HERSHA HOSPITALITY TRUST
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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, Pennsylvania (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.

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

Large accelerated filer ¨	Accelerated filer x
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 x No

As of September 30, 2009, the number of Priority Class A Common Shares of Beneficial Interest outstanding was 56,473,120.

Hersha Hospitality Trust
Table of Contents for Quarterly Report on Form 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 [UNAUDITED] AND DECEMBER 31, 2008
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	September 30, 2009	December 31, 2008
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	$ 936,031	$ 982,082
Investment in Unconsolidated Joint Ventures	44,042	46,283
Development Loans Receivable	47,990	81,500
Cash and Cash Equivalents	12,494	15,697
Escrow Deposits	15,588	12,404
Hotel Accounts Receivable, net of allowance for doubtful accounts of $88 and $120	9,784	6,870
Deferred Financing Costs, net of Accumulated Amortization of $3,756 and $3,606	8,831	9,157
Due from Related Parties	3,138	3,595
Intangible Assets, net of Accumulated Amortization of $738 and $595	7,529	7,300
Other Assets	13,095	13,517
Assets Held for Sale	21,073	-
Total Assets	$ 1,119,595	$ 1,178,405
Liabilities and Equity:		
Line of Credit	$ 80,000	$ 88,421
Mortgages and Notes Payable, net of unamortized discount of $52 and $61	640,470	655,360
Accounts Payable, Accrued Expenses and Other Liabilities	17,997	17,745
Dividends and Distributions Payable	4,232	11,240
Due to Related Parties	90	302
Liabilities Related to Assets Held for Sale	20,908	-
Total Liabilities	763,697	773,068
Redeemable Noncontrolling Interests - Common Units (Note 1)	$ 15,391	$ 18,739
Equity:		
Shareholders' Equity:		
Preferred Shares - 8% Series A, $.01 Par Value, 2,400,000 Shares Issued and Outstanding (Aggregate Liquidation Preference $60,000) at September 30, 2009 and December 31, 2008	24	24
Common Shares - Class A, $.01 Par Value, 150,000,000 and 80,000,000 Shares Authorized at September 30, 2009 and December 31, 2008, 56,473,120 and 48,276,222 Shares Issued and Outstanding at September 30, 2009 and December 31, 2008, respectively	564	483
Common Shares - Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Loss	(160)	(109)

Additional Paid-in Capital	483,226	463,772
Distributions in Excess of Net Income	(171,752)	(114,207)
Total Shareholders' Equity	311,902	349,963
Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	28,329	34,781
Noncontrolling Interests - Consolidated Joint Ventures	276	1,854
Total Noncontrolling Interests	28,605	36,635
Total Equity	340,507	386,598
Total Liabilities and Equity	$ 1,119,595	$ 1,178,405

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

3

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue:				
Hotel Operating Revenues	$60,245	$ 68,471	$160,346	$ 180,912
Interest Income from Development Loans	1,427	1,586	5,990	5,759
Other Revenues	185	257	575	914
Total Revenues	61,857	70,314	166,911	187,585
Operating Expenses:				
Hotel Operating Expenses	33,563	37,530	93,276	101,082
Hotel Ground Rent	292	308	876	750
Real Estate and Personal Property Taxes and Property Insurance	3,788	3,194	10,364	9,013
General and Administrative	1,512	1,457	4,362	4,490
Stock Based Compensation	579	416	1,500	1,043
Acquisition and Terminated Transaction Costs	32	21	76	211
Impairment of Development Loans Receivable	21,408	-	21,408	-
Depreciation and Amortization	10,924	10,221	32,122	28,543
Total Operating Expenses	72,098	53,147	163,984	145,132
Operating (Loss) Income	(10,241)	17,167	2,927	42,453
Interest Income	49	69	159	252
Interest Expense	11,129	10,458	32,170	30,473
Other Expense	29	24	110	73
Loss on Debt Extinguishment	-	1,417	-	1,417
(Loss) Income before (Loss) Income from Unconsolidated Joint Venture Investments and Discontinued Operations	(21,350)	5,337	(29,194)	10,742
(Loss) Income from Unconsolidated Joint Venture Investments	(606)	1,629	(2,330)	2,251
(Loss) Income from Continuing Operations	(21,956)	6,966	(31,524)	12,993
Discontinued Operations (Note 12):				
Gain on Disposition of Hotel Properties	1,868	-	1,868	-
Impairment of Assets Held for Sale	(17,683)	-	(17,683)	-
(Loss) Income from Discontinued Operations	(164)	794	205	844
(Loss) Income from Discontinued Operations	(15,979)	794	(15,610)	844
Net (Loss) Income	(37,935)	7,760	(47,134)	13,837

Loss (Income) Allocated to Noncontrolling Interests	5,560	(1,425)	7,162	(2,156)
Preferred Distributions	(1,200)	(1,200)	(3,600)	(3,600)
Net (Loss) Income applicable to Common Shareholders	$(33,575)	$ 5,135	$(43,572)	$ 8,081

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

4

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Earnings Per Share:				
BASIC				
(Loss) Income from Continuing Operations applicable to Common Shareholders	$(0.39)	$ 0.10	$(0.62)	$ 0.16
(Loss) Income from Discontinued Operations applicable to Common Shareholders	(0.26)	0.01	(0.27)	0.02
Net (Loss) Income applicable to Common Shareholders	$(0.65)	$ 0.11	$(0.89)	$ 0.18
DILUTED				
(Loss) Income from Continuing Operations applicable to Common Shareholders	$(0.39) *	$ 0.10 *	$(0.62) *	$ 0.16 *
(Loss) Income from Discontinued Operations applicable to Common Shareholders	(0.26) *	0.01 *	(0.27) *	0.02 *
Net (Loss) Income applicable to Common Shareholders	$(0.65) *	$ 0.11 *	$(0.89) *	$ 0.18 *
Weighted Average Common Shares Outstanding:				
Basic	51,878,482	47,764,168	49,187,465	44,315,615
Diluted	51,878,482 *	47,764,168 *	49,187,465 *	44,315,615 *

* Income 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 September 30, 2009 and 2008 were 8,705,195 and 8,751,009, respectively. Weighted average units of limited partnership interest in Hersha Hospitality Limited Partnership outstanding for the nine months ended September 30, 2009 and 2008 were 8,732,448 and 7,795,818, respectively. Unvested stock 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 September 30, 2009 and 2008, and for the nine months ended September 30, 2009 and 2008 since the effect of including these awards in the denominator would be anti-dilutive to income from continuing operations applicable to common shareholders.

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Shareholders' Equity							Noncontrolling Interests				Redeem Noncont Intere
	Series A Preferred Shares	Class A Common Shares	Class B Common Shares	Additional Paid-In Capital	Other Comprehensive Income	Distributions in Excess of Net Earnings	Total Shareholders' Equity	Common Units	Consolidated Joint Ventures	Total Noncontrolling Interests	Total Equity	Comm Uni
Balance at December 31, 2008	$24	$483	$-	$463,772	$(109)	$(114,207)	$349,963	$34,781	$1,854	$36,635	$386,598	$18,7
Unit Conversion	-	-	-	255	-	-	255	(255)	-	(255)	-	-
Common Share Issuance, net of costs	-	73	-	17,648	-	-	17,721	-	-	-	17,721	-
Dividends and Distribution declared:												
Distribution to noncontrolling interest in consolidated joint venture	-	-	-	-	-	-	-	-	(124)	(124)	(124)	-
Preferred Shares ($1.50 per share)	-	-	-	-	-	(3,600)	(3,600)	-	-	-	(3,600)	-
Common Shares ($0.28 per share)	-	-	-	-	-	(13,973)	(13,973)	-	-	-	(13,973)	-
Common Units ($0.28 per share)	-	-	-	-	-	-	-	(1,588)	-	(1,588)	(1,588)	(858
Dividend Reinvestment Plan	-	-	-	22	-	-	22	-	-	-	22	-
Stock Based Compensation												
Restricted Share Award Grants	-	8	-	(8)	-	-	-	-	-	-	-	-
Restricted Share Award Vesting	-	-	-	1,382	-	-	1,382	-	-	-	1,382	-
Performance Share Grants	-	-	-	70	-	-	70	-	-	-	70	-

Share Grants to Trustees	-	-	-	85	-	-	85	-	-	-	85	-
Disposition of Consolidated Joint Venture	-	-	-	-	-	-	-	-	(1,391)	(1,391)	(1,391)	-
Comprehensive Loss:												
Other Comprehensive Income	-	-	-	-	(51)	-	(51)	-	-	-	(51)	-
Net Loss	-	-	-	-	-	(39,972)	(39,972)	(4,609)	(63)	(4,672)	(44,644)	(2,4
Total Comprehensive Loss							(40,023)	(4,609)	(63)	(4,672)	(44,695)	(2,4
Balance at September 30, 2009	$24	$564	$-	$483,226	$(160)	$(171,752)	$311,902	$28,329	$276	$28,605	$340,507	$15,3
Balance at December 31, 2007	$24	$412	$-	$397,127	$(23)	$(67,135)	$330,405	$42,845	$1,908	$44,753	$375,158	$-
Unit Conversion	-	2	-	1,371	-	-	1,373	(1,373)	-	(1,373)	-	-
Reallocation of Noncontrolling Interest	-	-	-	1,682	-	-	1,682	(1,682)	-	(1,682)	-	-
Common Units Issued for Acquisitions	-	-	-	-	-	-	-	21,624	-	21,624	21,624	-
Common Share Issuance, net of costs	-	66	-	61,779	-	-	61,845	-	-	-	61,845	-
Dividends and Distribution declared:												
Preferred Shares ($1.50 per share)	-	-	-	-	-	(3,600)	(3,600)	-	-	-	(3,600)	-
Common Shares ($0.54 per share)	-	-	-	-	-	(24,772)	(24,772)	-	-	-	(24,772)	-
Common Units ($0.54 per share)	-	-	-	-	-	-	-	(4,469)	-	(4,469)	(4,469)	-
Dividend Reinvestment Plan	-	-	-	23	-	-	23	-	-	-	23	-

Stock Based Compensation												
Restricted Share Award Grant	-	3	-	(3)	-	-	-	-	-	-	-	-
Restricted Share Award Vesting	-	-	-	989	-	-	989	-	-	-	989	-
Share Grants to Trustees	-	-	-	91	-	-	91	-	-	-	91	-
Comprehensive Income (Loss):												
Other Comprehensive Income	-	-	-	-	162	-	162	-	-	-	162	-
Net Income (Loss)	-	-	-	-	-	11,681	11,681	2,054	102	2,156	13,837	-
Total Comprehensive Income (Loss)							11,843	2,054	102	2,156	13,999	-
Balance at September 30, 2008	$24	$483	$-	$463,059	$139	$(83,826)	$379,879	$58,999	$2,010	$61,009	$440,888	$-

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS]

	For the Nine Months Ended September 30, 2009	September 30, 2008
Operating activities:		
Net (loss) income	$(47,134)	$ 13,837
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on disposition of hotel properties	(1,868)	-
Impairment of development loans receivable and assets held for sale	39,091	-
Loss on debt extinguishment	-	1,435
Depreciation	33,095	30,343
Amortization of intangible assets and deferred costs	1,718	1,346
Interest income from development loans paid in-kind	(2,649)	-
Equity in loss (income) of unconsolidated joint venture investments	2,330	(2,251)
Distributions from unconsolidated joint venture investments	400	2,991
Gain recognized on change in fair value of derivative instrument	(173)	(18)
Stock based compensation	1,500	1,043
Change in assets and liabilities:		
(Increase) decrease in:		
Hotel accounts receivable	(2,993)	(2,259)
Escrow Deposits	(3,184)	2,612
Other assets	(4,277)	(1,872)
Due from related parties	1,432	(1,272)
Increase (decrease) in:		
Due to related parties	(1,262)	(1,066)
Accounts payable, accrued expenses and other liabilities	(1,767)	383
Net cash provided by operating activities	14,259	45,252
Investing activities:		
Purchase of hotel property assets	(5,994)	(62,609)
Capital expenditures	(5,237)	(16,946)
Proceeds from disposition of hotel properties	8,495	-
Cash paid for franchise fee intangible	(126)	(57)
Investment in development loans receivable	(2,000)	(40,700)
Repayment of development loans receivable	-	16,416
Repayment of notes receivable	-	1,350
Distributions from unconsolidated joint venture investments	-	350
Advances and capital contributions to unconsolidated joint venture investments	(492)	(97)
Net cash used in investing activities	(5,354)	(102,293)
Financing activities:		
(Repayments of) proceeds from borrowings under line of credit, net	(8,421)	7,700
Principal repayment of mortgages and notes payable	(36,395)	(24,306)
Proceeds from mortgages and notes payable	42,138	51,780
Cash paid for deferred financing costs	(17)	(85)

Proceeds from issuance of common shares, net of issuance costs	17,716	61,845
Distributions to noncontrolling interests in consolidated joint venture	(124)	-
Dividends paid on common shares	(19,819)	(23,501)
Dividends paid on preferred shares	(3,600)	(3,600)
Distributions paid on common units	(3,586)	(4,168)
Net cash (used in) provided by financing activities	(12,108)	65,665
Net (decrease) increase in cash and cash equivalents	(3,203)	8,624
Cash and cash equivalents - beginning of period	15,697	12,327
Cash and cash equivalents - end of period	$12,494	$ 20,951

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 AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [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 and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 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, 2008, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 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 the sole general partner in our operating partnership subsidiary, Hersha Hospitality Limited Partnership ("HHLP"), which is indirectly the sole general partner of the subsidiary partnerships.

Sale of Common Shares

On August 4, 2009, we entered into a purchase agreement with Real Estate Investment Group L.P. ("REIG"), pursuant to which we sold 5,700,000 Class A common shares of beneficial interest at a price of $2.50 per share to REIG for gross proceeds of $14,250. REIG is a Bermuda limited partnership, whose general partner and majority limited partner is Tyrus S.A., a stock corporation organized under the laws of the Republic of Uruguay that is wholly-owned by IRSA Inversiones y Representaciones Sociedad Anónima, a stock corporation organized under the laws of the Republic of Argentina ("IRSA"). We also granted REIG the option to buy up to an additional 5,700,000 common shares at a price of $3.00 per share, which shall be exercisable through August 4, 2014. If at any time after August 4, 2011 the closing price for our common shares on the New York Stock Exchange exceeds $5.00 for 20 consecutive trading days, we may call in and cancel the option in exchange for issuance of common shares to REIG with an aggregate value equal to the volume weighted average price per common share for the 20 trading days prior to the exercise of the option, less the $3.00 option price, multiplied by the number of common shares remaining under the option.

On June 12, 2009, we entered into a sales agreement with a broker-dealer acting as a sales agent, under which it may offer and sell up to 15,000,000 Class A common shares of beneficial interest. Sales of shares under this agreement, if any, may be made by any method permitted by law deemed to be an "at the market offering" and in privately negotiated transactions. The sales agent is to use its commercially reasonable efforts consistent with its normal trading and sales practice to sell the shares as directed by the Company. The sales agent is entitled to compensation equal to 2.75% of the gross sales price per share for any shares sold under the agreement. Under the sales agreement, during the three months ended September 30, 2009, we sold 1,479,000 shares with net proceeds of $4,436 and during the nine months ended September 30, 2009, we sold 1,551,500 with net proceeds of $4,620.

Noncontrolling Interest

Effective January 1, 2009, we adopted a new accounting standard which defines a noncontrolling interest as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Under this standard, 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 accordance with US GAAP, 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.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 — BASIS OF PRESENTATION (CONTINUED)

We have reclassified the noncontrolling interests of our consolidated joint ventures from the mezzanine section of our consolidated balance sheets to equity. These noncontrolling interests totaled $276 as of September 30, 2009 and $1,854 as of December 31, 2008. In addition, certain common units of limited partnership interests in HHLP ("Nonredeemable Common Units") were reclassified from the mezzanine section of our consolidated balance sheets to equity. These noncontrolling interests of Nonredeemable Common Units totaled $28,329 as of September 30, 2009 and $34,781 as of December 31, 2008. As of September 30, 2009, there were 5,637,558 Nonredeemable Common Units outstanding with a fair market value of $17,476, 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 common shares on a one-for-one basis or, at our option, cash.

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 of the control of the Company. As a result, the Redeemable Common Units will continue to be 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. As of September 30, 2009, there were 3,064,252 Redeemable Common Units outstanding with a redemption value equal to the fair value of the Redeemable Common Units, or $9,499. The redemption value of the Redeemable Common Units is based on the price per share of our common shares on the New York Stock Exchange on such date. As of September 30, 2009 and December 31, 2008, the Redeemable Common Units were valued on the consolidated balance sheets at carrying value based on historical cost of $15,391 and $18,739, respectively, since historical cost exceeded the Redeemable Common Units redemption value as of each such date.

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. Net income or loss related to the Common Units and the noncontrolling interests of our consolidated joint ventures is excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Recent Accounting Pronouncements

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued a pronouncement that established the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. This standard is effective for interim and annual periods ending after September 15, 2009. The Company has adopted this standard in accordance with US GAAP.

Subsequent Events

In May 2009, the FASB issued a pronouncement that sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Our adoption of this statement did not impact our consolidated financial condition and results of operations.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 — BASIS OF PRESENTATION (CONTINUED)

Business Combinations

On January 1, 2009, we adopted a pronouncement that requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at “full fair value.” The adoption of this standard could have a material effect on the Company’s financial statements and the Company’s future financial results to the extent the Company acquires significant amounts of real estate assets. Under this standard, costs related to future acquisitions will be expensed as incurred compared to the Company’s practice prior to the adoption of this standard of capitalizing such costs and amortizing them over the useful life of the acquired assets. In addition, to the extent the Company enters into acquisition agreements after the adoption of this standard with earn-out provisions, a liability may be recorded at the time of acquisition based on an estimate of the earn-out to be paid compared to our current practice of recording a liability for the earn-out when amounts are probable and determinable.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued a standard that requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Our adoption of this pronouncement on January 1, 2009 did not have a material effect on our consolidated financial condition and results of operations.

Equity Method Investment Accounting Considerations

In November 2008, the FASB ratified a pronouncement which clarifies how to account for certain transactions involving equity method investments. The initial measurement, decreases in value and changes in the level of ownership of the equity method investment are addressed. This pronouncement is effective for the Company beginning on January 1, 2009 and has been applied prospectively. The adoption of this pronouncement did not have a material impact on the Company’s consolidated financial condition and results of operations.

Participating Securities

In June 2008, the FASB issued a pronouncement stating that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (“EPS”) pursuant to the two-class method. We adopted this pronouncement on January 1, 2009 and as a result all prior-period EPS data presented has been adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform to the pronouncement’s provisions. Our adoption of this pronouncement did not impact our financial position and results of operations.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued a pronouncement that amends existing US GAAP as follows: (a) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity and to identify the primary beneficiary of a variable interest entity, (b) to require ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, rather than only when specific events occur, (c) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, (d) to amend certain guidance for determining whether an entity is a variable interest entity, (e) to add an additional reconsideration event when changes in facts and circumstances pertinent to a variable interest entity occur, (f) to eliminate the exception for troubled debt restructuring regarding variable interest entity reconsideration, and (g) to require advanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. This pronouncement is effective for the first annual reporting period that begins after November 15, 2009. Earlier adoption is prohibited. The Company will adopt this pronouncement on January 1, 2010. Management does not believe adoption of this pronouncement will have a material effect on the Company's consolidated financial statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [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 September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Land	$ 160,396	$ 184,879
Buildings and Improvements	803,267	802,760
Furniture, Fixtures and Equipment	120,539	121,991
	1,084,202	1,109,630
Less Accumulated Depreciation	(148,171)	(127,548)
Total Investment in Hotel Properties	$ 936,031	$ 982,082

Acquisitions

On May 1, 2009, we acquired, from an unaffiliated seller, a 49% membership interest in York Street, LLC, the owner of the Hilton Garden Inn, TriBeCa, New York, NY. In connection with the acquisition of our 49% interest in York Street, LLC, we also entered into an option agreement to acquire the seller's remaining 51% interest in York Street, LLC. On June 30, 2009, we exercised the option and acquired the remaining 51% interest in York Street, LLC making the Hilton Garden Inn, TriBeCa, New York, NY, wholly owned. Consideration given as of the purchase date to acquire our 100% interest in York Street, LLC included:

Cash paid to seller	$4,794	
Amounts payable to seller	1,387	(1)
Settlement of development loans receivable and accrued interest income on development loans	19,555	(2)
Land and mortgage transferred to seller	10,118	(3)
Assumption of York Street, LLC mortgage loan payable	29,824	(4)
Net hotel working capital liabilities assumed	1,322	
Total consideration given	$67,000	

(1)

Cash payable to the seller of $1,387 was held back at settlement pending the seller's completion of certain capital expenditures and the delivery on the Company's obligation to transfer land to the seller.

(2) "Settlement of development loans receivable and accrued interest income on development loans" consists of principal and accrued interest receivable reductions with respect to development loans made to York Street, LLC and Maiden Hotel, LLC, an entity controlled by the seller. See "Note 4 – Development Loans Receivable and Land Leases" for more information related to the development loans made to York Street, LLC and Maiden Hotel, LLC.

(3) "Land and mortgage transferred to seller" consisted of our investment in real property at 440 West 41st Street, New York, NY, and related land lease revenue receivable. This parcel was acquired on July 28, 2006 and leased to Metro Forty First Street, LLC, an entity controlled by the seller. In connection with our acquisition of the membership interests in York Street, LLC, we transferred this property to Metro Forty First Street, LLC, and that entity assumed our obligations under the $12,100 mortgage loan encumbering the property.

(4) The mortgage loan assumed in connection with the acquisition of York Street, LLC, which is secured by the Hilton Garden Inn, TriBeCa, New York, NY, was refinanced on August 7, 2009 with a $29,824 first mortgage loan which matures in July 2012 and bears interest at the Wall Street Journal variable prime rate plus 2.0% subject to an interest rate floor of 8.75%.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 — INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

York Street, LLC was acquired at fair value which was allocated as follows:

Land	$21,077
Building and Improvements	42,955
Furniture, Fixture and Equipment	2,668
Intangible Assets	300
Fair Value of Assets Acquired	$67,000

We recorded an intangible asset for the lease of restaurant space located in the Hilton Garden Inn, TriBeCa, New York, NY that was in place at the time of acquisition. The lease is with an unrelated third party and has 15 years remaining until expiration with one five year extension option. We earn fixed rent under this lease at a minimum of $300 per annum for the first five years of the lease and a minimum of $336 and $376 per annum for the second and third five-year periods of the lease, respectively.

Included in the consolidated statements of operations for the three and nine months ended September 30, 2009, are total revenues of approximately $2,438 and $3,840, respectively, and net loss of $25 and $120, respectively, from the operations of the Hilton Garden Inn, TriBeCa, New York, NY, since the date of the acquisition.

Earn-out Provisions

The purchase agreements for some of our previous acquisitions contain certain provisions that entitle the seller to an earn-out payment based on the Net Operating Income of the properties, as defined in each purchase agreement. The following table summarizes our existing earn-out provisions:

Acquisition Date	Acquisition Name	Maximum Earn-Out Payment Amount	Earn-Out Period Expiration
12/28/2006	Summerfield Suites Portfolio	$ 6,000,000	December 31, 2009
6/26/2008	Holiday Inn Express, Camp Springs, MD	1,905,000	December 31, 2010
8/1/2008	Hampton Inn & Suites, Smithfield, RI	1,515,000	December 31, 2010

While we are unable to determine whether amounts will be paid under these three earn-out provisions until the expiration of the earn-out periods, we believe no amounts will be paid. Due to uncertainty of the amounts that will ultimately be paid, no accrual has been recorded on the consolidated balance sheet for amounts due under these earn-out provisions. In the event amounts are payable under these provisions, payments made will be recorded as additional consideration given for the properties.

12

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 — INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Pro Forma Results (Unaudited)

The following condensed pro forma financial data is presented as if all 2009 and 2008 acquisitions had been consummated as of January 1, 2008. 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 at the beginning of the year presented, nor does it purport to represent the results of operations for future periods.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Pro Forma Total Revenues	$61,857	$70,439	$168,537	$189,236
Pro Forma (Loss) income from Continuing Operations applicable to Common Shareholders	$(21,956)	$6,952	$(31,839)	$13,140
(Loss) income from Discontinued Operations	(15,979)	794	(15,610)	844
Pro Forma Net (Loss) income	(37,935)	7,746	(47,449)	13,984
Loss (income) allocated to Noncontrolling Interest	5,560	(1,423)	7,210	(2,178)
Preferred Distributions	(1,200)	(1,200)	(3,600)	(3,600)
Pro Forma Net (loss) income applicable to Common Shareholders	$(33,575)	$5,123	$(43,839)	$8,206
Pro Forma (loss) income applicable to Common Shareholders per Common Share				
Basic	$(0.65)	$0.11	$(0.89)	$0.19
Diluted	$(0.65)	$0.11	$(0.89)	$0.19
Weighted Average Common Shares Outstanding				