement that finally resolves the Horowitz, Uttan, and Carno actions, a settlement fund of \$3,205,000, ("Settlement Fund,") shall be deposited into a mutually agreed upon financial institution in an account that shall require five signatures for any withdrawal. The signatories shall be Gilbert Jensen, Esq., Michael Klowden, Esq., William Bowen, Esq., Robert Harwood, Esq. and Scott Metzger, Esq. The funds in

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the Settlement Fund shall not be disbursed except as provided by this Stipulation, or by order of the court. Upon the Effective Date, the Settlement Fund, except interest which has accrued thereon, shall be released to Class Plaintiffs' counsel, Robert I. Harwood, for the benefit of the Authorized Claimants in accordance with the Plan of Allocation. Accrued interest shall thereafter be returned to Reliance Insurance Company.

5.2 Only those Settlement Class Members filing valid and timely Proofs of Claim and Releases shall be entitled to receive any distributions from the Settlement Fund. The Releases to be executed by the Settlement Class Members shall release all Released Claims against the Released Parties, and shall be in the form contained in Exhibit "A-2" to Exhibit "A" hereto. Once executed by a Settlement Class Member, each Release shall be delivered to Class Plaintiffs' Counsel or their designated agent(s). Class Plaintiffs' Counsel or their agents shall preserve the executed Releases until further order of the court or written agreement of counsel to the Settling Parties, and shall make each or all of them available to Settling Defendants upon written request.

5.3 Letter of Credit. Upon execution of this Stipulation, or sooner, Settling Defendants ROTHMAN and YOUNG shall provide an irrevocable letter of credit to HOTEL INVESTORS CORPORATION in the amount of \$800,000 pursuant to that certain

Settlement and Release Agreement dated _____ between ROTHMAN, YOUNG, HOTEL INVESTORS and Western Host, Inc., a California corporation, a copy of which is attached as Exhibit "D," and that certain Termination of Management Contracts Agreement, dated _____, a copy of which is attached as Exhibit "E." Upon the Effective Date, the proceeds of said letter of credit shall be distributed to HOTEL INVESTORS CORPORATION and the provisions of the agreements referenced in this paragraph and Exhibits "D" and "E" shall be declared fully enforceable.

5.4 Notice and Class Administration Fund. Within five business days after execution of this Stipulation, the Settling Parties shall cause to be deposited into a mutually agreed upon financial institution, the amount of \$45,000 which shall constitute the Notice and Class Administration Fund. Class Plaintiffs' Counsel shall have the authority to expend funds of said account for the purpose of class notice and administration. Class Plaintiffs' Counsel shall be responsible for all costs of class notice and administration when the Notice and Class Administration Fund is exhausted. To the extent monies remain in the Notice and Class Administration Fund on the Effective Date, said monies shall be released to Class Plaintiffs' Counsel for

the benefit of Authorized Claimants. If this Stipulation is canceled for any reason, to the extent monies remain in the Notice and Administrative Fund, said funds shall be returned to Settling Defendants by delivering said funds to the Duckor & Spradling

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Client Trust Account, then to be delivered to the parties who contributed to the settlement in the ratio of their contributions.

6. NOTICE ORDER AND SETTLEMENT HEARING

6.1 Promptly after execution of this Stipulation and the certification of the Class as required by this Stipulation, the Settling Parties shall submit this Stipulation together with its Exhibits to the District Court and shall jointly apply for entry of an order (the "Notice Order"), substantially in the form of Exhibit "A" hereto, requesting approval for the mailing to the Plaintiffs of a Settlement Notice which shall include the general terms of the settlement set forth in this Stipulation, the preliminary approval of the settlement set forth in this Stipulation, certification of the Class for settlement purposes only, the proposed Plan of Allocation, notice that Representative Plaintiff's Counsels intend to apply for an award of attorneys' fees and reimbursement of expenses and the date of the Settlement Hearing. Settling Defendants, and their counsel, agree to take no position with respect to Plaintiffs' application for counsel fees and reimbursement of expenses.

6.2 The Notice Order shall specifically include provisions which, among other things:

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(a) Preliminarily approve this Stipulation and the settlement set forth herein as being fair, just, reasonable and adequate to the Settlement Class;

(b) Approve the form of Notice of Settlement Hearing (substantially in the form of Exhibit "A-1" to Exhibit "A" hereto), for mailing to Settlement Class Members;

(c) Approve the form of Proof of Claim and Release (substantially in the form of Exhibit "A-2" to Exhibit "A" hereto), for

mailing to Settlement Class Members;

(d) Direct Class Plaintiffs' Counsel to mail or cause to be mailed the Settlement Notice and the Proof of Claim and Release form to those Class Members who can be identified through reasonable effort, on or before dates to be specified in the Notice Order;

(e) Provide that Settlement Class Members who wish to participate in the Settlement Fund shall complete and file a Proof of Claim and Release pursuant to the instructions contained therein;

(f) Provide a method for Class Members to request to be excluded from the Class;

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(g) Find that the Notice given pursuant to the subparagraphs (b)-(d) and (f) above constitutes the best notice practicable under the circumstances, including individual notice to all Settlement Class Members who can be identified upon reasonable effort, and constitutes valid, due and sufficient notice to all persons in the Settlement Class, complying fully with the requirements of Rule 23 of the Federal Rules of Civil Procedure, the Constitution of the United States, and any other applicable law;

(h) Schedule a hearing or hearings (the "Settlement Hearing") to be held by the Court to consider and determine whether the proposed settlement of the litigation as contained in this Stipulation should be approved as being fair, reasonable and adequate and the Judgment approving the settlement should be entered;

(i) Provide that at or after the Settlement Hearing, the court shall determine whether the proposed Plan of Allocation should be approved;

(j) Provide that at or after the Settlement Hearing, the court shall determine and enter an order regarding whether and in what amount attorneys' fees and expenses should be awarded to Class Plaintiffs' Counsel and State Plaintiffs' Counsel;

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(k) Provide that pending final determination of

whether the settlement contained in this Stipulation should be approved, neither the Plaintiffs, nor any Settlement Class Member, either directly, representatively, or in any other capacity shall commence or prosecute any action or proceeding, in any court or tribunal asserting any of the Released Claims against the Settling Defendants;

(l) Provide that any objections to (i) the proposed settlement contained in this Stipulation; (ii) entry of the Judgment approving the settlement; (iii) the proposed Plan of Allocation; or (iv) Class and State Plaintiffs' Counsels' Fee and expense Application, shall be heard and any papers submitted in support of said objections shall be received and considered by the court at the Settlement Hearing only if, on or before a date to be specified in the Notice Order, persons making objections shall file and serve notice of their intention to appear (which shall set forth briefly each objection and the basis therefor) and copies of any papers in support of their position as set forth in the Notice Order;

(m) Provide that, upon the occurrence of the Effective Date, all Settlement Class Members, whether or not they file a Proof of Claim and Release within the time provided for, shall be barred from asserting any Released Claims against any of the Released Parties, and any such Settlement Class Member shall

conclusively be deemed to have released any and all such Released Claims as against the Released Parties; and

(n) Provide that the Settlement Hearing or related hearing may, from time to time and without further notice to the Settlement Class, be continued or adjourned by order of the court.

7. GOOD FAITH DETERMINATION AND CLASS APPROVAL

7.1 Promptly upon execution of this Stipulation, Plaintiffs in the Carno action and counsel for defendants in the Carno action shall jointly move the appropriate state court for an order and judgment (the "Good Faith Order") providing that:

(a) the settlement embodied in this Stipulation is entered into and made in good faith, within the meaning of sections 877 and 877.6 of the California Code of Civil Procedure and that the Carno action is dismissed with prejudice as to the Carno defendants; and

(b) all claims for contribution or indemnification, however denominated, against the Settling Defendants in the

action, arising under applicable law in favor of persons or entities who are asserted to be or may be joint tortfeasors with said Settling Defendants and based upon liability

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arising from, or based upon, the Carno action, are forever extinguished, discharged, satisfied and/or otherwise unenforceable, as more fully described in Paragraph 3.3.

7.2 Promptly upon execution of this Stipulation, Class Plaintiffs and Settling Defendants shall jointly move the United States District Court for the Southern District of California for an order, as provided in Paragraph ____, as well as the following:

(a) determining that all claims for contribution and indemnity, however, denominated, against any or all Settling Defendants are forever barred.

(b) entering of a Judgment substantially in the form of Exhibit B; and

(c) in the event the United States District Court in the Utan and Horowitz actions makes findings in connection with the contemplated approvals described in this Agreement, Settling Defendants do not, by entering into this Agreement, waive their right to object to the making or content of any such findings.

8. REPRESENTATIONS AND WARRANTIES

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8.1 Each of the parties to this Stipulation represents and warrants to, and agrees with each other party hereto, as follows:

8.2 All parties have received independent legal advice from their attorneys with respect to the advisability of making this settlement, with respect to the advisability of executing this Stipulation, and with respect to the meaning of California Civil Code section 1542.

8.3 No party to this Stipulation (nor any officer, agent, partner, employee, representative or attorney of or for any party), has made

any statement or representation to any other party to this Stipulation regarding any fact relied upon in entering into this Stipulation, and each party does not rely upon any statement, representation or promise of any other party (or any officer, agent, partner, employee, representative or attorney of or for any other party), in entering into this Stipulation, or in making the settlement provided for herein, except as expressly stated in this Stipulation, the exhibits hereto and the writings referred to herein.

8.4 Each party to this Stipulation has made such investigation of the facts pertaining to this settlement and this Stipulation, and of all the matters pertaining to him or it, as he or it deems necessary.

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8.5 Each undersigned attorney has read this Agreement and understands its contents.

8.6 The Settling Parties and undersigned attorneys shall execute all such further and additional documents as shall be reasonable, convenient, necessary or desirable to carry out the provisions of this Stipulation.

8.7 The State Plaintiffs' Counsel and the Class Plaintiffs' Counsel warrant that they are all, and each of them, authorized by their respective clients, and each of them, to enter into and execute this Stipulation including the releases, and that they collectively represent the Plaintiffs, and each of them.

8.8 Settling Defendants represent that the signatories on its behalf are fully authorized to enter into and execute this Agreement.

9. TERMINATION

9.1 If any State Court after all applicable appeals finally refuses to enter the Good Faith Order described in Paragraph 7.1 of this Stipulation as to the Carno action, or the Federal Court after all applicable appeals finally refuses to enter the order approving this Stipulation and the Judgment in the form as substantially set forth in Exhibit B, or should Class Plaintiffs' Counsel or State

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Plaintiffs' Counsel fail to make motions or applications required by this Stipulation within 60 days of its execution, Settling Defendants, or any of them, may, but need not, unilaterally terminate this Stipulation by written notice and the Settlement Fund, including any interest earned thereon, shall then immediately be returned to Settling Defendants and their insurers or their respective designated representative(s), in the same proportion that each contributed to the Settlement Fund.

9.2 Class Plaintiffs' Counsel shall within two (2) business days following the expiration of the period to file Requests for Exclusion from the Class personally serve on Duckor & Spradling, a writing verified by one of the Class Plaintiffs' Counsel (herein called "Verified Tabulation of Requests for Exclusion") listing the name, address, identification of investment and dollar amount of investment of each class member who elects to opt-out from the Class.

9.3 In the event that the aggregate Recognized Loss listed on the Verified Tabulation of Requests for Exclusion exceeds the amount specified in the Supplemental Agreement referred in Paragraph 3.6 of the Stipulation, then any Settling Defendant or his/its insurer(s) may, but need not, terminate this Stipulation and it shall be deemed null and void, provided the Settling Defendant or its insurer(s) provides written notice of its election to terminate the Stipulation by personal delivery to Robert I. Harwood, Wechsler

Skirnick Harwood Halebian & Feffer, and to Scott Metzger, Duckor & Spradling within five (5) business days following delivery of the Verified Tabulation of Requests for Exclusion. In the event a Settling Defendant or his/its insurer elects to terminate as provided herein, the Settlement Fund including any interest earned thereon shall be returned to Settling Defendants and their insurer(s) or their designated representatives in the same proportion that each contributed to the Settlement Fund.

10. MISCELLANEOUS PROVISIONS

10.1 This Stipulation and its exhibits constitute the entire agreement and understanding between the parties hereto concerning the subject matter hereof, and no representations, warranties, covenants or inducements have been made to any party concerning this Stipulation and its exhibits. This Stipulation supersedes and replaces all prior negotiations and proposed agreements, written and oral, relating thereto.

10.2 Plaintiffs and Settling Defendants may only waive,

release or alter any provision of this Stipulation by another document in writing signed by duly authorized representatives of Plaintiffs and Settling Defendants.

10.3 No waiver of any term, provision or condition of this Stipulation in any one or more instance shall be deemed to

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be or construed as a further or continuing waiver of any such term, provision or condition of this Stipulation.

10.4 No terms of this Stipulation may be changed or terminated orally.

10.5 This Stipulation shall be filed promptly with the appropriate state court and the federal court and shall constitute a stipulation in writing before said courts so as to be subject to all enforcement proceedings set forth in California Code of Civil Procedure section 664.6 and United States District Court for the Southern District of California Local Rule 7.4 and applicable federal law.

10.6 The state court shall continue to exercise jurisdiction and supervision over the subject matter of this Stipulation, including its administration, consummation and enforcement, to the extent that it applies to the Carno action, until such time as the applicable statutes of limitations have expired on all claims which may be filed against the Settling Defendants.

10.7 The federal court shall continue to exercise jurisdiction and supervision over the subject matter of this Stipulation, including its administration, consummation and enforcement, to the extent that it applies to the Uttan and

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Horowitz actions, until such time as the applicable statutes of limitation have expired on all claims which may be filed against Settling Defendants.

10.8 Each of the undersigned agrees to use his or her best efforts to take, or cause to be taken, all actions as may be reasonably required in order to effectuate the terms of this Stipulation.

10.9 Any notice, request, instruction or other document deemed by any party to be necessary or desirable to be given to another party shall be in writing and shall be hand delivered, hand delivered by courier, or mailed by registered mail or certified mail, return receipt requested, postage prepaid, addressed as follows:

Edward M. Medvene, Esq.
Patricia H. Benson, Esq.
MITCHELL, SILBERBERG & KNUPP
11377 West Olympia Boulevard
Los Angeles, CA 90064
(310) 312-2000

Michael J. Klowden, Esq.
MORGAN, LEWIS & BOCKIUS
801 South Grand Avenue
Suite 220
Los Angeles, CA 90017

Lionel Z. Glancy, Esq.
LAW OFFICES OF LIONEL Z. GLANCY
1299 Ocean Avenue, Suite 323
Santa Monica, CA 90401

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Robert I. Harwood
Wechsler Skirnick Harwood Helebian & Feffer
555 Madison Avenue, New York, New York 10022
(212) 935-7400

Gilbert D. Jensen, Esq.
BARTON, KLUGMAN & OETTING
333 South Grand Avenue
37th Floor
Los Angeles, CA 90071-1599

Scott W. Fisher, Esq.
GARWIN, BRONZAFT, GERSTEIN & FISHER
1501 Broadway, Suite 1416
New York, New York 10036

Zachary A. Starr, Esq.
GOODKIND, LABATON, RUDOFF & SUCHAROW
100 Park Avenue
New York, New York 10019

R. William Bowen, Esq.
LUCE, FORWARD, HAMILTON & SCRIPPS
600 West Broadway, Suite 2600
San Diego, CA 92101

Dennis Kinnard, Esq.
MUNGER, TOLLES & OLSON
355 South Grand Avenue, 35th Floor
Los Angeles, CA 90071

Scott L. Metzger, Esq.
Jill Osmars Wolcott, Esq.
Duckor & Spradling
401 West A Street, Suite 2400
San Diego, CA 92101-7909

If mailed as aforesaid, notice shall be deemed given three (3) days after deposit in the United States mail. The person and addresses to which mailings may be made may be changed from time to time by a notice mailed as aforesaid.

10.10 The parties hereto acknowledge to each other that no one, nor any of their agents or attorneys, has made any

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promises, representation or warranty to induce them to enter into this Stipulation other than as set forth in this Stipulation and the Exhibits hereto and other writings referred to herein.

10.11 This Stipulation shall be binding upon, and shall inure to the benefit of, the successors and assigns of the parties hereto.

10.12 This Stipulation, the settlement and any proceedings in connection therewith shall not be construed as an admission of truth of any allegation or the validity of any claim asserted or of any liability therein; nor shall this Stipulation, nor the settlement, nor any papers related to them, nor any of the terms hereof be offered or received in evidence or in any way referred to in any civil, criminal or administrative action or proceeding other than (1) such proceedings as may be necessary to consummate or enforce this Stipulation or to comply with any law or regulation of any Federal, State or other government entity or (2) any action or proceeding against Settling Defendants or any Released Party to support a defense of res judicata, collateral estoppel, release or other theory of claim preclusion or issue preclusion or similar defense; nor shall they be construed by anyone for any

purpose whatsoever as an admission or presumption of any wrongdoing. Settling Defendants deny all the material allegations contained in the Carno, Uttan and Horowitz actions, maintain that their conduct and the conduct of the persons and

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entities released herein has been at all times legal and proper, and deny any fault or liability whatsoever.

10.13 If this Stipulation should terminate or become null and void for any reason, then this Stipulation, all documents relating thereto, including without limitation, briefs, affidavits and correspondence submitted to the Court and all negotiations and proceedings relating thereto shall be without prejudice to the rights of any and all parties hereto, who shall be restored to the status quo ante existing on the execution date of this Stipulation, except to the extent of costs expended from the Notice and Administration Fund.

10.13(a) If this Stipulation should terminate or become null and void for any reason, applicable statutes of limitation are deemed tolled as of the date of this Stipulation, without prejudice to any statute of limitations defense any Settling Defendant may have had as of the date of the Stipulation.

10.14 With the exception of those matters already filed of record in the Uttan, Horowitz or Carno actions prior to the execution of this Stipulation, the aforesaid documents, negotiations and proceedings shall not be offered in evidence or referred to by anyone in any action or proceeding in the event that this Stipulation should terminate and become null and void.

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10.15 State Plaintiffs' Counsel and Class Plaintiffs' Counsel, and the employees and attorneys in those firms, agree not to share any information including, but not limited to, research or discovery with persons or entities not subject to this settlement that might subsequently accept or prosecute any cases arising out of the Uttan, Horowitz and/or Carno litigation against the Released Parties, or any of them, absent a court order or subpoena. If the State Plaintiffs' Counsel and Class Plaintiffs' Counsel receive notice of a court order or a subpoena requiring the production of such information, they shall provide notice to counsel for Settling Defendants in a sufficient

amount of time that would allow counsel for Settling Defendants to request appropriate relief from said court order or subpoena. The State and Class Plaintiffs' Counsel shall not have an obligation to bring any such motion for relief, which obligation shall be that of counsel for Settling Defendants.

10.16 State and Class Plaintiffs' Counsel warrant that they have not assisted anyone not covered by the releases contemplated by this Stipulation to be given to the Released Parties in preparing any claim or lawsuit which is not presently on file, regarding any of the matters in this Stipulation against any of the Released Parties.

10.17 This Stipulation may be executed in counterparts, each of which shall be deemed an original and

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together shall constitute one and the same instrument, and when each party has signed at least one such counterpart, this Stipulation shall become binding and effective as to all parties as of the day and year first above written.

10.18 Unless the context otherwise requires, in this instrument the singular number includes the plural and the plural number includes the singular, the masculine gender includes the feminine and/or neuter, the neuter includes the masculine and/or feminine, and the feminine includes the masculine and/or neuter.

10.19 All terms of this Stipulation and the Exhibits thereto shall be governed and interpreted according to the substantive law of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Stipulation as of the day and year first above written.

MITCHELL, SILBERBERG & KNUPP

Dated: December 17, 1993

By: /s/ PATRICIA H. BENSON, ESQ.

Patricia H. Benson, Esq.
Attorneys for Defendant
Sherwin L. Samuels

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

[SIGNATURES CONTINUED FROM PRECEDING PAGE]

MORGAN, LEWIS & BOCKIUS

Dated: April 11, 1994

By: /s/ MICHAEL J. KLOWDEN, ESQ.

Michael J. Klowden, Esq.
Attorneys for HOTEL INVESTORS,
INC., and HOTEL INVESTORS TRUST

BARTON, KLUGMAN & OETTING

Dated: April 30, 1994

By: /s/ GILBERT D. JENSEN, ESQ.

Gilbert D. Jensen, Esq.
Attorneys for Reliance Insurance
Company

LAW OFFICES OF LIONEL Z. GLANCY

Dated: December 20, 1993

By: /s/ LIONEL Z. GLANCY, ESQ.

Lionel Z. Glancy, Esq.
Attorneys for Plaintiffs

WECHSLER SKIRNICK HARWOOD HELEBIAN &
FEFFER

Dated: December 17, 1993

By: /s/ ROBERT I. HARWOOD

Robert I. Harwood
Attorneys for Plaintiffs

GARWIN, BRONZAFT, GERSTEIN & FISHER

Dated: December 11, 1993

By: /s/ SCOTT W. FISHER, ESQ.

Scott W. Fisher, Esq.
Attorneys for Plaintiffs

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

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[SIGNATURES CONTINUED FROM PRECEDING PAGE]

MUNGER, TOLLES & OLSON

Dated: April 5, 1994

By: /s/ DENNIS KINNARD, ESQ.

Dennis Kinnard, Esq.
Attorneys for JOHN F. ROTHMAN

GOODKIND, LABATON, RUDOFF & SUCHAROW

Dated: December 11, 1993

By: /s/ LAWRENCE SUCHAROW

Lawrence Sucharow
Attorneys for Plaintiffs

LUCE, FORWARD, HAMILTON & SCRIPPS

Dated: April 11, 1994

By: /s/ R. WILLIAM BOWEN, ESQ.

R. William Bowen, Esq.
Attorneys for RONALD A. YOUNG

Dated: December 11, 1993

By: /s/ SCOTT L. METZGER, ESQ.

Scott L. Metzger, Esq.

By: /s/ JILL OSMARS WOLCOTT, ESQ.

Jill Osmars Wolcott, Esq.
Attorneys for GRAEME W. HENDERSON,
BRUCE M. FORD, EARLE F. JONES and
HOWARD B. LEVENSON

Exhibit 10.2

SETTLEMENT AND RELEASE AGREEMENT

THIS SETTLEMENT AND RELEASE AGREEMENT (the "Agreement") is entered into as of this _____ day of _____, 1994, by and among JOHN F. ROTHMAN ("Rothman"); RONALD A. YOUNG ("Young"); HOTEL INVESTORS CORPORATION, a Maryland corporation ("Corp."); HOTEL INVESTORS TRUST, a Maryland business trust ("Trust") (Corp. and Trust are collectively hereinafter referred to as "Hotel Investors"); and WESTERN HOST, INC., a California corporation ("Western Host").

R E C I T A L S

A. Young is a former Director, President and Chief Executive Officer of Corp. and a former Trustee of Trust; and Rothman is a former Chief Executive Officer and Trustee of Trust and a former Director of Corp. Young and Rothman were the sole shareholders of Western Host prior to their sale of all of the outstanding shares of Western Host to Corp. The following lawsuits have been filed against Young and Rothman, both individually and in their respective capacities as officers, directors and trustees of Hotel Investors:

1. Naomi Horowitz, on behalf of herself and all others similarly situated, Plaintiff, v. Hotel Investors Trust, Inc. [sic], a Maryland corporation; Hotel Investors Corporation, a Maryland corporation; Ronald A. Young; and John F. Rothman, Defendants, filed in the United States District Court, Southern District of California, as Case No. 91-1161 K (BTM);

2. Joyce Uttan I.R.A.; Dr. Irwin Hoffman; John Powell; and William Bieman, on behalf of themselves and all others similarly situated, Plaintiffs, v. Hotel Investors Trust, Inc. [sic], a Maryland real estate investment trust; Hotel Investors Corporation, a Maryland corporation; Ronald A. Young; and John F. Rothman, Defendants, filed in the United States District Court, Southern District of California, as Case No. 92-277B (M); and

3. Richard Carno and Sonem Partners, Ltd., derivatively on behalf of Hotel Investors Trust; and Hotel Investors Corporation, Plaintiffs, v. Ronald A. Young, John F. Rothman, Graeme W. Henderson, Sherwin L. Samuels, Bruce M. Ford, Earl F. Jones and Howard B. Levenson, Defendants; and Hotel Investors Trust, a Maryland real estate investment trust, and Hotel Investors Corporation, a Maryland corporation, Nominal Defendants, filed in the Superior Court of California, County of San Diego, as Civ. No. 650235 (the

three lawsuits are hereinafter collectively defined as the "Shareholder Suits").

B. Young and Rothman are general partners of Western Host Fresno Partners, Western Host Stockton Partners, Western Host Bakersfield Partners, Western Host Properties, Western Host Monterey Partners, Western Host Pasadena Partners and Western

Exhibit 10.2

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Host San Francisco Partners (collectively, the "Partnerships"). Each of the Partnerships have an equity interest in certain hotels (the "Partnership Hotels"), which are, in the case of Western Host Fresno Partners, Western Host Stockton Partners, Western Host Bakersfield Partners, Western Host Properties and Western Host Monterey Partners, managed by Western Host pursuant to various management contracts (collectively the "Management Contracts), and in the case of Western Host Pasadena Partners and Western Host San Francisco Partners, managed by Western Host as a general partner, pursuant to their respective Certificates of Limited Partnerships (collectively, the "Pasadena and San Francisco Partnership Agreements"), whereby, in exchange for specified management and incentive fees, Western Host has the right to supervise, manage and direct all operations of the Partnership Hotels. In exchange for such services Western Host receives management and incentive fees based on the gross revenues, cash flows and/or operating profits of each of the Partnership Hotels, or of the partnership that operates such Partnership Hotel.

C. Westland Hotel Corp., an affiliate of Young, and Western Host have entered into agreements for each of the Partnership Hotels, whereby Western Host has subcontracted its rights to provide management services for each of the Partnership Hotels under the Management Contracts and the Pasadena and San Francisco Partnership Agreements (the "Interim Management Contracts") to Westland Hotel Corp. as Manager (as defined therein).

D. Young and Rothman, as general partners of the Partnerships, contend that they have the absolute right (which right Hotel Investors disputes) to (i) request that the limited partners remove Western Host as a general partner of Western Host Pasadena Partners and Western Host San Francisco Partners; and (ii) terminate the Management Contracts on behalf of the Partnerships. Western Host, Trust and Corp. contend that Young, Rothman and the Partnerships cannot take such action without incurring liability to Western Host. Young, Rothman and the Partnerships will terminate the Management Contracts and Western Host will forbear from disputing such action and will withdraw as a general partner of Western Host Pasadena Partners and Western Host San Francisco Partners pursuant to that certain Termination of Management Contracts Agreement of even date herewith (the "Termination of Management Contracts Agreement") by and among the Partnerships, Western Host,

E. Hotel Investors contends that the filing and defense of the Shareholder Suits and cancellation of the Management Contracts and other actions taken by Young and Rothman have, respectively, caused Hotel Investors to incur significant expense and will substantially reduce the value of Western Host to Hotel Investors. Young and Rothman deny such contentions.

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F. In a desire to end all disputes among them, the parties hereto have negotiated a resolution of all disputes existing between them with respect to the Shareholder Suits and termination of the Management Contracts and intend, by the terms of this Agreement, to memorialize the resolution of all such disputes. In consideration of the settlement of the issues surrounding the Shareholder Suits and termination of the Management Contracts and all other disputes among the parties hereto by entering into this Agreement, among other things, Young and Rothman shall return a portion of the purchase price paid to them for the outstanding stock of Western Host in an amount equal to \$1,150,000 by the delivery of an irrevocable letter of credit with a term of one year (the "LC"), in the form attached hereto as Exhibit "B", to Hotel Investors in the sum of Eight Hundred Thousand U.S. Dollars (\$800,000) in addition to delivering an additional Three Hundred Fifty Thousand U.S. Dollars (\$350,000) into escrow pursuant to a separate Stipulation of Settlement Agreement relating to the Shareholder Suits and involving all parties thereto as well as an Agreement by and among Reliance Insurance Company and the defendants in the Shareholder Suits (the "Global Settlement Agreement" relating to the "Global Settlement") (such amounts together constituting the "Return of Purchase Price"). Concurrently with the disbursement of the Return of Purchase Price to or for the benefit of Hotel Investors, Hotel Investors, Western Host, Young and Rothman, respectively, shall (subject to certain conditions) release one another from all losses, liabilities, claims, demands and actions in connection with the Shareholder Suits and termination of the Management Contracts, all as set forth herein and in the Global Settlement Agreement.

A G R E E M E N T

NOW, THEREFORE, in consideration of the promises and mutual covenants set forth below, the parties agree as follows:

1. Delivery of Return of Purchase Price by Young and Rothman. Upon the execution of this Agreement and in satisfaction of any damages Hotel Investors or Western Host may have incurred or may incur in the future from the Shareholder Suits and termination of the Management Contracts, Young and Rothman shall concurrently with the execution of the Agreement deliver the Return of Purchase Price to Hotel Investors by delivery of the LC in the amount

of \$800,000 to Hotel Investors and shall deliver \$350,000 in accordance with the Global Settlement Agreement.

1.1 Conclusion of Global Settlement/Disbursement of Proceeds of LC. Upon conclusion of the Global Settlement (which shall mean the entry by the Court(s) of final order(s) confirming the Global Settlement Agreement in all respects), the proceeds of the LC shall be paid to Hotel Investors and disbursement of the \$350,000 deposited by Young and Rothman

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pursuant to the Global Settlement Agreement shall be governed by the terms thereof. Any party hereto may terminate this Agreement if the Global Settlement is not so concluded and such party elects to terminate the Global Settlement pursuant to Section 9 of the Global Settlement Agreement. If the transactions contemplated by this Agreement should be terminated by any party hereto pursuant to the immediately preceding sentence, the Return of Purchase Price shall be returned to Young and Rothman and at such time (a) the LC evidencing a portion of Return of Purchase Price shall be canceled by Young and Rothman; and (b) Hotel Investors and Western Host shall retain all rights described in Section 2.1 hereof.

2. Release. Effective upon conclusion of the Global Settlement and when the Return of Purchase Price has been released to or for the benefit of Hotel Investors, Western Host and Hotel Investors shall hereby and without further action release Young, Rothman and the Partnerships and their respective officers, directors, partners, trustees and affiliates from all losses, liabilities, claims, demands and actions which they ever had, now have, may have or claim to have against the released parties arising, directly or indirectly, out of or in any way connected with the Termination of Management Contracts Agreement (other than the obligations undertaken thereby).

The parties declare that they have read and understand the following statutory language of Section 1542 of the California Civil Code:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Having been so apprised, Western Host and Hotel Investors nevertheless hereby elect to and do assume all risk for claims, known or unknown, heretofore or hereafter arising from the subject of the foregoing release; and notwithstanding the provisions of Section 1542 of the California Civil Code, hereby knowingly and voluntarily expressly release Young, Rothman and the Partnerships from all liability for claims arising out of such matter.

2.1 Extent of Release; Continuing Nature of Indemnification. Pursuant to the Global Settlement Agreement, Rothman and Young are receiving releases from Hotel Investors with respect to all claims related to the Shareholders' Suits, and Hotel Investors is also receiving releases from Rothman and Young with respect to all claims related to the Shareholders' Suits. Notwithstanding anything to the contrary in this Agreement or the Global Settlement Agreement, the parties hereby acknowledge that as between them:

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(a) The claims released by Hotel Investors as against Rothman and Young pursuant to Paragraph 7 of the Global Settlement Agreement are (1) those claims which would be barred by virtue of the settlement of the Shareholder Suits if asserted by any member of any class certified by the court in those Suits and (2) all rights to indemnity or contribution as to any claim which was or could have been asserted in the Shareholder Suits by the members of the class who did not opt out of the settlement and therefore would be barred.

(b) The claims released by Rothman and Young as against Hotel Investors pursuant to Paragraph 7 of the Global Settlement Agreement are (1) those claims which would be barred by virtue of the settlement of the Shareholder Suits if asserted by any member of any class certified by the court in those Suits and (2) all rights to indemnity or contribution as to any claim which was or could have been asserted in the Shareholder Suits by the members of the class who did not opt out of the settlement.

(c) The terms of all of (1) the existing Indemnification Agreement dated as of February 3, 1992 between Corp. and Young; (2) the existing Indemnification Agreement dated as of February 3, 1992 between Trust and Young; and (3) that certain Memorandum of Understanding dated March 20, 1990 between Rothman and Trust shall continue in full force and effect, except to the extent modified by paragraph 7 of the Global Settlement Agreement as set forth above, and subject to Rothman and Young meeting their indemnification obligation pursuant to Section 8 of the Termination of Management Contracts Agreement. It is hereby expressly agreed that Rothman and Young have not released their rights, if any, to indemnity or contribution as to any claims asserted by any person who opts out of the settlement of the Shareholder Suits, nor has Hotel Investors released its rights, if any, to assert claims against Rothman and Young with respect to or as a result of any claims so asserted.

2.2 No Settlement. If the Global Settlement is not

concluded and this Agreement is terminated pursuant to Paragraph 1.1, the release effected by Section 2 hereof shall be of no force or effect and Hotel Investors and Western Host shall have any and all rights to institute any claim they would otherwise have had against Young, Rothman and the Partnerships prior to the execution of this Agreement and the Termination of Management Contracts Agreement and the transactions contemplated hereby and thereby. Young, Rothman and the Partnerships would in such event retain the right to contest any such assertion. In such event, any applicable statute of limitations shall be tolled for the period from the date hereof to the date of termination of this Agreement.

3. Covenants and Representations of Young and Rothman. As a material inducement to Western Host to enter into and

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perform its obligations under this Agreement, Young and Rothman hereby covenant and agree as follows:

3.1 Other Documents. Concurrently with the execution hereof, Young and Rothman shall execute the Termination of Management Contracts Agreement.

3.2 Authority; No Breach. Each of the Partnerships, Young and Rothman has full power, capacity and authority to enter into and perform their respective obligations under this Agreement; and no action is required by law, by each Partnership's respective Certificate of Limited Partnership or otherwise, to authorize or permit the partnerships to undertake any of the Partnerships' Actions (as defined below) except for the approval by the general or limited partners of the respective Partnerships, which approvals (to the extent required by law) shall be obtained in connection with the execution and performance of this Agreement. None of the Partnerships' Actions are prohibited by, have violated or will violate any law in effect on the date of this Agreement. None of the Partnerships' Actions will conflict with, result in any breach of any of the provisions of, constitute a default under any material agreement, instrument or obligation by which any of them are bound or result in the creation of any lien, security interest, charge or encumbrance upon the Return of Purchase Price being transferred hereunder. For purposes of this Agreement the term "Partnerships' Actions" designates and includes (i) the execution and delivery of this Agreement and all other agreements contemplated by this Agreement by Young, Rothman and the Partnerships and (ii) the performance by Young, Rothman and the Partnerships of all other transactions contemplated by this Agreement. This Agreement and all of the other agreements contemplated hereby constitute the valid and binding obligation of each of Young, Rothman and the Partnerships.

4. Covenants and Representations of Western Host, Corp. and Trust. As a material inducement to Young and Rothman to enter into and perform their obligations under this Agreement, Western Host and Hotel Investors hereby covenant and agree as follows:

4.1 Other Documents. Concurrently with the execution of this Agreement, Western Host and Hotel Investors shall immediately execute the Termination of Management Contracts Agreement.

4.2 Reporting Position. Western Host and Hotel Investors shall reflect payment by Young and Rothman of the \$1,150,000 Return of Purchase Price as such in all relevant state and federal income tax returns.

4.3 Authority; No Breach. Each of Western Host, Corp. and the Trust has full power, capacity and authority to

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enter into and perform their respective obligations under this Agreement; and no action is required by law, by each such party's organizational documents or otherwise, to authorize or permit those entities to undertake any of the actions contemplated hereby. None of such actions are prohibited by, have violated or will violate any law in effect on the date of this Agreement. None of Corp.'s, Western Host's or the Trust's actions or obligations will conflict with, result in any breach of any of the provisions of, constitute a default under, any material agreement, instrument or obligation by which any of them are bound, or result in the creation of any lien, security interest, charge or encumbrance upon the Return of Purchase Price being transferred hereunder. This Agreement, and all of the other agreements contemplated hereby, constitute the valid and binding obligation of each of Corp., Trust and Western Host.

5. Miscellaneous. This document is also governed by the following:

5.1 Captions. The caption headings for the sections of this Agreement are for convenience only and shall not be considered to interpret, limit, expand or define the content of the sections.

5.2 Governing Law. The interpretation and enforcement of provisions shall be governed by the laws of the State of California.

5.3 Counterparts. This document may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same document.

5.4 Authorization. The signatories below are authorized to execute this document.

5.5 Binding Provisions. The provisions shall be binding upon the successors, assigns, heirs and executors of the respective parties and shall inure to the benefit thereof.

5.6 No Waiver. Any party's failure to enforce any provision shall not constitute a waiver of the right to enforce such provision. The provisions may be waived only in a writing by the party intended to be benefitted by the provisions, and a waiver by a party of a breach hereunder by the other party shall not be construed as a waiver of any succeeding breach of the same or other provisions.

5.7 Modification. The provisions may be modified only in writing signed by the parties.

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5.8 Construction. No rule of strict construction shall be applied against any party.

5.9 Attorneys' Fees. Young and Rothman shall be responsible for their own attorneys' fees attributable to this Agreement and the transactions contemplated by this Agreement and the Termination of Management Contracts Agreement (but not the Global Settlement Agreement, which shall govern the payment of costs and expenses incurred in connection therewith). The prevailing party in any action respecting the provisions of this Agreement shall be entitled to recover reasonable attorneys' fees and the costs incurred in connection with such action, whether or not such action proceeds to final judgment.

5.10 Time of Essence. Time is expressly made of the essence with respect to the performance of each and every obligation hereunder.

5.11 Cooperation. The parties shall cooperate together and take such additional actions as reasonably necessary to accomplish the objectives set forth herein.

5.12 Exhibits. All Exhibits attached hereto are incorporated herein by reference.

5.13 Knowledge. The parties have read this document and have executed it voluntarily after having been apprised of all relevant information and risks and having had the opportunity to obtain legal counsel of their choice.

5.14 Recitals. The parties certify to each other that the

recitals set forth herein are true and correct to the best of their knowledge.

5.15 Supremacy. In the event of any conflict between the terms of this document and those of any document referred to herein, this document shall govern.

5.16 Joint and Several Obligations. In the event that any party consists of more than one person or entity, all of the obligations contained herein shall be joint and several obligations of each such person or entity.

5.17 Consents. Any consent or approval required from any party shall not be unreasonably withheld, conditioned or delayed.

5.18 Gender; Plurality. Whenever required, all references to the male gender shall include the female and neuter genders, all references to the singular shall include the plural and vice versa.

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5.19 No Relationship. Nothing in this document shall be construed to create any partnership, joint venture or fiduciary relationship between the parties which does not already exist.

5.20 Entire Agreement. This document, together with the documents referred to herein, sets forth the only entire agreement between the parties respecting the subject matter set

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forth herein; and all prior agreements, whether oral or written, shall be deemed terminated and of no further force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

"ROTHMAN"

/s/ JOHN F. ROTHMAN

"YOUNG"

/s/ RONALD A. YOUNG

Ronald A. Young

"CORP."

HOTEL INVESTORS CORPORATION, a
Maryland corporation

By: /s/ KEVIN E. MALLORY

Its: Executive Vice-President

"TRUST"

HOTEL INVESTORS TRUST, a Maryland
business trust

By: /s/ JEFFREY C. LAPIN

Its: President

"WESTERN HOST"

WESTERN HOST, INC., a California
corporation

By: /s/ KEVIN E. MALLORY

Its: President

TERMINATION OF MANAGEMENT CONTRACTS AGREEMENT

THIS TERMINATION OF MANAGEMENT CONTRACTS AGREEMENT (the "Agreement") is entered into as of this ____ day of _____, 1994, by and among WESTERN HOST, INC., a California corporation ("Western Host"); JOHN F. ROTHMAN ("Rothman"); RONALD A. YOUNG ("Young"); WESTLAND HOTEL CORP., a California corporation ("Westland"); WESTERN HOST FRESNO PARTNERS, a California limited partnership ("Western Host Fresno"); WESTERN HOST STOCKTON PARTNERS, a California limited partnership ("Western Host Stockton"); WESTERN HOST BAKERSFIELD PARTNERS, a California limited partnership ("Western Host Bakersfield"); WESTERN HOST PROPERTIES, a California limited partnership ("Western Host Modesto"); WESTERN HOST MONTEREY PARTNERS, a California limited partnership ("Western Host Monterey") WESTERN HOST PASADENA PARTNERS, a California limited partnership ("Western Host Pasadena"); WESTERN HOST SAN FRANCISCO PARTNERS, a California limited partnership ("Western Host San Francisco"); (the seven foregoing partnerships to be referred to collectively as the "Partnerships"); HOTEL INVESTORS CORPORATION, a Maryland corporation ("Corp.") and HOTEL INVESTORS TRUST, a Maryland business trust ("Trust"). (Corp. and Trust are collectively hereinafter referred to as "Hotel Investors.")

R E C I T A L S

A. 1. Western Host and Western Host Fresno are parties to that certain management contract dated as of December 17, 1975 (the "Fresno Management Contract"); whereby, in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Ramada Inn located at 324 Shaw Avenue, Fresno, California.

2. Western Host and Western Host Stockton are parties to that certain letter agreement dated July 24, 1985 (the "Stockton Management Letter"); whereby, in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Best Western Stockton Inn located at 4219 Waterloo Road, Stockton, California.

3. Western Host and Western Host Bakersfield are parties to that certain management contract dated as of November 15, 1976 (the "Bakersfield Management Contract"); whereby, in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Hilton Inn located at 3635 Rosedale Avenue, Bakersfield, California.

4. Western Host and Western Host Modesto are parties to that certain management contract dated as of September 19, 1977 (the "Modesto Management Contract"); whereby, in exchange for specific management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Western Host Motor Hotel (the "Western Host Modesto Hotel"), formerly the Pine Cone Motor Lodge, located at 1312 McHenry Avenue, Modesto, California.

5. Western Host and Western Host Monterey are parties to that certain management contract dated as of April 30, 1978 (the "Monterey Management Contract"); whereby, in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Casas Munras Garden Hotel located at 700 Munras Avenue, Monterey, California.

6. The Certificate of Limited Partnership dated as of July 22, 1977 (the "Pasadena Partnership and Management Contract"), between Rothman, Young and Western Host, as general partners of Western Host Pasadena, and the limited partners thereof; provides that in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Saga Motor Hotel located at 1633 East Colorado Boulevard, Pasadena California.

7. The Certificate of Limited Partnership dated as of May 5, 1975 (the "San Francisco Partnership and Management Contract"), between Rothman, Young and Western Host, as general partners of Western Host San Francisco, and the limited partners thereof; provides that in exchange for specified management and incentive fees, Western Host has the sole and exclusive right to supervise, manage and direct all operations of the Days Inn located at 835 Geary Street, San Francisco, California.

B. Young, Rothman and the Partnerships desire to terminate the management arrangements contained in the foregoing documents. More particularly, Western Host Fresno, Western Host Bakersfield, Western Host Monterey and Western Host Modesto desire to exercise their respective rights (which rights are contested by Western Host), as owner of each such partnership, to terminate the Fresno Management Contract, Bakersfield Management Contract, Monterey Management Contract and Modesto Management Contract (collectively the "Management Contracts") by providing sixty (60) days' prior written notice of such termination to Western Host in accordance with the Management Contracts. Western Host Stockton desires to exercise its rights (which rights are contested by Western Host), as owner, to terminate the services provided by Western Host under the Stockton Management Letter by providing five (5) days' prior written notice of such termination to Western Host in accordance with the Stockton Management Letter. Young, Rothman and the Partnerships have sought removal of Western Host as a general

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partner of Western Host Pasadena and Western Host San Francisco. Pursuant to such request, Western Host will withdraw as the general partner of each such entity effective as of the date hereof.

C. Young, Rothman, Westland and Western Host have entered into certain agreements whereby Western Host has subcontracted its rights to provide management services for the respective properties under the Management Contracts, the Stockton Letter Agreement, the Pasadena Partnership and Management Contract and the San Francisco Management and Partnership Contract to Westland (the "Interim Management Contracts"). The Interim Management Contracts will be canceled concurrently with the execution of this Agreement.

D. Young, Rothman, Corp., Trust and Western Host are parties to a Settlement and Release Agreement of even date herewith (the "Settlement Agreement") which contemplates the execution of this Agreement.

A G R E E M E N T

NOW THEREFORE, in consideration of the foregoing facts and for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Termination of Management. Effective upon the execution hereof, the management arrangements provided pursuant to the Management Contracts, the Stockton Management Letter, the Western Host Pasadena and Western Host San Francisco Partnership Agreements and the Interim Management Contracts are terminated by Young, Rothman and Westland. Western Host hereby withdraws as a general partner of Western Host Pasadena and Western Host San Francisco.

1.1 Forbearance. Western Host and Hotel Investors shall forbear from taking any action or asserting any claim against the Partnerships, Young, Rothman and Westland (including claims for breach of applicable notice provisions in the Interim Management Contracts, Management Contracts or the Stockton Management Letter) only to the extent set forth in the Settlement Agreement, and subject to the provisions of Section 2.2 thereof.

2. Termination of Management Arrangements. If the Global Settlement is concluded, no management, incentive or supervisory fees arising from the respective Management Contracts, the Stockton Management Letter, the Pasadena Partnership and Management Contract and the San Francisco Partnership and Management Contract (the "Management Fees") arising after the date hereof shall any longer be due and payable to Western Host. Furthermore, if the Global Settlement is concluded, Western Host hereby waives any right, title, interest and claim to the extent any Management Fees are attributable to its services provided after the date hereof. Westland shall, upon execution hereof and satisfaction of the

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conditions contained in Section 7 hereof, pay to Western Host \$120,000 in full satisfaction of any Management Fees (including, without limitation, "base management fees," "incentive management fees" or any other management fees) arising prior to the date hereof.

3. Representations and Warranties of Young, Rothman, Westland and the Partnerships. As a material inducement to Hotel Investors and Western Host to enter into and perform their obligations under this Agreement, Young, Rothman and the Partnerships, jointly and severally, hereby represent and warrant to Western Host and Hotel Investors as follows:

3.1 Organization and Corporate Power. Each of the Partnerships is a California limited partnership duly organized, validly existing and in good standing under the laws of the State of California and, by its respective general partners, has all requisite power and authority necessary to own and operate its properties and equipment and to carry on its business.

3.2 Authorization. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by all appropriate action of Young, Rothman, Westland and the Partnerships. This Agreement constitutes the valid and binding obligation of each of Young, Rothman, Westland and the Partnerships.

3.3 Litigation. Other than the Shareholder Suits, there are no claims, actions, suits, investigations or proceedings pending or threatened by, against, involving, relating to or materially affecting Young, Rothman, Westland or the Partnerships or which would prevent or hinder the consummation of the transactions contemplated hereby.

3.4 Governmental and Third-Party Consents. No permit, consent, approval or authorization of, declaration to or filing with any governmental or regulatory authority or of any third person is required in connection with the execution, delivery and performance of this Agreement by Young, Rothman, Westland and the Partnerships or Young's, Rothman's, Westland's and the Partnership's consummation of any other transaction contemplated hereby.

3.5 Disclosure. Neither this Agreement nor any of the attachments hereto, each of which is incorporated herein by this reference, contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained herein or therein not misleading. Young, Rothman, Westland and the Partnerships know of no fact not disclosed to

Western Host in writing or which any of the officers or managerial employees of the Partnership is aware and which affects adversely or could reasonably be anticipated to affect adversely this Agreement.

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3.6 Effective Date. All of the representations and warranties contained in this Section 3 and elsewhere in this Agreement and all information contained in any attachment hereto or in any writing delivered by or on behalf of Young, Rothman, Westland and the Partnerships are true and correct in all respects on the date of this Agreement.

3.7 Obligations to Western Host. Other than as specified herein, Young, Rothman, Westland and the Partnership do not have knowledge of any unpaid debts or obligations of the Partnerships owing to Western Host or Hotel Investors.

4. Western Host's Representations and Warranties. As a material inducement to Young, Rothman and the Partnerships to enter into and perform their respective obligations under this Agreement, Western Host hereby represents and warrants as follows:

4.1 Organization and Corporate Power. Each of Corp., the Trust and Western Host is duly organized, validly existing and in good standing under the laws of its state of organization.

4.2 Authorization. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by appropriate action of Corp., Trust and Western Host. This Agreement constitutes the valid and binding obligation of each of Western Host, Corp. and Trust.

5. Covenants of the Partnerships and Young. As a material inducement to Western Host to enter into and perform its obligations under this Agreement, Young, Rothman and the Partnerships hereby covenant and agree as follows:

5.1 Advances and Payables. Corp. has directly or indirectly, through Western Host, advanced certain funds to the Partnerships (the "Partnerships' Advances"). In addition, the Partnerships are responsible for a portion of certain Western Host accounts payable (the "Partnerships' Payables"). On the date hereof, Westland and the Partnerships will deliver a check to Corp. in the amount of \$67,029.16 in full satisfaction of the Partnerships' Advances and Partnerships' Payables. The Partnerships shall continue to bear the burden of or benefit from future retrospective adjustments in Western Host's and Hotel Investors' workers' compensation expense to the

extent of 20.15%, 21.55% and 20.77%, for 1989, 1990 and 1991, respectively. Any amount owing under the preceding sentence will be paid to the other party within 30 days after notice of any such adjustment is received. On the date hereof, Westland and the Partnership will deliver a check to Corp. in an amount equal to \$28,962.00 in full satisfaction of all retroactive workers' compensation adjustment attributable to the Partnerships and Westland made to date.

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5.2 Release of Western Host From Certain Obligations. Young, Rothman, Westland and the Partnerships covenant to use their best efforts to obtain a release of any obligations Western Host has incurred in connection with its status as general partner of Western Host Pasadena and/or Western Host San Francisco with any third party, including, but not limited to, any agreement with a ground lessor, franchisor or lender.

5.3 Consents. Young, Rothman, Westland and the Partnerships covenant to obtain any consent required by the Partnerships' respective limited or general partners, pursuant to their respective Certificates of Limited Partnership, and governmental or regulatory authority or any third person; provided, however, that should Young, Rothman, Westland and the Partnerships fail to obtain any such consent, then, in accordance with Section 8 hereof, Young, Rothman, Westland and the Partnerships shall indemnify Hotel Investors and Western Host for any liability (including reasonable attorneys' fees arising out of the failure to obtain any such consent.

6. Non-Exclusive License. Pursuant to a Non-Exclusive License Agreement (the "License Agreement") dated the date hereof, in the form of Exhibit "B" hereto, Western Host shall grant Young, Rothman, the Partnerships, Westland and any other corporation owned by Young or the Partnerships which is authorized to manage the hotels owned by the Partnerships, a non-exclusive license to use the name "Western Host" in association with the names of the Partnerships and the Western Host Modesto Hotel.

7. Conditions to Obligations. Each party's obligation to perform hereunder is conditioned upon the performance or written waiver by such party of each other party's obligations hereunder.

8. Indemnification by Young, Rothman and the Partnerships. Effective upon the execution of this Agreement, Young, Rothman, Westland and the Partnerships jointly and severally indemnify Western Host, Corp., Trust, their affiliates and their respective directors, trustees, officers, employees, agents, representatives and attorneys (collectively, the "Indemnified Parties") and hold the Indemnified Parties harmless against any loss, liability, damage or expenses, including reasonable legal expenses and costs which each of the

foregoing may suffer, sustain or become subject to as a result of (a) the breach of any representation, warranty, covenant or agreement of Young, Rothman, Westland, the Partnerships or any of them contained in this Agreement or in any separate certificate, instrument or agreement furnished or to be furnished pursuant to this Agreement or by reason or on account of the transfer of the Return of Purchase Price by Young and Rothman pursuant to the Settlement Agreement; (b) any claim of any third party, including, but not limited to, any employee, vendor, mortgagee, ground lessor, lender, franchisor or any other third party, from

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any liability in connection with this Agreement and the transactions contemplated hereby and the operation, management or ownership of the Partnerships arising after January 1, 1993 or with respect to Western Host Pasadena and Western Host San Francisco, in its capacity as general partner of each such partnership, for any such claim arising prior to or after the date hereof; (c) any and all claims by any of the limited partners in the respective Partnerships relating to the performance of Western Host's duties, this Agreement, the receipt of fees or otherwise relating to any of the hotels owned by Hotel Investors, including, with respect to Western Host San Francisco and Western Host Pasadena, the services and duties of Western Host as a general partner of such partnerships; and (d) any claim from any employee of the Partnerships, including, but not limited to, those employees of the Partnerships that were previously classified as employees of Corp., with respect to certain accrued employee benefits, including, but not limited to, vacation, holiday, severance or termination pay; sick leave; retirement benefits; Social Security benefits; Workers' Compensation benefits; disability, unemployment, health or accident insurance benefits; bonus plans; deferred compensation plans; incentive plans; retirement plans, if any of the foregoing exist. Notwithstanding this Agreement, any indemnification of Western Host contained in the Management Contracts, Stockton Management Letter, Pasadena Partnership and Management Contract and San Francisco Partnership and Management Contract shall continue in full force and effect, subject to the terms of such agreements.

9. Miscellaneous. This document is also governed by the following:

9.1 Captions. The caption headings for the sections of this Agreement are for convenience only and shall not be considered to interpret, limit, expand or define the content of the sections.

9.2 Governing Law. The interpretation and enforcement of provisions shall be governed by the laws of the State of California.

9.3 Counterparts. This document may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same document.

9.4 Authorization. The signatories below are authorized to execute this document.

9.5 Binding Provisions. The provisions shall be binding upon the successors, assigns, heirs and executors of the respective parties.

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9.6 No Waiver. Any party's failure to enforce any provision shall not constitute a waiver of the right to enforce such provision. The provisions may be waived only in a writing by the party intended to be benefitted by the provisions, and a waiver by a party of a breach hereunder by the other party shall not be construed as a waiver of any succeeding breach of the same or other provisions.

9.7 Modifications. The provisions may be modified only in a writing signed by the parties.

9.8 Severability. If any portion of a provision is held to be unenforceable, any enforceable portion thereof and the remaining provisions shall continue in full force and effect.

9.9 Construction. No rule of strict construction shall be applied against any party.

9.10 Attorneys' Fees. Each of the parties hereto shall be responsible for their own attorneys' fees attributable to this Agreement and the transactions contemplated hereby. The prevailing party in any action respecting the provisions hereof shall be entitled to an award of reasonable attorneys' fees and the costs incurred in connection with such action, whether or not such action proceeds to final judgment.

9.11 Time of Essence. Time is expressly made of the essence with respect to the performance of each and every obligation hereunder.

9.12 Cooperation. The parties shall cooperate together and take such additional actions as reasonably necessary to accomplish the objectives set forth herein.

9.13 Exhibits. All Exhibits attached hereto are incorporated herein by reference.

9.14 Knowledge. The parties have read this document and have executed it voluntarily after having been apprised of all relevant information and risks and having had the opportunity to obtain legal counsel of their choice.

9.15 Recitals. The parties certify to each other that the recitals set forth herein are true and correct to the best of their knowledge.

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9.17 Joint and Several Obligations. In the event that any party consists of more than one person or entity, all of the obligations contained herein shall be joint and several obligations of each such person or entity.

9.18 Consents. Any consent or approval required from any party shall not be unreasonably withheld, conditioned or delayed.

9.19 Gender; Plurality. Whenever required, all references to the male gender shall include the female and neuter genders, all references to the singular shall include the plural, and vice versa.

9.20 Representations and Warranties. All obligations, representations and warranties herein shall survive the close of the transactions contemplated hereby.

9.21 No Relationship. Nothing in this document shall be construed to create any partnership, joint venture or fiduciary relationship between the parties which does not already exist.

9.22 Confidentiality. The parties shall keep the terms of this document and the transactions contemplated thereby strictly confidential and shall disclose the information only to those individuals and entities necessary to accomplish the transactions contemplated herein or as otherwise required by law.

9.23 Indemnification. Any indemnification under this document shall survive the termination of this document for any reason with respect to any matters arising prior to the termination of this document.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"Corp."

HOTEL INVESTORS CORPORATION,
a California corporation

By _____

Its _____

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"Trust"

HOTEL INVESTORS TRUST,
a Maryland Business Trust

By _____

Its _____

"Western Host"

WESTERN HOST, INC.,
a California corporation

By _____

Its _____

"Rothman"

John F. Rothman

"Young"

(Signatures continue onto next page)

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"Westland"

WESTLAND HOTEL CORP.,
a California corporation

By _____
Ronald A. Young,
President

"Western Host Fresno"

WESTERN HOST FRESNO PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Stockton"

WESTERN HOST STOCKTON PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

(Signatures continue onto next page)

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"Western Host Bakersfield"

WESTERN HOST BAKERSFIELD PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Modesto"

WESTERN HOST PROPERTIES,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Monterey"

WESTERN HOST MONTEREY PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

(Signatures continue onto next page)

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"Western Host Pasadena"

WESTERN HOST PASADENA PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host San Francisco"

WESTERN HOST SAN FRANCISCO PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

(Signatures continue onto next page)

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EXHIBIT "B"

LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "Agreement") is entered into as of this ____ day of _____, 1994, by and among WESTERN HOST, INC., a California corporation ("Western Host"); JOHN F. ROTHMAN ("Rothman"); RONALD A. YOUNG ("Young"); WESTLAND HOTEL CORP., a California corporation ("Westland"); WESTERN HOST FRESNO PARTNERS, a California limited partnership ("Western Host Fresno"); WESTERN HOST STOCKTON PARTNERS, a California limited partnership ("Western Host Stockton"); WESTERN HOST BAKERSFIELD PARTNERS, a California limited partnership ("Western Host Bakersfield"); WESTERN HOST PROPERTIES, a California limited partnership ("Western Host Modesto"); WESTERN HOST MONTEREY PARTNERS, a California limited partnership ("Western Host Monterey") WESTERN HOST PASADENA PARTNERS, a California limited partnership ("Western Host Pasadena"); and WESTERN HOST SAN FRANCISCO PARTNERS, a California limited partnership ("Western Host San Francisco"); (the seven foregoing partnerships to be referred to collectively as the "Partnerships").

R E C I T A L S

A. Western Host, Rothman, Young, Westland and the Partnerships are parties to that certain Termination of Management Contracts Agreement dated as of even date herewith; whereby certain management arrangements between Western Host and each of the Partnerships were terminated.

B. Western Host is the owner of all right, title and interest in the name "Western Host" and certain service marks associated therewith (the name and marks collectively, the "Marks").

A G R E E M E N T

NOW THEREFORE, in consideration of the foregoing facts and for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Non-Exclusive License. Western Host hereby grants Young, Rothman, the Partnerships, Westland and any other entity owned by Young or the

Partnerships which is authorized to manage hotels owned by the Partnerships a non-exclusive, non-transferable perpetual license to use the Marks under the common law and under the privileges provided by any registration covering the Marks presently or subsequently filed with the United States Patent and Trademark Office but only for use in the names of such Partnerships and the name of the Western Host Modesto Hotel.

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2. Governing Law. The interpretation and enforcement of provisions shall be governed by the laws of the State of California and the United States of America, without application of conflicts of laws principles.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"Western Host"

WESTERN HOST, INC.,
a California corporation

By _____

Its _____

"Rothman"

John F. Rothman

"Young"

Ronald A. Young

"Westland"

WESTLAND HOTEL CORP.,
a California corporation

By _____
Ronald A. Young,
President

"Western Host Fresno"

WESTERN HOST FRESNO PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Stockton"

WESTERN HOST STOCKTON PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

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"Western Host Bakersfield"

WESTERN HOST BAKERSFIELD PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Modesto"

WESTERN HOST PROPERTIES,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host Monterey"

WESTERN HOST MONTEREY PARTNERS,
a California limited partnership

By _____
General Partner

By _____

(Signatures continue onto next page)

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"Western Host Pasadena"

WESTERN HOST PASADENA PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

"Western Host San Francisco"

WESTERN HOST SAN FRANCISCO PARTNERS,
a California limited partnership

By _____
General Partner

By _____
General Partner

(Signatures continue onto next page)

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Exhibit 10.3

A G R E E M E N T

THIS AGREEMENT is made as of this ____ day of March, 1994 (the "Agreement"), by and among RELIANCE INSURANCE COMPANY ("Reliance"), HOTEL INVESTORS TRUST and HOTEL INVESTORS CORPORATION (collectively, "Hotel Investors"), Ronald A. Young, John F. Rothman, Graeme W. Henderson, Sherwin L. Samuels, Bruce M. Ford, Earle F. Jones and Howard Levenson ("Individual Defendants" or "Insured Persons", with Hotel Investors collectively referred to as "Defendants").

WHEREAS, Reliance has issued its Directors and Officers Liability Policy No. NDA 1363600-01 to Hotel Investors effective from July 15, 1989 to July 29, 1994 (the "Policy"); and

WHEREAS, there are pending in the United States District Court for the Southern District of California two Class Action Complaints entitled Joyce Uttan I.R.A., et al v. Hotel Investors Trust, Inc., et al., (United States District Court, Southern District of California, Case No. 92-277B(M)) and Naomi Horowitz, et al. v. Hotel Investors Trust, Inc., et al., (United States District Court, Southern District of California, Case No. 91-1161 K (BTM)) (the "Class Actions"); and

WHEREAS, there is pending in the Superior Court for State of California for the County of San Diego a derivative lawsuit entitled Richard Carno, et al. v. Ronald A. Young, et al., bearing Case No. 650235 (the "Derivative Action"; the Class Actions and Derivative Action will hereafter be collectively referred to as the "Actions")); and

WHEREAS, the parties to the Actions have reached an agreement in principle to settle the Actions for the total sum of Three Million Two Hundred and Fifty Thousand Dollars (\$3,250,000), subject to a Stipulation of Settlement and subject to approval of Court (the "Settlement");

WHEREAS, the Stipulation of Settlement defines the Effective Date of the settlement and defines Settlement Fund and those definitions are incorporated herein; and

WHEREAS, Reliance and Defendants have reached an agreement on the respective responsibilities of the parties hereto with regard to the said

Settlement;

NOW, THEREFORE, in consideration of the mutual promises and agreements as contained herein, it is hereby agreed as follows:

With regard to the Settlement of the Actions, the following payments are to be made to the Settlement Fund:

Exhibit 10.3

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(a) Reliance agrees to pay toward the Settlement on behalf of its Insured Persons under the Policy, Two Million Five Hundred Thousand Dollars (\$2,500,000).

(b) Hotel Investors agrees to pay toward the Settlement Four Hundred Thousand Dollars (\$400,000).

(c) Ronald A. Young and John F. Rothman agree to pay toward the Settlement the sum of Three Hundred Fifty Thousand Dollars (\$350,000).

(d) Such payments shall be made in accordance with the Stipulation of Settlement.

2. With regard to defense costs, including legal fees, disbursements, expenses and costs (collectively, "Defense Costs") incurred by Defendants in defending the Actions through October 12, 1993, but not for any Defense Costs incurred thereafter, Hotel Investors agrees to pay all such Defense Costs incurred on behalf of Defendants. It is agreed that all such Defense Costs are within the aggregate retention payable by Hotel Investors under the Policy.

3. With regard to Defense Costs related to the Actions incurred by Defendants other than Hotel Investors after October 12, 1993 and prior to the "Effective Date," as that term is defined in the Stipulation of Settlement, Reliance will pay such reasonable and necessary Defense Costs. To the extent there is disagreement about whether such Defense Costs are reasonable and necessary, such disagreement shall be determined by the Honorable Lawrence Irving (Ret.). In the event the Settlement is terminated, cancelled or fails to become effective for any reason, this provision for funding of Defense Costs is inapplicable to Defense Costs incurred subsequent to such termination, cancellation or other ineffectiveness.

4. Conditioned and effective upon (i) the occurrence of the Effective Date and (ii) the making of the payments provided in paragraphs 1, 2 and 3 above, Individual Defendants and Hotel Investors, on its own behalf

and on behalf of its trustees, directors and officers, its present, former and future parent companies, divisions, subsidiaries, affiliates, associates, representatives, predecessors, successors, heir, owners, assigns, executors, administrators and their present, former or future directors, agents, partners, principals, officers, employees' trustees, insurers, reinsurers and representatives or any of them, and their attorneys and all persons acting by, through, under or in concert with them or any of them (collectively the "Hotel Investors Releasers"), hereby release and discharge Reliance and its present, former and future parent companies, divisions, subsidiaries, affiliates, associates, representatives, predecessors, successors, heirs, owners, assigns, executors, administrators and their present, former or future directors, agents, partners, principal, officers, employees, trustees, insurers, reinsurers and representatives or any of them, and their attorneys and all persons acting by, through, under or in concert with them or any of them (collectively the "Reliance Releasees"), (a) from any claim for any

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additional or further payment on account of the Settlement of the Actions, as set forth in paragraph 1 hereof, or those Defense Costs set forth in paragraph 2 hereof; provided, however, that nothing contained herein or in the Stipulation of Settlement shall relieve Reliance, its reinsurers and/or any excess insurance carrier from any obligation created by any policy of insurance issued by Reliance, any reinsurer and/or any excess carrier of Hotel Investors except as it pertains to any additional or further payment required to settle the Actions or those Defense Costs set forth in paragraph 2 herein; and provided further that the Hotel Investors Releasers do not release the Reliance Releasees from any claim that Hotel Investors may have arising from (1) the proceedings seeking approval of the Settlement and any appeals therefrom; or (2) any motion, application, process or other effort to implement or to enforce the terms and conditions of the Settlement or the orders and judgments entered thereupon; or (3) any actions, suits or proceedings brought by any member of the Class certified in the Actions who purported to exercise their rights to exclude themselves from the said Class and for that reason are not bound by any orders or judgment entered upon the approval of the Settlement; and (b) from any claim, cause of action or demand, in law or in equity, of any nature whatsoever, known or unknown, suspected or unsuspected, fixed or contingent, against the Reliance Releasees, or any of them, involving the Actions, and based upon, arising from, in any way connected with, relating to or concerning claims for, or assertions of, breach of contract, representation, covenant or warranty, "bad faith" or unfair claims handling practices, breach of implied covenants of good faith and fair dealing, any violation of Section 790.03(h) of the California Insurance Code or any provision of the law of any state or territory of the United States or other jurisdiction, or any principle of common law, which is similar, comparable or equivalent to such Section 790.03(h), with respect to the Policy.

5. Conditioned and effective upon (i) the occurrence of the Effective Date and (ii) the making of the payments referred to in paragraphs 1 and 2 above, Reliance and its present, former and future parent companies, divisions, subsidiaries, affiliates, associates, representatives, predecessors, successors, heirs, owners, assigns, executors, administrators and their present, former or future directors, agents, partners, principals, officers, employees, trustees, insurers, re-insurers and representatives, or any of them, and their attorneys and all persons acting by, through, under or in concert with them, or any of them, (collectively, the "Reliance Releasers") hereby release and discharge the Defendants and Hotel Investors' present, former and future trustees, directors, officers, parent companies, divisions, subsidiaries, and affiliates, and each of Defendants' respective associates, representatives, predecessors, successors, heirs, assigns, executors, administrators, and present, former and future agents, partners, principals, officers, employees, trustees, representative and attorneys, or any of them, and all persons acting by, through, under, or in concert with them, or any of them, (collectively, the "Hotel Investors Releasees") (a) from any claim for additional or further payment on account of the Settlement of the Actions or for those Defense Costs set forth in paragraph 3 hereof; and (b) from any claim, cause of action or demand, in law or in equity, of any nature whatsoever, known or unknown, suspected or unsuspected, fixed or contingent against the Hotel Investors Releasees, or any of them, involving the Actions, and based upon, arising from, in

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any way connected with, relating to or concerning claims for, or assertions of breach of contract, representation, covenant or warranty, "bad faith", or breach of implied covenants of good faith and fair dealing, with respect to the Policy.

6. Conditioned and effective upon (i) the occurrence of the Effective Date and (ii) the making of the payments provided in paragraphs 1 and 2 above, Reliance expressly waives any and all right to subrogation with respect to (1) the amount contributed by it to the Settlement, referred to in paragraph 1(a) above, and (2) any Defense Costs paid by it in connection with the Actions, including, without limitation, any and all right to be subrogated to any claim of any Defendant for contribution or indemnity of any kind.

7. Conditioned and effective upon (i) the occurrence of the Effective Date and (ii) the making of the payments provided in paragraphs 1, 2 and 3 above, each Defendant (including Hotel Investors on behalf of its present, former and future trustees, directors, officers, parent companies, divisions, subsidiaries, and affiliates), for itself and on behalf of his or its respective past, present and future associates, representatives,

predecessors, successors, heirs, assigns, executors, administrators and attorneys, and any and all persons acting by, through, under or in concert with them, or any of them, hereby releases and discharges each other Defendant (including Hotel Investors' present, former and future trustees, directors, officers, parent companies, divisions, subsidiaries and affiliates), and his or its respective past, present and future representative, predecessors, successors, heirs, assigns, executors, administrators, attorneys, and all persons acting by, through, under, or in concert with them or any of them, from any and all losses, claims, demands, debts, causes and causes of action of any kind or description whatever ("claim") from the beginning of time to the date of this Agreement, known or unknown, suspected or unsuspected, fixed or contingent, based upon, arising from, in any way connected with, relating to, or concerning the Actions, or any of them, or any allegation that was made or that could have been made in any of the Actions including, without limitation, any claim for contribution or indemnity.

8. With respect to the releases set forth herein, Defendants and Reliance acknowledge that they have been informed of and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

"GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Defendants and Reliance, being aware of Section 1542, hereby expressly waive any rights they may have thereunder, as well as under any other statutes or common law principles of similar effect.

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9. In the event the Settlement is terminated, cancelled or fails to become effective for any reason after Hotel Investors, Rothman and Young, and Reliance have made their respective contributions to the Settlement, and funds are to be returned to Defendants from the Settlement Fund, said funds are to be repaid to the parties hereto in proportion to the amounts paid as set forth in Paragraph 1.

10. The Defendants agree to secure Reliance's consent prior to their exercise or waiver of any of their rights under the Settlement of the Actions and Reliance agrees that its consent will not be unreasonably withheld.

11. Defendants and Reliance agree and acknowledge that this Agreement is entered into for the sole purpose of resolving contested

claims and disputes as well as avoiding the substantial costs, expenses and uncertainties associated with such disputes, with the trial of the Actions and with other potential litigation. It is also expressly agreed and acknowledged that neither this Agreement, its execution, the performance of any of its terms nor any of its contents shall constitute or be construed or offered as evidence in any proceeding as an admission of any liability or of any insurance coverage or of any fact or any indication that any of the claims, charges or conditions made in the Actions by any of the parties thereto against each other have any merit.

12. Defendants and Reliance represent and warrant that there has been no, and agree that there will be no, assignment or other transfer of any interest in any claim which they may have against their respective releasees or any other person or entity which arises out of the facts giving rise to the Actions or the Policy.

13. Defendants and Reliance agree and acknowledge that the terms of this Agreement and the negotiations leading hereto are confidential and may not be disclosed except as may be necessary and appropriate to their employees, attorneys, accountants, reinsurers, excess insurers and brokers, or as required by law; provided, however, that any party served with a subpoena, discovery request or other similar legal instrument which could lead to disclosure of the terms of this Agreement shall, within seven days of the receipt thereof, notify the other parties hereto, unless such notice would not permit sufficient time in which to allow the other parties hereto to assert any interest in prohibiting such disclosure, in which case the party being requested to make the disclosure will give notice to the other parties hereto as soon as possible, but in any event before actual disclosure.

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Notice shall be given to Reliance as follows:

Reliance National (Hotel Investors)
C/O Gilbert D. Jensen
Barton, Klugman & Oetting
333 South Grand Avenue, 37th Floor
Los Angeles, California 90071

Notice shall be given to Defendants as follows:

To Hotel Investors Trust and Hotel Investors Corporation
Michael J. Klowden, Esq.
Morgan, Lewis & Bockius
801 South Grand Avenue, Suite 220

To Ronald A. Young
R. William Bowen, Esq.
Luce, Forward, Hamilton & Scripps
600 West Broadway, Suite 2600
San Diego, California 92101

To John F. Rothman
Dennis Kinnaird, Esq.
Munger, Tolles & Olson
355 South Grand Avenue, 35th Floor
Los Angeles, California 90071

To Sherwin L. Samuels
Edward M. Medvene, Esq.
Patricia H. Benson, Esq.
Mitchell, Silberberg & Knupp
11377 West Olympic Boulevard
Los Angeles, California 90064

To Graeme W. Henderson, Bruce M. Ford, Earle F. Jones and
Howard Levenson
Scott L. Metzger, Esq.
Duckor & Spradling
401 West A Street
San Diego, California 92101

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14. Defendants and Reliance agree and acknowledge that this Agreement carries no precedential value and should not be relied upon by any person as evidence of any obligation of any insurer under identical or similar policies.

15. Hotel Investors hereby declares, warrants and represents that it has paid, and will continue to pay, for all costs and expenses, including legal fees and disbursements, incurred in or associated with the defense of the Actions on behalf of the Individual Defendants named in the Actions, and that it will indemnify the Individual Defendants named in the Actions for all such Defense Costs incurred through October 12, 1993. In the event that any Individual Defendant named in the Actions presents or asserts any claim, cause of action or demand for costs and expenses, including legal fees and disbursements, incurred in or associated with the defense of the Actions, or claim, cause of action or demand for payment against Reliance arising from, relating to or in any way connected to the Actions or the

Settlement, to the extent such Defense Costs were incurred on or before October 12, 1993, Hotel Investors hereby agrees that it will defend and indemnify Reliance and hold it harmless from and against any such claims, causes of action or demands.

RELIANCE INSURANCE COMPANY

By _____

HOTEL INVESTORS TRUST

By _____

HOTEL INVESTORS CORPORATION

By _____

Ronald A. Young

John F. Rothman

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Graeme W. Henderson

Sherwin L. Samuels

Bruce M. Ford

Earle F. Jones

Howard Levenson

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