HERSHA HOSPITALITY TRUST
Form 10-Q
May 02, 2012

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 March 31, 2012

OR

o 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.
x Yes o 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).
x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated 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	x	Accelerated filer	o
Non-accelerated filer	o	Small reporting company	o

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

As of April 30, 2012, the number of Class A common shares of beneficial interest outstanding was 174,340,530 and there were no Class B common shares outstanding.

Hersha Hospitality Trust

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2012 [UNAUDITED] AND DECEMBER 31, 2011
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	March 31, 2012	December 31, 2011
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	$ 1,378,749	$ 1,340,876
Investment in Unconsolidated Joint Ventures	31,593	38,839
Development Loans Receivable	36,110	35,747
Cash and Cash Equivalents	25,821	24,568
Escrow Deposits	22,665	27,321
Hotel Accounts Receivable, net of allowance for doubtful accounts of $579 and $495	11,644	11,353
Deferred Financing Costs, net of Accumulated Amortization of $9,544 and $9,138	8,016	9,023
Due from Related Parties	8,938	6,189
Intangible Assets, net of Accumulated Amortization of $1,411 and $1,357	9,752	8,013
Deposits on Hotel Acquisitions	25,500	19,500
Other Assets	14,713	15,651
Hotel Assets Held for Sale	25,341	93,829
Total Assets	$ 1,598,842	$ 1,630,909
Liabilities and Equity:		
Line of Credit	$ 87,667	$ 51,000
Mortgages and Notes Payable, net of unamortized discount of $138 and $667	697,789	707,374
Accounts Payable, Accrued Expenses and Other Liabilities	32,784	31,140
Dividends and Distributions Payable	14,107	13,908
Due to Related Parties	3,334	2,932
Liabilities Related to Assets Held for Sale	18,993	61,758
Total Liabilities	854,674	868,112
Redeemable Noncontrolling Interests - Common Units (Note 1)	$ 16,732	$ 14,955
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, 2012 and December 31, 2011	24	24
Preferred Shares: 8% Series B, $.01 Par Value, 4,600,000 shares authorized, 4,600,000 Shares Issued and Outstanding (Aggregate Liquidation Preference $115,000) at March 31, 2012 and at December 31, 2011	46	46
Common Shares: Class A, $.01 Par Value, 300,000,000 Shares Authorized at March 31, 2012 and December 31, 2011, 173,299,736 and 169,969,973 Shares Issued and Outstanding at March 31, 2012 and December 31, 2011,	1,733	1,699

respectively		
Common Shares: Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Loss	(1,124)	(1,151)
Additional Paid-in Capital	1,042,467	1,041,027
Distributions in Excess of Net Income	(332,045)	(310,974)
Total Shareholders' Equity	711,101	730,671
Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	16,315	16,864
Noncontrolling Interests - Consolidated Joint Ventures	20	307
Total Noncontrolling Interests	16,335	17,171
Total Equity	727,436	747,842
Total Liabilities and Equity	$ 1,598,842	$ 1,630,909

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenue:		
Hotel Operating Revenues	$64,853	$49,133
Interest Income from Development Loans	621	1,091
Other Revenues	38	40
Total Revenues	65,512	50,264
Operating Expenses:		
Hotel Operating Expenses	40,350	31,303
Hotel Ground Rent	194	256
Real Estate and Personal Property Taxes and Property Insurance	5,151	4,603
General and Administrative	3,035	1,897
Stock Based Compensation	2,133	1,485
Acquisition and Terminated Transaction Costs	958	815
Depreciation and Amortization	13,443	12,146
Total Operating Expenses	65,264	52,505
Operating Income (Loss)	248	(2,241)
Interest Income	107	102
Interest Expense	11,685	9,428
Other Expense	236	283
Loss on Debt Extinguishment	6	-
Loss before Loss from Unconsolidated Joint Venture Investments and Discontinued Operations	(11,572)	(11,850)
Loss from Unconsolidated Joint Venture Investments	(730)	(981)
Loss from Continuing Operations	(12,302)	(12,831)
Discontinued Operations (Note 12):		
Gain on Disposition of Hotel Properties	4,502	-
Loss from Discontinued Operations	(114)	(1,587)
Income (Loss) from Discontinued Operations	4,388	(1,587)
Net Loss	(7,914)	(14,418)
Loss Allocated to Noncontrolling Interests	741	1,027
Preferred Distributions	(3,500)	(1,200)
Net Loss applicable to Common Shareholders	$(10,673)	$(14,591)

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Earnings Per Share:		
BASIC		
Loss from Continuing Operations applicable to Common Shareholders	$(0.09)	$(0.08)
Income (Loss) from Discontinued Operations applicable to Common Shareholders	$0.03	(0.01)
Net Loss applicable to Common Shareholders	$(0.06)	$(0.09)
DILUTED		
Loss from Continuing Operations applicable to Common Shareholders	$(0.09) *	$(0.08) *
Income (Loss) from Discontinued Operations applicable to Common Shareholders	$0.03 *	(0.01) *
Net Loss applicable to Common Shareholders	$(0.06) *	$(0.09) *
Weighted Average Common Shares Outstanding:		
Basic	170,427,428	168,334,982
Diluted	170,427,428*	168,334,982*

* 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. 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, 2012 and 2011, since the effect of including these awards in the denominator would be anti-dilutive to loss from continuing operations applicable to common shareholders.

The following table summarizes potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted earnings per share:

	Three Months Ended March 31, 2012	March 31, 2011
Common Units of Limited Partnership Interest	7,263,518	7,395,023
Unvested Stock Awards Outstanding	239,588	310,728
Contingently Issuable Share Awards	1,996,157	1,690,980
Options to Acquire Common Shares Outstanding	-	3,040,591
	9,499,263	12,437,322

Total potentially dilutive securities excluded from the denominator	

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	2012	2011
Net loss	$(7,914)	$(14,418)
Other comprehensive loss		
Change in fair value of derivative instruments	27	(18)
Comprehensive loss	(7,887)	(14,436)
Less: Comprehensive loss attributable to non-controlling interests	741	1,027
Comprehensive loss attributable to Hersha Hospitality Trust	$(7,146)	$(13,409)

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	Class A Common Shares	Class B Common Shares	Series A Preferred Shares	Series B Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Earnings	Total Shareholders' Equity	Noncontrolling Inte Common Units	Consolidated Joint Ventures	T Nonc In
Balance at December 31, 2011	$1,699	$-	$24	$46	$1,041,027	$(1,151)	$(310,974)	$730,671	$16,864	$307	$1
Unit Conversion	-	-	-	-	31	-	-	31	(34)	-	(
Reallocation of Noncontrolling Interest	-	-	-	-	(2,152)	-	-	(2,152)	-	-	-
Common Stock Option Cancellation	25	-	-	-	(25)	-	-	-	-	-	-
Dividends and Distributions declared:											
Common Stock ($0.06 per share)	-	-	-	-	-	-	(10,398)	(10,398)	-	-	-
Preferred Stock ($0.50 per Series A share)	-	-	-	-	-	-	(1,200)	(1,200)	-	-	-
Preferred Stock ($0.50 per Series B share)	-	-	-	-	-		(2,300)	(2,300)	-	-	-
Common Units ($0.06 per share)		-	-	-	-	-	-	-	(252)	-	(
Dividend Reinvestment Plan	1	-	-	-	4	-	-	5	-	-	-
Stock Based Compensation											
Restricted and Performance Share Award Grants	8	-	-	-	2,294	-	-	2,302	-	-	-
Restricted Share Award Amortization	-	-	-	-	1,288	-	-	1,288	-	-	-
Change in Fair Value of Derivative Instruments	-	-	-		-	27	-	27	-	-	-
Net Loss	-	-	-		-	-	(7,173)	(7,173)	(263)	(287)	(
Balance at March 31, 2012	$1,733	$-	$24	$46	$1,042,467	$(1,124)	$(332,045)	$711,101	$16,315	$20	$1
Balance at December 31, 2010	$1,692	$-	$24	$-	$918,215	$(338)	$(236,159)	$683,434	$19,410	$474	$1
Unit Conversion	-	-	-	-	90	-	-	90	(168)	-	(
Reallocation of Noncontrolling Interest	-	-	-	-	1,584	-	-	1,584	13	-	1
Dividends and Distributions declared:											

Common Stock ($0.05 per share)	-	-	-	-	-	-	(8,486)	(8,486)	-	-	-
Preferred Stock ($0.50 per Series A share)	-	-	-	-	-	-	(1,200)	(1,200)	-	-	-
Common Units ($0.05 per share)	-	-	-	-	-	-	-	-	(215)	-	(
Dividend Reinvestment Plan	-	-	-	-	3	-	-	3	-	-	-
Stock Based Compensation											
Restricted and Performance Share Award Grants	5	-	-	-	1,339	-	-	1,344	-	-	-
Restricted Share Award Amortization	-	-	-	-	1,407	-	-	1,407	-	-	-
Change in Fair Value of Derivative Instruments	-	-	-		-	(18)	-	(18)	-	-	-
Net Loss	-	-	-		-	-	(13,391)	(13,391)	(348)	(437)	(
Balance at March 31, 2011	$1,697	$-	$24	$-	$922,638	$(356)	$(259,236)	$664,767	$18,692	$37	$1

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS]

	2012	2011
Operating activities:		
Net loss	$(7,914)	$(14,418)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on disposition of hotel properties	(4,502)	-
Depreciation	13,294	13,946
Amortization	1,220	924
Debt extinguishment	6	-
Development loan interest added to principal	(401)	(674)
Equity in loss of unconsolidated joint ventures	730	981
Distributions from unconsolidated joint ventures	1,000	-
Loss recognized on change in fair value of derivative instrument	96	7
Stock based compensation expense	2,133	1,485
Change in assets and liabilities:		
(Increase) decrease in:		
Hotel accounts receivable	(172)	(498)
Escrows	(1,439)	(1,548)
Other assets	1,432	351
Due from related parties	(2,599)	(671)
Increase (decrease) in:		
Due to related parties	402	420
Accounts Payable, Accrued Expenses and Other Liabilities	1,231	3,897
Net cash provided by operating activities	4,517	4,202
Investing activities:		
Purchase of hotel property assets	(40,885)	(38,516)
Deposits on hotel acquisitions	(6,500)	(3,500)
Capital expenditures	(12,192)	(10,507)
Cash paid for hotel development projects	(648)	(124)
Proceeds from disposition of hotel properties and investment in unconsolidated joint venture	41,642	-
Net changes in capital expenditure escrows	(2,113)	(1,982)
Advances to unconsolidated joint ventures	(127)	-
Repayment of development loans receivable	39	-
Investment in notes receivable from unconsolidated joint venture	(150)	(1,000)
Cash paid for franchise fee intangible	-	(40)
Net cash used in investing activities	(20,934)	(55,669)
Financing activities:		
Proceeds from borrowings under line of credit, net	36,667	17,000
Principal repayment of mortgages and notes payable	(32,035)	(1,590)
Proceeds from mortgages and notes payable	27,194	-
Cash paid for deferred financing costs	(26)	(173)
Dividends paid on common shares	(10,194)	(8,457)

Dividends paid on preferred shares	(3,500)	(1,200)
Distributions paid on common partnership units	(436)	(373)
Net cash provided by financing activities	17,670	5,207
Net increase (decrease) in cash and cash equivalents	1,253	(46,260)
Cash and cash equivalents - beginning of period	24,568	65,596
Cash and cash equivalents - end of period	$25,821	$19,336

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011, which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, 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 the sole general partner. As of March 31, 2012, we owned an approximate 96.0% partnership interest in our operating partnership, including a 1.0% general partnership interest.

Noncontrolling Interest

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 $16,315 as of March 31, 2012 and $16,864 as of December 31, 2011. As of March 31, 2012, there were 4,197,704 Nonredeemable Common Units outstanding with a fair market value of $22,919, based on the price per share of our common shares on the New York Stock Exchange on such date. In accordance with HHLP's partnership agreement, holders of these units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying 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 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.

As of March 31, 2012, there were 3,064,252 Redeemable Common Units outstanding with a redemption value equal to the fair value of the Redeemable Common Units, or $16,732. 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, 2012, 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 $12,027. As of December 31, 2011, the Redeemable Common Units were valued on the consolidated balance sheets at redemption value of $14,955 since the Redeemable Common Units redemption value was greater than historical cost of $12,402.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

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.

Shareholder's Equity

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 common shares at a price of $2.50 per share to REIG for gross proceeds of $14,250. 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 is exercisable through August 4, 2014. On February 13, 2012 we called in and canceled the option granted to REIG in exchange for the issuance of 2,521,561 common shares with an aggregate value equal to $13,566. This amount equals 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 5,700,000 common shares remaining under the option.

Recent Accounting Pronouncements

Effective January 1, 2012, we adopted ASC Update No. 2011-05 concerning the presentation of comprehensive income. The amendment provides guidance to improve comparability, consistency, and transparency of financial reporting. The amendment also eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, entities will be required to present all non-owner changes in stockholders' equity as either a single continuous statement of comprehensive income or in two separate but consecutive statements, for which we have elected to present two separate but consecutive statements.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [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, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Land	$ 285,202	$ 278,442
Buildings and Improvements	1,124,828	1,090,280
Furniture, Fixtures and Equipment	159,676	151,600
Construction in Progress	32,286	31,638
	1,601,992	1,551,960
Less Accumulated Depreciation	(223,243)	(211,084)
Total Investment in Hotel Properties	$ 1,378,749	$ 1,340,876

Acquisitions

During the three months ended March 31, 2012, we acquired the following wholly-owned property:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees, Loan Costs, and Leasehold Intangible	Leasehold Liability	Acquisition Costs	Total Purchase Price
* The Rittenhouse Hotel, Philadelphia, PA	3/1/2012	$ 7,119	$ 29,605	$ 3,580	$ 2,156	$ (827)	$ 937	$ 42,570
Total		$ 7,119	$ 29,605	$ 3,580	$ 2,156	$ (827)	$ 937	$ 42,570

* The fair values for the assets and liabilities acquired in 2012 are preliminary as the Company continues to finalize their acquisition date fair value determination.

As shown in the table below, included in the consolidated statements of operations for the three months ended March 31, 2012 are total revenues of $1,479 and total net loss of $1,025 for the hotel we acquired a 100% interest in since the date of acquisition.   These amounts represent the results of operations for this hotel since the date of acquisition of our 100% interest in this hotel.

	Three Months Ended March 31, 2012	
Hotel	Revenue	Net (Loss)

		Income
The Rittenhouse Hotel, Philadelphia, PA	$ 1,479	$ (1,309)
Total	$ 1,479	$ (1,309)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [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 are presented as if all acquisitions completed since January 1, 2012 and 2011 had been completed on January 1, 2011 and 2010. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma financial data are not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2012 and 2011 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 March 31,	
	2012	2011
Pro Forma Total Revenues	$67,621	$60,820
Pro Forma (Loss) from Continuing Operations	$(12,085)	$(12,796)
Income (loss) from Discontinued Operations	4,388	(1,587)
Pro Forma Net Loss	(7,697)	(14,383)
Loss allocated to Noncontrolling Interest	732	1,026
Preferred Distributions	(3,500)	(1,200)
Pro Forma Net Loss applicable to Common Shareholders	$(10,465)	$(14,557)
Pro Forma Loss applicable to Common Shareholders per Common Share		
Basic	$(0.07)	$(0.09)
Diluted	$(0.07)	$(0.09)
Weighted Average Common Shares Outstanding		
Basic	170,427,428	168,334,982
Diluted	170,427,428	168,334,982

Asset Development

On July 22, 2011, the Company completed the acquisition of the real property and improvements located at 32 Pearl Street, New York, NY from an unaffiliated seller for a total purchase price of $28,300. The property is a re-development project which was initiated in 2008. The Company acquired the real property and the improvements for cash and by cancelling an $8,000 development loan on the re-development project made to the seller and by cancelling $300 of accrued interest receivable from the seller. We have begun the process of re-developing this building into a Hampton Inn. As of March 31, 2012, we have spent $3,986 in development costs.

Purchase and Sale Agreements

On August 15, 2011, the Company entered into two purchase and sale agreements to dispose of a portfolio of 18 non-core hotel properties, four of which are owned in part by the Company through an unconsolidated joint venture. On February 23, 2012, we completed the sale of 14 of the 18 properties. See “Note 3 – Investment in Unconsolidated Joint Ventures” and “Note 12 – Discontinued Operations” for more information.

The Company entered into a Contract of Sale to dispose of a parcel of land and improvements located at 585 Eighth Avenue, New York, NY, to an unaffiliated buyer for a total sale price of $19,250. On April 30, 2012, we completed the sale of the property, paying down $11,920 of mortgage indebtedness.

The Company entered into a purchase and sale agreement to acquire the Bulfinch Hotel, located at 107 Merrimac Street, Boston, MA, from an unaffiliated seller for approximately $18,200 in cash. The property is unencumbered by debt. Included in Other Assets on the consolidated balance sheet as of March 31, 2012 is a $4,000 deposit which will be applied toward the purchase of the hotel.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of March 31, 2012 and December 31, 2011 our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned		Preferred Return		March 31, 2012		December 31, 2011
Inn American Hospitality at Ewing, LLC	Courtyard by Marriott, Ewing, NJ	50.0	%	11.0% cumulative	$	-	$	-
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0	%	N/A		1,560		1,681
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0	%	N/A		4,897		5,035
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT and RI	8.8%-66.7	%	8.5% non-cumulative		17,133		23,762
Metro 29th Street Associates, LLC	Holiday Inn Express, New York, NY	50.0	%	N/A		8,003		8,361
					$	31,593	$	38,839

On August 15, 2011, the Company entered into two purchase and sale agreements to dispose of a portfolio of 18 non-core hotel properties, four of which are owned in part by the Company through an unconsolidated joint venture. As a result of entering into these purchase and sale agreements, during the twelve months ended December 31, 2011, we recorded an impairment loss of approximately $1,677 for those hotel properties for which our investment in the unconsolidated joint venture did not exceed the net proceeds distributable to us on the sale of the hotel properties held by the joint venture based on the purchase price. On February 23, 2012, the Company closed on the sale of 14 of these non-core hotel properties, including three of the unconsolidated joint venture hotel properties. As our investment in these three unconsolidated joint ventures equated the net proceeds distributed to us, we did not record a gain or loss in connection with the sale of the three hotel properties. See “Note 12 – Discontinued Operations” for more information.

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.

Loss recognized during the three months ended March 31, 2012 and 2011, for our investments in unconsolidated joint ventures is as follows:

	Three Months Ended March 31,	
	2012	2011
Inn American Hospitality at Ewing, LLC	$-	$(27)
Hiren Boston, LLC	(138)	-
SB Partners, LLC	(122)	(224)
Mystic Partners, LLC	(113)	(427)
Metro 29th Street Associates, LLC	(357)	(303)
Loss from Unconsolidated Joint Venture Investments	$(730)	$(981)

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company's share, related to the unconsolidated joint ventures discussed above as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011.

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Balance Sheets

	March 31, 2012	December 31, 2011
Assets		
Investment in hotel properties, net	$ 139,425	$ 140,550
Other Assets	29,988	33,142
Assets Held For Sale	4,609	19,308
Total Assets	$ 174,022	$ 193,000
Liabilities and Equity		
Mortgages and notes payable	$ 138,929	$ 139,032
Other liabilities	41,593	40,583
Liabilities Related to Assets Held For Sale	6,948	31,219
Equity:		
Hersha Hospitality Trust	37,508	43,140
Joint Venture Partner(s)	(50,956)	(60,974)
Total Equity	(13,448)	(17,834)
Total Liabilities and Equity	$ 174,022	$ 193,000

Statements of Operations

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Room Revenue	$ 15,948	$ 13,137
Other Revenue	5,404	4,569
Operating Expenses	(15,285)	(13,042)
Interest Expense	(2,203)	(1,943)
Lease Expense	(1,699)	(1,305)
Property Taxes and Insurance	(1,144)	(1,279)
General and Administrative	(1,540)	(1,450)
Loss Allocated to Noncontrolling Interests	(2,569)	22
Depreciation and Amortization	(1,865)	(1,668)
Net Loss From Continuing Operations	(4,953)	(2,959)
Income from Discontinued Operations	181	15
Gain on Disposition of Hotel Properties	15,530	-
Net Income from Discontinued Operations	15,711	15
Net Income (Loss)	$ 10,758	$ (2,944)

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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, 2012 and December 31, 2011.

	March 31, 2012	December 31, 2011
Company's share of equity recorded on the joint ventures' financial statements	$37,508	$43,140
Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsoldiated joint ventures(1)	(5,915)	(4,301)
Investment in Unconsolidated Joint Ventures	$31,593	$38,839

(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 reflects 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.

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NOTE 4 – DEVELOPMENT LOANS RECEIVABLE

Development Loans

Historically, we provided first mortgage and mezzanine loans to hotel developers, including entities in which certain of our executive officers and non-independent 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, 2012, no such loans were originated by us. Interest income from development loans was $621 and $1,091 for the three months ended March 31, 2012 and 2011, respectively. Accrued interest on our development loans receivable was $2,733 as of March 31, 2012 and $3,096 as of December 31, 2011. Accrued interest on our development loans receivable as of March 31, 2012 does not include cumulative interest income of $8,149 which has been accrued and paid in kind by adding it to the principal balance of certain loans as indicated in the table below.

As of March 31, 2012 and December 31, 2011, our development loans receivable consisted of the following:

Hotel Property	Borrower	Principal Outstanding March 31, 2012		Principal Outstanding December 31, 2011	Interest Rate		Maturity Date (1)
Operational Hotels							
Renaissance by Marriott - Woodbridge, NJ	Hersha Woodbridge Associates, LLC	5,000		5,000	11	%	April 1, 2013 *
Element Hotel - Ewing, NJ	American Properties @ Scotch Road, LLC	2,000	(2)	2,000	11	%	August 6, 2012 *
Hilton Garden Inn - Dover, DE	44 Aasha Hospitality Associates, LLC	962	(2)	1,000	10	%	November 1, 2012 *
Hyatt 48Lex - New York, NY	44 Lexington Holding, LLC	14,845	(3)	14,444	11	%	December 31, 2012 *
Construction Hotels							
Hyatt Union Square - New York, NY (3)	Risingsam Union Square, LLC	13,303	(3)	13,303	10	%	N/A
Total Development Loans Receivable		$ 36,110		$ 35,747			

* Indicates borrower is a related party

(1) Represents current maturity date in effect. Agreements for our development loans receivable typically allow for multiple one-year extensions which can be exercised by the borrower if the loan is not in default. As these loans typically finance hotel development projects, it is common for the borrower to exercise their options to extend the loans, in whole or in part, until the project has been completed and the project provides cash flow to the developer or is refinanced by the developer.

(2) Principal and accrued interest related to these two development loans were repaid in full in April 2012.

(3) We amended the following development loans to allow the borrower to elect, quarterly, to pay accrued interest in-kind by adding the accrued interest to the principal balance of the loan:

Borrower	Interest Income Three Months Ended March 31, 2012		Cumulative Interest Income Paid In Kind
	2012	2011	
Risingsam Union Square, LLC (4)	$ -	$ 318	$ 3,304
44 Lexington Holding, LLC	401	356	4,845
Total	$ 401	$ 674	$ 8,149

(4) On June 14, 2011, we entered into a purchase and sale agreement to acquire the Hyatt Union Square hotel in New York, NY for total consideration of $104,304. The consideration to the seller will consist of $36,000 to be paid to the seller in cash, the cancellation by the Company of a $10,000 development loan, and $3,304 of accrued interest on the loan and the assumption by the Company of two mortgage loans secured by the hotel in the original aggregate principal amount of $55,000. In accordance with terms of the purchase and sale agreement, we have ceased accruing interest on this $10,000 development loan as of June 14, 2011.