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	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]

									Noncontrolling Inte		
	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	Common Units	Consolidated Joint Ventures	Total 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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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 (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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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	2011	Cumulative Interest Income Paid In Kind
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.

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NOTE 5 – OTHER ASSETS AND DEPOSITS ON HOTEL ACQUISITIONS

Other Assets consisted of the following at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Transaction Costs	$ 2,665	$ 1,703
Investment in Statutory Trusts	1,548	1,548
Prepaid Expenses	5,639	7,683
Interest Receivable from Development Loans to Non-Related Parties	855	1,238
Hotel Purchase Option	933	933
Other	3,073	2,546
	$ 14,713	$ 15,651

Transaction Costs - Transaction costs include legal fees and other third party transaction costs incurred relative to entering into debt facilities, issuances of equity securities, and other costs which are recorded in other assets prior to the closing of the respective transactions.

Investment in Statutory Trusts - We have an investment in the common stock of Hersha Statutory Trust I and Hersha Statutory Trust II. Our investment is accounted for under the equity method.

Prepaid Expenses - Prepaid expenses include amounts paid for property tax, insurance and other expenditures that will be expensed in the next twelve months.

Interest Receivable from Development Loans to Non-Related Parties– Interest receivable from development loans to non-related parties represents interest income receivable from loans extended to non-related parties that are used to enable such entities to construct hotels and conduct related improvements on specific hotel projects. This excludes interest receivable from development loans extended to related parties in the amounts of $1,917 and $1,859 as of March 31, 2012 and December 31, 2011, respectively, which is included in due from related parties on the consolidated balance sheets.

Hotel Purchase Option – We have an option to acquire a 49% interest in the entity that owns the Holiday Inn Express – Manhattan. This option expires at the end of the lease term.

Deposits on Hotel Acquisitions

As of March 31, 2012, we had $21,000 in non-interest bearing deposits related to the acquisition of hotel properties, of which $20,000 is related to the deposit on Hyatt Union Square, New York, NY. As of March 31, 2012, we had $4,500 in interest bearing deposits related to the acquisition of other hotel properties. Please see “Note 4 – Development Loans Receivable” for more information.

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NOTE 6 – DEBT

Mortgages and Notes Payable

We had total mortgages payable at March 31, 2012, and December 31, 2011 of $665,234 (including $18,993 in outstanding mortgage indebtedness related to assets held for sale) and $717,367 (including $61,758 in outstanding mortgage indebtedness to assets held for sale), respectively. These balances consisted of mortgages with fixed and variable interest rates, which ranged from 2.24% to 8.25% as of March 31, 2012. Aggregate interest expense incurred under the mortgage loans payable totaled $10,254 and $9,060 during the three months ended March 31, 2012 and 2011, respectively.

Our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, non-recourse financing arrangements. Our mortgage loans payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that certain debt service coverage ratio covenants contained in the loan agreements securing 11 of our hotel properties were not met as of March 31, 2012. Pursuant to these loan agreements, the lender has elected to escrow the operating cash flow for a number of these properties. However, these covenants do not constitute an event of default for these loans. As of March 31, 2012, we were in compliance with all events of default covenants under the applicable loan agreements. As noted in "Note 12 – Discontinued Operations," the Comfort Inn, North Dartmouth, MA, ceased operations on March 31, 2011. Effective March 30, 2012, we transferred title to the property to the lender. At the time of transfer, the remaining principal and accrued interest due on the mortgage loan payable related to this asset were $2,940 and $166, respectively.

As of March 31, 2012, the maturity dates for the outstanding mortgage loans ranged from May 2012 to September 2023.

Subordinated Notes Payable

We have two junior subordinated notes payable in the aggregate amount of $51,548 to the Hersha Statutory Trusts pursuant to indenture agreements which will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, prior to maturity in accordance with the provisions of the indenture agreement. The $25,774 notes issued to Hersha Statutory Trust I and Hersha Statutory Trust II, bear interest at a variable rate of LIBOR plus 3% per annum. This rate resets two business days prior to each quarterly payment. The weighted average interest rate on our two junior subordinated notes payable during the three months ended March 31, 2012 and 2011 was 3.55% and 3.30%, respectively. Interest expense in the amount of $458 and $425 was recorded for the three months ended March 31, 2012 and 2011, respectively.

Revolving Credit Facility

We maintain a revolving line of credit, pursuant to a Revolving Credit Loan and Security Agreement with T.D. Bank, NA and various other lenders. The credit agreement provides for a revolving line of credit in the principal amount of up to $250,000, including a sub-limit of $25,000 for irrevocable stand-by letters of credit and a $10,000 sub-limit for the swingline loans. Borrowings under the revolving line of credit may be used for working capital and general corporate purposes and for the purchase of additional hotels. The revolving line of credit expires in November 2013, and, provided no event of default has occurred and remains uncured, we may request that T.D. Bank, NA and the other lenders renew the revolving line of credit for an additional one-year period.

The $250,000 revolving credit facility is collateralized by a first lien-security interest in all existing and future unencumbered assets of HHLP, a collateral assignment of all hotel management contracts of the management companies in the event of default, and title-insured, first-lien mortgages on the following hotel properties:

- Hampton Inn, Danville, PA
- Hampton Inn, Philadelphia, PA
- Hampton Inn, Carlisle, PA
- Hampton Inn, Selinsgrove, PA
- Holiday Inn, Norwich, CT
- Towneplace Suites, Harrisburg, PA
- Comfort Inn, Harrisburg, PA
- Residence Inn, Langhorne, PA
- Residence Inn, Norwood, MA
- Sheraton Hotel, JFK Airport, New York, NY
- Hampton Inn, Washington, DC
- Hampton Inn (Pearl Street), New York, NY
- Hyatt Place, King of Prussia, PA

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NOTE 6 – DEBT (CONTINUED)

At our option, the interest rate on loans provided under the line of credit will be either (i) the variable prime rate, as defined in the credit agreement, plus an applicable margin ranging between 150 and 175 basis points per annum or (ii) LIBOR plus an applicable margin ranging between 350 and 375 basis points per year, subject to a floor of 4.25%.

The credit agreement providing for the $250,000 revolving credit facility includes certain financial covenants and requires that we maintain: (1) a minimum tangible net worth of $500,000, which is subject to increases under certain circumstances; (2) maximum accounts and other receivables from affiliates of $125,000; (3) annual distributions not to exceed 95% of adjusted funds from operations; (4) maximum non-hedged variable rate indebtedness to total debt of 30%; and (5) certain financial ratios, including the following:

- a fixed charge coverage ratio of not less than 1.25 to 1.00 which increased to 1.35 to 1.00 as of September 30, 2011, and will increase to 1.45 to 1.00 as of September 30, 2012; and
- a total funded liabilities to gross asset value ratio of not more than 0.65 to 1.00.

The Company is in compliance with each of the covenants listed above as of March 31, 2012.

The outstanding principal balance under the revolving line of credit was $87,667 as of March 31, 2012 and $51,000 as of December 31, 2011. The Company recorded interest expense of $858 and $504 related to the revolving line of credit borrowings for the three months ended March 31, 2012 and 2011, respectively. The weighted average interest rate on our revolving line of credit during the three months ended March 31, 2012 and 2011 was 4.63% and 4.25%, respectively.

As of March 31, 2012 we had $8,563 in irrevocable letters of credit issued and our remaining borrowing capacity under the Line of Credit was $153,770.

Capitalized Interest

We utilize mortgage debt and our $250,000 revolving credit facility to finance on-going capital improvement projects at our hotels. Interest incurred on mortgages and the revolving credit facility that relates to our capital improvement projects is capitalized through the date when the assets are placed in service. For the three months ended March 31, 2012 and 2011, we capitalized $363 and $170, respectively, of interest expense related to these projects.

Deferred Financing Costs

Costs associated with entering into mortgages and notes payable and our revolving line of credit are deferred and amortized over the life of the debt instruments. Amortization of deferred financing costs is recorded in interest expense. As of March 31, 2012, deferred costs were $8,016, net of accumulated amortization of $9,544. Amortization of deferred costs for the three months ended March 31, 2012, and 2011 was $1,017, and $777, respectively.

New Debt/Refinance

On January 31, 2012, we repaid outstanding mortgage debt with an original principal balance of $32,500 secured by the Capitol Hill Suites, Washington, D.C., and simultaneously entered into a new mortgage obligation of $27,500. The new mortgage debt bears interest at a variable rate of one month U.S. dollar LIBOR plus 3.25% and matures on January 30, 2015. On the same date, we entered into an interest rate swap that effectively fixes the interest at 3.79% per annum.

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NOTE 7 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned taxable REIT subsidiary ("TRS"), 44 New England, engages eligible independent contractors in accordance with the requirements for qualification as a REIT under the Federal income tax laws, including HHMLP, as the property managers for hotels it leases from us pursuant to management agreements. HHMLP is owned, in part, by certain executives and trustees of the Company. Our management agreements with HHMLP provide for five-year terms and are subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, HHMLP must qualify as an “eligible independent contractor” during the term of the management agreements. Under the management agreements, HHMLP generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by HHMLP in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. HHMLP is not obligated to advance any of its own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee and, if a hotel exceeds certain thresholds, an incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of gross revenues associated with each hotel managed for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotels. For the three months ended March 31, 2012 and 2011, base management fees incurred totaled $2,099 and $1,538, respectively and are recorded as Hotel Operating Expenses. For the three months ended March 31, 2012 and 2011, we did not incur incentive management fees.

Franchise Agreements

Our branded hotel properties are operated under franchise agreements assumed by the hotel property lessee. The franchise agreements have 10 to 20 year terms, but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The franchise agreements require annual payments for franchise royalties, reservation, and advertising services, and such payments are based upon percentages of gross room revenue. These payments are paid by the hotels and charged to expense as incurred. Franchise fee expense for the three months ended March 31, 2012 and 2011 was $4,852 and 3,935, respectively. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Accounting and Information Technology Fees

Each of the wholly-owned hotels and consolidated joint venture hotel properties managed by HHMLP incurs a monthly accounting and information technology fee. Monthly fees for accounting services are between $2 and $3 per property and monthly information technology fees range from $1 to $2 per property. For the three months ended March 31, 2012 and 2011, the Company incurred accounting fees of $472 and $452, respectively. For the three months ended March 31, 2012 and 2011, the Company incurred information technology fees of $138 and $111, respectively. Accounting fees and information technology fees are included in hotel operating expenses.

Capital Expenditure Fees

HHMLP charges a 5% fee on all capital expenditures and pending renovation projects at the properties as compensation for procurement services related to capital expenditures and for project management of renovation projects. For the three months ended March 31, 2012 and 2011, we incurred fees of $496 and $279, respectively, which were capitalized with the cost of fixed asset additions.

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NOTE 7 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

Acquisitions from Affiliates

We have entered into an option agreement with each of our officers and certain trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

Hotel Supplies

For the three months ended March 31, 2012 and 2011, we incurred charges for hotel supplies of $18 and $24, respectively. For the three months ended March 31, 2012 and 2011, we incurred charges for capital expenditure purchases of $5,002 and $3,475, respectively. These purchases were made from Hersha Purchasing and Design, a hotel supply company owned, in part, by certain executives and trustees of the Company. Hotel supplies are expenses included in hotel operating expenses on our consolidated statements of operations, and capital expenditure purchases are included in investment in hotel properties on our consolidated balance sheets. Approximately $1 and $26 is included in accounts payable at March 31, 2012 and December 31, 2011, respectively.

Due From Related Parties

The due from related parties balance as of March 31, 2012 and December 31, 2011 was approximately $8,938 and $6,189, respectively. The balances primarily consisted of accrued interest due on our development loans, a note receivable from one of our unconsolidated joint ventures, and the remaining due from related party balances are receivables owed from our unconsolidated joint ventures.

Due to Related Parties

The balance due to related parties as of March 31, 2012 and December 31, 2011 was approximately $3,334 and $2,932, respectively. The balances consisted of amounts payable to HHMLP for administrative, management, and benefit related fees.

Hotel Ground Rent

For the three months ended March 31, 2012 and 2011, we incurred $194 and $256, respectively, of rent expense payable pursuant to ground leases related to certain hotel properties.

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NOTE 8 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Fair Value Measurements

Our determination of fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we utilize a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of March 31, 2012, the Company's derivative instruments represented the only financial instruments measured at fair value. Currently, the Company uses derivative instruments, such as interest rate swaps and caps, to manage its interest rate risk.   The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. However, as of March 31, 2012 we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Derivative Instruments

We maintain an interest rate cap that effectively fixes interest payments when LIBOR exceeds 5.75% on a variable rate mortgage on Hotel 373, New York, NY. The notional amount of the interest rate cap is $22,000 and equals the principal of the variable rate mortgage being hedged. This interest rate cap matures on May 9, 2012.

We maintain an interest rate cap that effectively limits variable rate interest payments on the subordinated notes payable to Hersha Statutory Trust I and Hersha Statutory Trust II when LIBOR exceeds 2.00%. The notional amount of the interest rate cap is $51,548 and equals the principal of the variable interest rate debt being hedged. The effective date of the interest rate cap is July 30, 2010, which correlates with the end of the fixed interest rate period on the notes payable. This cap matures on July 30, 2012.

We maintain an interest rate swap that effectively fixes the interest rate on a variable rate mortgage, bearing interest at one month U.S. dollar LIBOR plus 4.00%, originated concurrently with the debt associated with the Holiday Inn Express Times Square, NY. Under the terms of this interest rate swap, we pay fixed rate interest of 1.24% and we receive floating rate interest equal to the one month U.S. dollar LIBOR, effectively fixing our interest at a rate of 5.24%. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $40,740 as of March 31, 2012. This swap matures on June 1, 2014.

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NOTE 8 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

We maintain an interest rate swap that effectively fixes the interest rate on a variable rate mortgage, bearing interest at one month U.S. dollar LIBOR plus 3.85%, originated concurrently with the debt associated with the Courtyard by Marriott, Westside, Los Angeles, CA. Under the terms of this interest rate swap, we pay fixed rate interest of 4.947% per annum. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $30,000 as of March 31, 2012. This interest rate swap matures on September 29, 2015.

We maintain an interest rate swap that effectively fixes the interest rate on a variable rate mortgage, bearing interest at one month U.S. dollar LIBOR plus 3.25%, originated concurrently with the debt associated with the Capitol Hill Suites, Washington, DC. Under the terms of this interest rate swap, we pay fixed rate interest of 3.79% per annum. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $27,500 as of March 31, 2012. This interest rate swap matures on February 1, 2015.

At March 31, 2012 and December 31, 2011, the fair value of the interest rate swaps and cap were:

				Estimated Fair Value	
Date of Transaction	Hedged Debt	Type	Maturity Date	March 31, 2012	December 31, 2011
May 9, 2011	Variable Rate Mortgage – Hotel 373, New York, NY	Cap	May 9, 2012	$ -	$ -
April 19, 2010	Subordinated Notes Payable	Cap	July 30, 2012	-	-
May 31, 2011	Variable Rate Mortgage – HIE Times Square, New York, NY	Swap	July 1, 2014	(655)	(591)
September 29, 2011	Variable Rate Mortgage – CY LA Westside, Culver City, LA	Swap	September 29, 2015	(331)	(301)
February 1, 2012	Variable Rate Mortgage – CHS Washington, DC	Swap	February 1, 2015	24	-
				$ (962)	(892)

The fair value of our interest rate caps is included in other assets at March 31, 2012 and December 31, 2011 and the fair value of our interest rate swaps is included in accounts payable, accrued expenses and other liabilities at March 31, 2012 and December 31, 2011.

The change in fair value of derivative instruments designated as cash flow hedges was a gain of $27 and a loss of $18 for the three months ended March 31, 2012 and 2011, respectively. These unrealized gains and losses were reflected on our consolidated balance sheet in accumulated other comprehensive Income.

Fair Value of Debt

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. As of March 31, 2012, the carrying value and estimated fair value of the Company's debt was $785,456 and $809,818 respectively (excluding outstanding mortgage indebtedness related to assets held for sale). As of December 31, 2011, the carrying value and estimated fair value of the Company's debt was $758,374 and $785,453 respectively (excluding outstanding mortgage indebtedness related to assets held for sale).

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NOTE 9 – SHARE BASED PAYMENTS

In May 2011, the Company established and our shareholders approved the Hersha Hospitality Trust 2012 Equity Incentive Plan (the "2012 Plan") for the purpose of attracting and retaining executive officers, employees, trustees and other persons and entities that provide services to the Company.

Executives & Employees

Annual Long Term Equity Incentive Programs

To further align the interests of the Company's executives with those of shareholders, the Compensation Committee grants annual long term equity incentive awards that are both "performance based" and "time based."

On April 16, 2012, the Compensation Committee adopted the 2012 Annual LTIP for the executive officers, pursuant to which the executive officers are eligible to earn equity awards in the form of stock awards or performance share awards issuable pursuant to the 2012 Plan. Shares are earned under the 2012 Annual LTIP based on achieving a threshold, target or maximum level of performance in the performance of RevPAR growth in certain defined areas. The Company accounts for these grants as performance awards for which the Company assesses the probable achievement of the performance conditions at the end of each period. No stock based compensation expense was recorded for the three months ended March 31, 2012 under the 2012 Annual LTIP. As of May 1, 2012, no common shares have been issued in accordance with the 2012 Plan to the executive officers in settlement of 2012 Annual LTIP awards.

Stock based compensation expense related to the 2011 Annual LTIP and 2010 Annual LTIP of $933 and $99 was incurred during the three months ended March 31, 2012 and 2011, respectively. Unearned compensation related to the 2011 Annual LTIP and 2010 Annual LTIP as of March 31, 2012 and December 31, 2011 was $2,278 and $605, respectively.The following table is a summary of all unvested share awards issued to executives under the 2011 Annual LTIP and 2010 Annual LTIP:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on date of grant	Vesting Period	Vesting Schedule	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
3/26/2012 (2011 Annual LTIP)	748,927	$ 5.45	3 years	25%/year (1)	187,230	-	$ 1,780	$ -
3/30/2011 (2010 Annual LTIP)	440,669	$ 5.98	3 years	25%/year (1)	220,334	220,334	498	605
					407,564	220,334	$ 2,278	$ 605

(1) 25% of the issued shares vested immediately upon issuance, while the remaining shares vest 25% over the following three years.

Multi-Year LTIP

On May 7, 2010, the Compensation Committee adopted the Multi-Year LTIP. This program has a three-year performance period, which commenced on January 1, 2010 and will end on December 31, 2012. The common shares issuable pursuant to the 2012 Plan in settlement of equity awards granted under this program are based upon the Company's achievement of a certain level of (1) absolute total shareholder return (75% of the award), and (2) relative total shareholder return as compared to the Company's peer group (25% of the award). As of May 1, 2012, no common shares have been issued in accordance with the the 2012 Plan to the executive officers in settlement of Multi-Year LTIP awards. The Company accounts for these grants as market based awards where the Company estimated unearned compensation at the grant date fair value which is then amortized into compensation cost over the vesting period, which ends on December 31, 2013. Stock based compensation expense of $798 and $798 was recorded for the three months ended March 31, 2012 and 2011, respectively for the Multi-Year LTIP. Unearned compensation related to the multi-year program as of March 31, 2012 and December 31, 2011, respectively was $5,585 and $6,383.

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NOTE 9 – SHARE BASED PAYMENTS (CONTINUED)

Restricted Share Awards

In addition to stock based compensation expense related to awards under the Multi-Year LTIP, the 2010 Annual LTIP and the 2011 Annual LTIP, stock based compensation expense related to restricted common shares issued to executives and employees of the Company of $351 and $509 was incurred during the three months ended March 31, 2012 and 2011, respectively. Unearned compensation related to the restricted share awards as of March 31, 2012 and December 31, 2011 was $1,019 and $1,370, respectively. The following table is a summary of all unvested share awards issued to executives under the 2004 and 2008 Plans:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on date of grant	Vesting Period	Vesting Schedule	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
June 2, 2008	278,059	$ 8.97	4 years	25%/year	208,542	208,542	$ 104	$ 260
September 30, 2008	3,616	$ 7.44	1-4 years	25-100%/year	2,962	2,962	2	4
June 1, 2009	744,128	$ 2.80	4 years	25%/year	372,483	372,483	607	737
June 1, 2010	182,308	$ 4.63	2-3 years	25-50%/year	91,151	91,151	235	291
June 30, 2011	17,692	$ 5.57	2-4 years	25-50%/year	-	-	71	78
Total	1,225,803				675,138	675,138	$ 1,019	$ 1,370

On April 18, 2012, the Company entered into amended and restated employment agreements with the Company's executive officers. To induce the executives to agree to the substantial reduction in benefits upon certain terminations following a change of control as described in the agreements, the Company awarded an aggregate of 1,035,595 restricted common shares to the executives pursuant to the 2012 Plan. None of these restricted common shares will vest prior to the third anniversary of the date of issuance. Thereafter, 33.3% of each award of restricted common shares will vest on each of the third, fourth and fifth anniversaries of the date of issuance. Vesting will accelerate upon a change of control or if the relevant executive's employment with the Company were to terminate for any reason other than for cause (as defined in the agreements).

Trustees

Annual Retainer

On March 16, 2011, the Compensation Committee approved a program that allows the Company's trustees to make a voluntary election to receive any portion of the annual cash retainer in the form of common equity valued at a 25% premium to the cash that would have been received. The number of shares issued on March 26, 2012 was determined by dividing the dollar value of the award by the 20-day volume weighted average closing price of the Company's common shares on the New York Stock Exchange as of December 31, 2011. Shares issued under this program become fully vested on December 31, 2012. Compensation expense incurred for the three months ended March 31, 2012 and 2011, respectively, was $28 and $36. The following table is a summary of all unvested share awards issued to trustees in lieu of annual cash retainer:

Original Issuance Date	Shares Issued	Share Price on date of grant	Vesting Period	Vesting Schedule	Unearned Compensation March 31, 2012
March 26, 2012	20,118	$ 5.45	1 year	100 %	$ 82

Multi-Year Long-Term Equity Incentives

On March 30, 2011, the Company issued an aggregate of 12,600 restricted common shares, 1,800 to each non-management trustee, 33% vested on December 31, 2011, and the remaining vest 33% on December 31, 2012, and 33% on December 31, 2013. Compensation expense for the multi-year long-term equity incentive incurred for the three months ended March 31, 2012 and 2011, respectively, was $5 and $6. Unearned compensation related to the multi-year long term equity incentives was $38 and $43 as of March 31, 2012 and December 31, 2011, respectively.

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NOTE 9 – SHARE BASED PAYMENTS (CONTINUED)

Non-employees

The Company issues share based awards as compensation to non-employees for services provided to the Company and consists primarily of restricted common shares. The Company recorded stock based compensation expense of $18 and $37 for the three months ended March 31, 2012 and 2011, respectively. Unearned compensation related to the restricted share awards as of March 31, 2012 and December 31, 2011 was $234 and $70, respectively. The following table is a summary of all unvested share awards issued to non-employees under the 2008 and 2012 Plan:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on date of grant	Vesting Period	Vesting Schedule	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
March 26, 2012	30,000	$ 5.45	2 years	50%/year	-	-	164	-
January 6, 2011	17,035	$ 6.66	1.5 years	50%/year	8,705	8,705	55	55
March 25, 2010	6,000	$ 5.02	2 years	50%/year	3,000	3,000	15	15
Total	53,035				11,705	11,705	234	70

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NOTE 10 – EARNINGS PER SHARE

The following table is a reconciliation of the income or loss (numerator) and the weighted average shares (denominator) used in the calculation of basic and diluted earnings per common share. The computation of basic and diluted earnings per share is presented below.

	Three Months Ended	
	March 31, 2012	March 31, 2011
Numerator:		
BASIC AND DILUTED*		
Loss from Continuing Operations	$ (12,302)	$ (12,831)
Loss from Continuing Operations allocated to Noncontrolling Interests	645	680
Distributions to Preferred Shareholders	(3,500)	(1,200)
Dividends Paid on Unvested Restricted Shares	(84)	(64)
Loss from Continuing Operations attributable to Common Shareholders	(15,241)	(13,415)
Discontinued Operations		
Income (loss) from Discontinued Operations	4,388	(1,587)
Loss from Discontinued Operations allocated to Noncontrolling Interests	96	347
Income (loss) from Discontinued Operations attributable to Common Shareholders	4,484	(1,240)
Net Loss attributable to Common Shareholders	$ (10,757)	$ (14,655)
Denominator:		
Weighted average number of common shares - basic	170,427,428	168,334,982
Effect of dilutive securities:		
Restricted Stock Awards	- *	- *
Contingently Issued Shares	- *	- *
Option to acquire common shares	- *	- *
Partnership Units	- *	- *
Weighted average number of common shares - 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: