

HERSHA HOSPITALITY TRUST
Form 10-Q
May 05, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from ____ to ____

COMMISSION FILE NUMBER: 001-14765

HERSHA HOSPITALITY TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of Incorporation or
Organization)

251811499
(I.R.S. Employer Identification No.)

44 Hersha Drive, Harrisburg, PA
(Address of Registrant's Principal Executive Offices)

17102
(Zip Code)

Registrant's telephone number, including area code: (717) 236-4400

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

Edgar Filing: HERSHA HOSPITALITY TRUST - Form 10-Q

filer. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Small reporting company

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

As of May 5, 2011, the number of Class A common shares of beneficial interest outstanding was 169,796,897 and there were no Class B common shares outstanding.

Hersha Hospitality Trust
Table of Contents

		Page
PART I. FINANCIAL INFORMATION		1
Item 1.	<u>Financial Statements.</u>	1
	<u>Consolidated Balance Sheets as of March 31, 2011 [Unaudited] and December 31, 2010</u>	1
	<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010 [Unaudited]</u>	2
	<u>Consolidated Statements of Equity and Comprehensive Income for the Three Months Ended March 31, 2011 and 2010 [Unaudited]</u>	4
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010 [Unaudited]</u>	5
	<u>Notes to the Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	43
Item 4.	<u>Controls and Procedures.</u>	45
PART II. OTHER INFORMATION		46
Item 1.	<u>Legal Proceedings.</u>	46
Item 1A.	<u>Risk Factors.</u>	46
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	46
Item 3.	<u>Defaults Upon Senior Securities.</u>	46
Item 4.	<u>[Removed and Reserved.]</u>	46
Item 5.	<u>Other Information.</u>	46
Item 6.	<u>Exhibits.</u>	46
	<u>SIGNATURES</u>	47

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2011 [UNAUDITED] AND DECEMBER 31, 2010
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	March 31, 2011	December 31, 2010
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	\$1,277,181	\$1,245,851
Investment in Unconsolidated Joint Ventures	34,580	35,561
Development Loans Receivable	42,327	41,653
Cash and Cash Equivalents	19,336	65,596
Escrow Deposits	20,594	17,384
Hotel Accounts Receivable, net of allowance for doubtful accounts of \$19 and \$31	10,151	9,611
Deferred Financing Costs, net of Accumulated Amortization of \$6,629 and \$5,852	9,599	10,204
Due from Related Parties	6,740	5,069
Intangible Assets, net of Accumulated Amortization of \$1,156 and \$1,084	7,944	7,934
Other Assets	21,573	18,414
Total Assets	\$1,450,025	\$1,457,277
Liabilities and Equity:		
Line of Credit	\$63,000	\$46,000
Mortgages and Notes Payable, net of unamortized discount of \$932 and \$983	646,886	648,720
Accounts Payable, Accrued Expenses and Other Liabilities	27,553	28,601
Dividends and Distributions Payable	9,827	9,805
Due to Related Parties	1,359	939
Total Liabilities	748,625	734,065
Redeemable Noncontrolling Interests - Common Units (Note 1)	\$17,905	\$19,894
Equity:		
Shareholders' Equity:		
Preferred Shares - 8% Series A, \$.01 Par Value, 29,000,000 shares authorized, 2,400,000 Shares Issued and Outstanding (Aggregate Liquidation Preference \$60,000) at March 31, 2011 and December 31, 2010	24	24
Common Shares - Class A, \$.01 Par Value, 300,000,000 Shares Authorized at March 31, 2011 and December 31, 2010, 169,751,195 and 169,205,638 Shares Issued and Outstanding at March 31, 2011 and December 31, 2010, respectively	1,697	1,692
Common Shares - Class B, \$.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Loss	(356)	(338)
Additional Paid-in Capital	922,638	918,215
Distributions in Excess of Net Income	(259,237)	(236,159)
Total Shareholders' Equity	664,766	683,434

Edgar Filing: HERSHA HOSPITALITY TRUST - Form 10-Q

Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	18,692	19,410
Noncontrolling Interests - Consolidated Joint Ventures	37	474
Total Noncontrolling Interests	18,729	19,884
Total Equity	683,495	703,318
Total Liabilities and Equity	\$1,450,025	\$1,457,277

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended	
	March 31, 2011	March 31, 2010
Revenue:		
Hotel Operating Revenues	\$57,811	\$49,354
Interest Income from Development Loans	1,091	1,374
Other Revenues	78	88
Total Revenues	58,980	50,816
Operating Expenses:		
Hotel Operating Expenses	37,837	32,129
Hotel Ground Rent	364	292
Real Estate and Personal Property Taxes and Property Insurance	5,134	4,094
General and Administrative	1,961	2,836
Stock Based Compensation	1,485	657
Acquisition and Terminated Transaction Costs	815	3,336
Loss from Impairment of Assets	-	13
Depreciation and Amortization	14,016	12,010
Total Operating Expenses	61,612	55,367
Operating Loss	(2,632)	(4,551)
Interest Income	102	41
Interest Expense	10,623	11,741
Other Expense	284	96
Loss on Debt Extinguishment	-	731
Loss before (Loss) Income from Unconsolidated Joint Venture Investments and Discontinued Operations	(13,437)	(17,078)
Loss from Unconsolidated Joint Ventures	(981)	(1,040)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	-	1,818
(Loss) Income from Unconsolidated Joint Venture Investments	(981)	778
Loss from Continuing Operations	(14,418)	(16,300)
Discontinued Operations (Note 12):		
Loss from Discontinued Operations	-	(37)
Net Loss	(14,418)	(16,337)
Loss Allocated to Noncontrolling Interests	1,027	1,715
Preferred Distributions	(1,200)	(1,200)
Net Loss applicable to Common Shareholders	\$(14,591)	\$(15,822)

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended	
	March 31, 2011	March 31, 2010
Earnings Per Share:		
BASIC		
Loss from Continuing Operations applicable to Common Shareholders	\$(0.09)	\$(0.16)
Loss from Discontinued Operations applicable to Common Shareholders	\$0.00	(0.00)
Net Loss applicable to Common Shareholders	\$(0.09)	\$(0.16)
DILUTED		
Loss from Continuing Operations applicable to Common Shareholders	\$(0.09)*	\$(0.16)*
Loss from Discontinued Operations applicable to Common Shareholders	\$0.00 *	(0.00)*
Net Loss applicable to Common Shareholders	\$(0.09)*	\$(0.16)*
Weighted Average Common Shares Outstanding:		
Basic	168,334,982	99,311,523
Diluted	168,334,982*	99,311,523*

*Income (loss) allocated to noncontrolling interest in Hersha Hospitality Limited Partnership has been excluded from the numerator and units of limited partnership interest in Hersha Hospitality Limited Partnership have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average units of limited partnership interest in Hersha Hospitality Limited Partnership outstanding for the three months ended March 31, 2011 and 2010 were 7,395,023 and 9,515,228, respectively.

Unvested stock awards, contingently issuable share awards and options to acquire our common shares have been omitted from the denominator for the purpose of computing diluted earnings per share for the three months ended March 31, 2011 and 2010, since the effect of including these awards in the denominator would be anti-dilutive to loss from continuing operations applicable to common shareholders. For the three months ended March 31, 2011, there were 310,728 anti-dilutive unvested stock awards outstanding, 1,690,980 anti-dilutive contingently issuable share awards outstanding, and 3,040,591 anti-dilutive options to acquire our common shares outstanding. For the three months ended March 31, 2010, there were 122,492 anti-dilutive unvested stock awards outstanding and 1,539,416 anti-dilutive options to acquire our common shares outstanding.

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	Shareholders' Equity						Noncontrolling Interests			Redeemable	Noncontrolling	Interests
	Series	Class	Class	Additional	Other	Distributions	Total	Consolidated			Total	Comr
	A	A	B					Paid-in	Comprehensive	of Net		
Preferred	Common	Common	Capital	Income	Earnings	Equity	Units	Ventures	Interests	Equity	Units	
Balance at December 31, 2010	\$24	\$1,692	\$-	\$918,215	\$(338)	\$(236,159)	\$683,434	\$19,410	\$474	\$19,884	\$703,318	\$19,884
Issuance Costs	-	-	-	(78)	-	-	(78)	-	-	-	(78)	-
Unit Conversion	-	-	-	168	-	-	168	(168)	-	(168)	-	-
Reallocation of Noncontrolling Interest	-	-	-	1,584	-	-	1,584	13	-	13	1,597	(1,584)
Dividends and Distributions declared:												
Common Stock (\$0.05 per share)	-	-	-	-	-	(8,486)	(8,486)	(215)	-	(215)	(8,701)	(15,200)
Preferred Stock (\$0.50 per share)	-	-	-	-	-	(1,200)	(1,200)	-	-	-	(1,200)	-
Dividend Reinvestment Plan	-	-	-	3	-	-	3	-	-	-	3	-
Stock Based Compensation												
Grants	-	5	-	1,339	-	-	1,344	-	-	-	1,344	-
Amortization	-	-	-	1,407	-	-	1,407	-	-	-	1,407	-
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	(18)	-	(18)	-	-	-	(18)	-
Net Loss	-	-	-	-	-	(13,392)	(13,392)	(348)	(437)	(785)	(14,177)	(24,100)
Total Comprehensive Loss							(13,410)	(348)	(437)	(785)	(14,195)	(24,100)
	\$24	\$1,697	\$-	\$922,638	\$(356)	\$(259,237)	\$664,766	\$18,692	\$37	\$18,729	\$683,495	\$17,900

Edgar Filing: HERSHA HOSPITALITY TRUST - Form 10-Q

Balance at
March 31, 2011

Balance at
December 31,
2009

Common Stock Issuance	-	794	-	260,233	-	-	261,027	-	-	-	261,027	-
Unit Conversion	-	1	-	601	-	-	602	(602)	-	(602)	-	-
Units Issued for Acquisitions	-	-	-	-	-	-	-	5,299	-	5,299	5,299	-
Reallocation of Noncontrolling Interest	-	-	-	(1,745)	-	-	(1,745)	-	-	-	(1,745)	1,745
Dividends and Distributions declared:												
Common Stock (\$0.05 per share)	-	-	-	-	-	(6,862)	(6,862)	(350)	-	(350)	(7,212)	(15,024)
Preferred Stock (\$0.50 per share)	-	-	-	-	-	(1,200)	(1,200)	-	-	-	(1,200)	-
Dividend Reinvestment Plan	-	-	-	3	-	-	3	-	-	-	3	-
Stock Based Compensation Amortization	-	-	-	656	-	-	656	-	-	-	656	-
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	(5)	-	(5)	-	-	-	(5)	-
Net Loss	-	-	-	-	-	(14,622)	(14,622)	(949)	(314)	(1,263)	(15,885)	(45,227)
Total Comprehensive Loss						(14,627)	(14,627)	(949)	(314)	(1,263)	(15,890)	(45,227)

Balance at

March 31, 2010 \$24 \$1,372 \$- \$747,229 \$(165) \$(208,409) \$540,051 \$30,524 \$(47) \$30,477 \$570,528 \$15,885

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS]

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Operating activities:		
Net loss	\$(14,418)	\$(16,337)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	13,946	11,973
Amortization	924	678
Debt extinguishment	-	580
Development loan interest added to principal	(674)	(606)
Equity in loss (income) of unconsolidated joint ventures	981	(778)
Loss recognized on change in fair value of derivative instrument	7	2
Stock based compensation expense	1,485	657
Change in assets and liabilities:		
(Increase) decrease in:		
Hotel accounts receivable	(498)	(1,530)
Escrows	(1,548)	(674)
Other assets	351	178
Due from related parties	(671)	(2,059)
Increase (decrease) in:		
Due to related parties	420	(488)
Accounts Payable, Accrued Expenses and Other Liabilities	3,897	4,955
Net cash provided by (used in) operating activities	4,202	(3,449)
Investing activities:		
Purchase of hotel property assets	(38,516)	(160,768)
Deposits on hotel acquisitions	(3,500)	-
Capital expenditures	(10,507)	(1,373)
Cash paid for hotel development project	(124)	-
Advances to capital expenditure escrows	(1,982)	(1,521)
Investment in notes receivable from unconsolidated joint venture	(1,000)	-
Cash paid for franchise fee intangible	(40)	-
Net cash used in investing activities	(55,669)	(163,662)
Financing activities:		
Proceeds (repayments of) from borrowings under line of credit, net	17,000	(79,200)
Principal repayment of mortgages and notes payable	(1,590)	(31,127)
Proceeds from mortgages and notes payable	-	31,535
Cash paid for deferred financing costs	(173)	(8)
Proceeds from issuance of common stock, net	-	261,027
Dividends paid on common shares	(8,457)	(2,881)
Dividends paid on preferred shares	(1,200)	(1,200)
Distributions paid on common partnership units	(373)	(435)

Edgar Filing: HERSHA HOSPITALITY TRUST - Form 10-Q

Net cash provided by financing activities	5,207	177,711
Net (decrease) increase in cash and cash equivalents	(46,260)	10,600
Cash and cash equivalents - beginning of period	65,596	11,404
Cash and cash equivalents - end of period	\$19,336	\$22,004

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Hersha Hospitality Trust (“we,” “us,” “our” or the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial information and with the general instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals), considered necessary for fair presentation, have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any future period. Accordingly, readers of these consolidated interim financial statements should refer to the Company’s audited financial statements prepared in accordance with US GAAP, and the related notes thereto, for the year ended December 31, 2010, which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as certain footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted from this report pursuant to the rules of the SEC.

We are a self-advised Maryland real estate investment trust that was organized in May 1998 and completed our initial public offering in January 1999. Our common shares are traded on the New York Stock Exchange under the symbol “HT.” We own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership (“HHLP”), for which we serve as general partner. As of March 31, 2011, we owned an approximate 95.8% partnership interest in our operating partnership, including a 1.0% general partnership interest.

Noncontrolling Interest

We define noncontrolling interest as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, but separately from the Company’s equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations. In addition, we classify securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the issuer, outside of permanent equity in the consolidated balance sheet. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company considers the guidance in US GAAP to evaluate whether the Company controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract.

We classify the noncontrolling interests of our consolidated joint ventures and certain common units of limited partnership interests in HHLP (“Nonredeemable Common Units”) as equity. The noncontrolling interests of Nonredeemable Common Units totaled \$18,692 as of March 31, 2011 and \$19,410 as of December 31, 2010. As of March 31, 2011, there were 4,354,660 Nonredeemable Common Units outstanding with a fair market value of \$25,867, based on the price per share of our common shares on the New York Stock Exchange on such date. These units are only redeemable by the unit holders for cash or, at our option, common shares on a one-for-one basis.

Certain common units of limited partnership interests in HHLP (“Redeemable Common Units”) have been pledged as collateral in connection with a pledge and security agreement entered into by the Company and the holders of the

Redeemable Common Units. The redemption feature contained in the pledge and security agreement where the Redeemable Common Units serve as collateral contains a provision that could result in a net cash settlement outside the control of the Company. As a result, the Redeemable Common Units are classified in the mezzanine section of the consolidated balance sheets as they do not meet the requirements for equity classification under US GAAP. The carrying value of the Redeemable Common Units equals the greater of carrying value based on the accumulation of historical cost or the redemption value.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – BASIS OF PRESENTATION (continued)

As of March 31, 2011, there were 3,014,252 Redeemable Common Units outstanding with a redemption value equal to the fair value of the Redeemable Common Units, or \$17,905. The redemption value of the Redeemable Common Units is based on the price per share of our common shares on the NYSE on such date. As of March 31, 2011, the Redeemable Common Units were valued on the consolidated balance sheets at redemption value since the Redeemable Common Units redemption value was greater than historical cost of \$13,127. As of December 31, 2010, the Redeemable Common Units were valued on the consolidated balance sheets at redemption value since the Redeemable Common Units redemption value of \$19,894 was greater than historical cost of \$13,521.

Net income or loss related to Nonredeemable Common Units and Redeemable Common Units (collectively, “Common Units”), as well as the net income or loss related to the noncontrolling interests of our consolidated joint ventures, is included in net income or loss in the consolidated statements of operations and is excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in Hotel Properties consists of the following at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Land	\$ 241,381	\$ 233,869
Buildings and Improvements	1,089,140	1,057,344
Furniture, Fixtures and Equipment	154,804	150,723
Construction in Progress	15,425	15,301
	1,500,750	1,457,237
Less Accumulated Depreciation	(223,569)	(211,386)
Total Investment in Hotel Properties	\$ 1,277,181	\$ 1,245,851

Acquisitions

During the three months ended March 31, 2011, we acquired the following wholly owned hotel property:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees, Loan Costs, and Leasehold Intangible	Total Purchase Price
Holiday Inn Express, Water Street, New York, NY	3/25/2011	\$ 7,341	\$ 28,591	\$ 2,704	\$ 28	\$ 38,664

Included in the consolidated statements of operations for the three months ended March 31, 2011 are total revenues and total net loss for the 2011 acquisition of \$107 and \$684, respectively, which represents the results of operations of the Holiday Inn Express, Water Street since the date of acquisition of our 100% interest in the hotel, described above.

Pro Forma Results (Unaudited)

The following condensed pro forma financial data is presented as if all acquisitions completed since January 1, 2010 had been completed on January 1, 2010. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2010 at the beginning of the year presented, nor does it purport to represent the results of operations for future periods.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (continued)

	For the Three Months Ended March 31,	
	2011	2010
Pro Forma Total Revenues	\$ 59,383	\$ 56,472
Pro Forma Loss from Continuing Operations	\$ (14,490)	\$ (14,915)
Loss from Discontinued Operations	-	(37)
Pro Forma Net Loss	(14,490)	(14,952)
Loss allocated to Noncontrolling Interest	1,030	1,594
Preferred Distributions	(1,200)	(1,200)
Pro Forma Net Loss applicable to Common Shareholders	\$ (14,660)	\$ (14,558)
Pro Forma Loss applicable to Common Shareholders per Common Share		
Basic	\$ (0.09)	\$ (0.15)
Diluted	\$ (0.09)	\$ (0.15)
Weighted Average Common Shares Outstanding		
Basic	168,334,982	99,311,523
Diluted	168,334,982	99,311,523

Renovation

On December 28, 2010, we closed on the acquisition of a parcel of land, which includes a multi-story vacant building, from an unrelated third party in New Castle, DE. The total purchase price for the parcel of land and the improvements was \$15,301, which was paid in cash. We have begun the process of converting this hotel building into a Sheraton branded hotel. As of March 31, 2011 we have spent \$124 in conversion cost.

Hotel Closing

Effective March 31, 2011, we ceased operations at the Comfort Inn, located in North Dartmouth, MA and are in the process of conveying the asset to the lender. The closure of the property coincided with the expiration of its franchise agreement. The property has a carrying value of \$2,005 as of March 31, 2011, which approximates its fair value. See “Note 6 – Debt” for additional discussion regarding the closure of this property.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

We account for our investment in the following unconsolidated joint ventures using the equity method of accounting. As of March 31, 2011 and December 31, 2010, our investment in unconsolidated joint ventures consists of the following:

Joint Venture	Hotel Properties	Percent Owned	Preferred Return	March 31, 2011	December 31, 2010
Inn American Hospitality at Ewing, LLC	Courtyard by Marriott, Ewing, NJ	50.0 %	11.0% cumulative	\$ -	\$ 28
SB Partners, LLC	Holiday Inn Express, Boston, MA	50.0 %	N/A	1,628	1,852
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT and RI	8.8%-66.7 %	8.5% non-cumulative	25,509	25,935
Metro 29th Street Associates, LLC	Holiday Inn Express, New York, NY	50.0 %	N/A	7,443	7,746
				\$ 34,580	\$ 35,561

Income or loss from our unconsolidated joint ventures is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets. Income and loss recognized during the three months ended March 31, 2011 and 2010 for our investments in unconsolidated joint ventures is as follows:

	March 31, 2011	March 31, 2010
Inn American Hospitality at Ewing, LLC	(27)	(97)
SB Partners, LLC	(224)	(144)
Mystic Partners, LLC	(427)	(415)
Metro 29th Street Associates, LLC	(303)	(384)
	(981)	(1,040)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	-	1,818
(Loss) Income from Unconsolidated Joint Venture Investments	\$(981)	\$778

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

The following tables set forth the total assets, liabilities, equity and components of net income, including the Company's share, related to the unconsolidated joint ventures discussed above as of March 31, 2011 and December 31, 2010.

Balance Sheets

	March 31, 2011	December 31, 2010
Assets		
Investment in hotel properties, net	\$ 145,133	\$ 144,675
Other Assets	27,323	27,970
Total Assets	\$ 172,456	\$ 172,645
Liabilities and Equity		
Mortgages and notes payable	\$ 157,768	\$ 156,976
Other liabilities	39,782	37,797
Equity:		
Hersha Hospitality Trust	37,778	38,394
Joint Venture Partner(s)	(62,872)	(60,522)
Total Equity	(25,094)	(22,128)
Total Liabilities and Equity	\$ 172,456	\$ 172,645

Statements of Operations

	Three Months Ended	
	March 31, 2011	March 31, 2010
Room Revenue	\$ 15,970	\$ 15,584
Other Revenue	4,637	4,718
Operating Expenses	(14,777)	(14,921)
Interest Expense	(2,412)	(3,391)
Lease Expense	(1,305)	(1,373)
Property Taxes and Insurance	(1,441)	(1,547)
General and Administrative	(1,660)	(1,798)
Loss Allocated to Noncontrolling Interests	22	229
Depreciation and Amortization	(1,978)	(3,121)
Net loss	\$(2,944)	\$(5,620)

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

The following table is a reconciliation of the Company's share in the unconsolidated joint ventures' equity to the Company's investment in the unconsolidated joint ventures as presented on the Company's balance sheets as of March 31, 2011 and December 31, 2010.

	March 31, 2011	December 31, 2010
Company's share of equity recorded on the joint ventures' financial statements	\$37,778	\$38,394
Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1)	(3,198)	(2,833)
Investment in Unconsolidated Joint Ventures	\$34,580	\$35,561

(1) Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures consists of the following:

- cumulative impairment of our investment in joint ventures not reflected on the joint ventures' financial statements;
 - our basis in the investment in joint ventures not recorded on the joint ventures' financial statements; and
- accumulated amortization of our equity in joint ventures that reflect our portion of the excess of the fair value of joint ventures' assets on the date of our investment over the carrying value of the assets recorded on the joint ventures' financial statements. This excess investment is amortized over the life of the properties, and the amortization is included in Income (Loss) from Unconsolidated Joint Venture Investments on our consolidated statement of operations.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 [UNAUDITED]
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 4 - DEVELOPMENT LOANS RECEIVABLE

Historically, we provided first mortgage and mezzanine loans to hotel developers, including entities in which our executive officers and affiliated trustees own an interest that enabled such entities to construct hotels and conduct related improvements on specific hotel projects at interest rates ranging from 10% to 11%. These loans were initially originated as part of our acquisition strategy. During the three months ended March 31, 2011, no such loans were originated by us. Interest income from development loans was \$1,091 and \$1,374 for the three months ended March 31, 2011 and 2010, respectively. Accrued interest on our development loans receivable was \$3,367 and \$3,013 as of March 31, 2011 and December 31, 2010, respectively. Accrued interest on our development loans receivable as of March 31, 2011 does not include cumulative interest income of \$6,327 which has been accrued and paid-in kind by adding it to the principal balance of certain loans as indicated in the table below.

Hotel Property	Borrower	Principal Outstanding March 31, 2011	Principal Outstanding December 31, 2010	Interest Rate	Maturity Date (1)
Operational Hotels					