HERSHA HOSPITALITY TRUST
Form 10-Q
August 09, 2007

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 June 30, 2007

OR

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

For the transition period from ____ to ____

COMMISSION FILE NUMBER: 001-14765

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

Maryland	**251811499**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
44 Hersha Drive **Harrisburg, Pennsylvania**	**17102**
(Address of Registrant's Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of June 30, 2007, the number of Class A common shares of beneficial interest outstanding was 40,986,779.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF
JUNE 30, 2007 [UNAUDITED] AND DECEMBER 31, 2006
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	June 30, 2007	December 31, 2006
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	$ 901,914	$ 807,784
Investment in Joint Ventures	58,174	50,234
Development Loans Receivable	44,716	47,016
Cash and Cash Equivalents	9,571	10,316
Escrow Deposits	16,574	14,927
Hotel Accounts Receivable, net of allowance for doubtful accounts of $50 and $30	10,219	4,608
Deferred Costs, net of Accumulated Amortization of $2,270 and $1,543	8,724	7,525
Due from Related Parties	2,237	4,059
Intangible Assets, net of Accumulated Amortization of $758 and $618	5,720	5,594
Other Assets	18,646	16,145
Total Assets	$ 1,076,495	$ 968,208
Liabilities and Shareholders' Equity:		
Line of Credit	$ 48,800	$ 24,000
Mortgages and Notes Payable, net of unamortized discount of $85 and $1,312	631,559	556,542
Accounts Payable, Accrued Expenses and Other Liabilities	16,149	14,740
Dividends and Distributions Payable	9,354	8,985
Due to Related Parties	3,555	3,297
Total Liabilities	709,417	607,564
Minority Interests:		
Common Units	$ 36,953	$ 25,933
Interest in Consolidated Joint Ventures	2,671	3,092
Total Minority Interests	39,624	29,025
Shareholders' Equity:		
Preferred Shares - 8% Series A, $.01 Par Value, 29,000,000 Shares Authorized, 2,400,000 Shares Issued and Outstanding at June 30, 2007 and December 31, 2006, respectively. (Aggregate Liquidation Preference $60,000 at June 30, 2007 and December 31, 2006, respectively)	24	24
Common Shares - Class A, $.01 Par Value, 80,000,000 Shares Authorized, 40,986,779 and 40,671,950 Shares Issued and Outstanding at June 30, 2007 and December 31, 2006, respectively.	410	405
Common Shares - Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-

Accumulated Other Comprehensive Income	221	233
Additional Paid-in Capital	390,993	381,592
Distributions in Excess of Net Income	(64,194)	(50,635)
Total Shareholders' Equity	327,454	331,619
Total Liabilities and Shareholders' Equity	$ 1,076,495	$ 968,208

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 AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Three Months Ended		Six Months Ended	
	June 30, 2007	**June 30, 2006**	**June 30, 2007**	**June 30, 2006**
Revenue:				
Hotel Operating Revenues	$ 63,478	$ 38,226	$ 109,868	$ 62,155
Interest Income from Development Loans	1,331	295	2,634	723
Land Lease Revenue	1,117	-	2,205	-
Hotel Lease Revenue	195	-	332	-
Other Revenues	186	187	327	353
Total Revenues	66,307	38,708	115,366	63,231
Operating Expenses:				
Hotel Operating Expenses	34,544	21,392	63,613	37,350
Hotel Ground Rent	190	216	439	378
Land Lease Expense	619	-	1,233	-
Real Estate and Personal Property Taxes and Property Insurance	2,891	1,460	5,787	2,947
General and Administrative	1,621	1,812	3,832	2,976
Depreciation and Amortization	8,560	4,609	16,801	8,405
Total Operating Expenses	48,425	29,489	91,705	52,056
Operating Income	17,882	9,219	23,661	11,175
Interest Income	323	322	454	480
Interest Expense	10,975	5,923	21,285	11,541
Loss on Debt Extinguishment	-	908	-	1,163
Income (Loss) before income from Unconsolidated Joint Venture Investments, Minority Interests and Discontinued Operations	7,230	2,710	2,830	(1,049)
Income (Loss) from Unconsolidated Joint Venture Investments	1,741	769	904	(341)
Income (Loss) before Minority Interests and Discontinued Operations	8,971	3,479	3,734	(1,390)
Income (Loss) allocated to Minority Interests in Continuing Operations	1,176	690	176	(325)
Income (Loss) from Continuing Operations	7,795	2,789	3,558	(1,065)
Discontinued Operations, net of minority interests (Note 12):				
Gain on Disposition of Hotel Properties	-	434	-	434
Income from Discontinued Operations	-	153	-	123

Income from Discontinued Operations		-		587		-		557
Net Income (Loss)		7,795		3,376		3,558		(508)
Preferred Distributions		1,200		1,200		2,400		2,400
Net Income (Loss) applicable to Common Shareholders	$	6,595	$	2,176	$	1,158	$	(2,908)

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CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE
THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Earnings Per Share:				
BASIC				
Income (Loss) from continuing operations applicable to common shareholders	$ 0.16	$ 0.06	$ 0.03	$ (0.15)
Income from Discontinued Operations	$ -	$ 0.03	$ -	$ 0.02
Net Income (Loss) applicable to common shareholders	$ 0.16	$ 0.09	$ 0.03	$ (0.13)
DILUTED*				
Income (Loss) from continuing operations applicable to common shareholders	$ 0.16	$ 0.06	$ 0.03	$ (0.15)**
Income from Discontinued Operations	$ -	$ 0.03	$ -	$ 0.02**
Net Income (Loss) applicable to common shareholders	$ 0.16	$ 0.09	$ 0.03	$ (0.13)**
Weighted Average Common Shares Outstanding:				
Basic	40,642,569	25,469,708	40,590,499	22,903,225
Diluted*	40,842,832	25,564,362	40,762,164	22,903,225**

* Income allocated to minority interest in the Partnership has been excluded from the numerator and Partnership units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average Partnership units outstanding for the three months ended June 30, 2007 and 2006 were 4,899,856 and 3,492,177, respectively. Weighted average Partnership units outstanding for the six months ended June 30, 2007 and 2006 were 4,653,575 and 3,324,977, respectively.

** For the six months ended June 30, 2006, 82,892 weighted average unvested stock awards have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including this amount in the denominator would be anti-dilutive to loss from continuing operations applicable to common shareholders.

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 SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [UNAUDITED]
[IN THOUSANDS]

	June 30, 2007	June 30, 2006
Operating activities:		
Net Income (Loss)	$ 3,558	$ (508)
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of hotel assets held for sale	-	(497)
Depreciation	16,619	8,591
Amortization	911	563
Debt extinguishment	-	1,163
Income (loss) allocated to minority interests	176	(238)
Equity in (income) loss of unconsolidated joint ventures	(904)	341
Distributions from unconsolidated joint ventures	1,083	1,135
Gain recognized on change in fair value of derivative instrument	(36)	(65)
Stock based compensation expense	293	103
Change in assets and liabilities:		
(Increase) decrease in:		
Hotel accounts receivable	(5,556)	(3,217)
Escrows	(912)	(1,326)
Other assets	(525)	870
Due from related party	2,710	(986)
Increase (decrease) in:		
Due to related party	258	178
Accounts payable and accrued expenses	1,271	3,954
Net cash provided by operating activities	18,946	10,061
Investing activities:		
Purchase of hotel property assets	(32,393)	(144,816)
Capital expenditures	(8,370)	(5,124)
Proceeds from disposition of hotel assets held for sale	-	3,665
Deposits on hotel acquisitions	(4,000)	(15,207)
Cash paid for franchise fee intangible	(66)	(48)
Repayment of notes receivable	30	1,843
Investment in development loans receivable	(30,700)	(33,116)
Repayment of development loans receivable	33,000	33,550
Distributions from unconsolidated joint venture	300	3,153
Advances and capital contributions to unconsolidated joint ventures	(1,602)	(4,018)
Net used in investing activities	(43,801)	(160,118)
Financing activities:		
Proceeds from borrowings under line of credit, net	24,800	32,034
Principal repayment of mortgages and notes payable	(10,369)	(57,796)
Proceeds from mortgages and notes payable	28,543	119,933
Settlement of interest rate derivative	-	79
Cash paid for deferred financing costs	(106)	(455)

Proceeds from issuance of common stock		-		63,766
Stock issuance costs		-		(413)
Distributions to partners in consolidated joint ventures		(190)		(150)
Dividends paid on common shares		(14,646)		(7,336)
Dividends paid on preferred shares		(2,400)		(2,400)
Distributions paid on common partnership units		(1,522)		(1,139)
Net cash provided by financing activities		24,110		146,123
Net decrease in cash and cash equivalents		(745)		(3,934)
Cash and cash equivalents - beginning of year		10,316		8,780
Cash and cash equivalents - end of quarter	$	9,571	$	4,846

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [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" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Recent Accounting Pronouncements

SFAS No. 157

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a new definition of fair value, provides guidance on how to measure fair value and establishes new disclosure requirements of assets and liabilities at their fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company has not determined whether the adoption of SFAS No. 157 will have a material effect on the Company's financial statements.

SFAS No. 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. This standard is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of Statement 157. The Company has not determined whether the adoption of SFAS No. 159 will have a material effect on the Company's financial statements.

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NOTE 2 — INVESTMENT IN HOTEL PROPERTIES

Investment in Hotel Properties consists of the following at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
Land	$ 166,159	$ 135,943
Buildings and Improvements	705,519	640,666
Furniture, Fixtures and Equipment	101,246	88,179
Construction in Progress	6,974	4,359
	979,898	869,147
Less Accumulated Depreciation	(77,984)	(61,363)
Total Investment in Hotel Properties	$ 901,914	$ 807,784

2007 Transactions

During the six months ended June 30, 2007 we acquired the following wholly owned hotel properties:

2007 Acquisitions

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees and Loan Costs	Total Purchase Price	Fair Value of Assumed Debt and Capital Lease
Residence Inn, Langhorne, PA	1/8/2007	$ 1,463	$ 12,125	$ 2,170	$ 99	$ 15,857	-
Residence Inn, Carlisle, PA	1/10/2007	1,015	7,511	1,330	89	9,945	7,000
Holiday Inn Express, Chester, NY	1/25/2007	1,500	6,701	1,031	210	9,442	6,700
Hampton Inn - Seaport, New York, NY	2/1/2007	7,816	19,056	1,729	986	29,587	20,202
Hotel 373 and Starbucks Lease - 5th Avenue, New York, NY	6/1/2007	14,239	16,778	3,294	11	34,322	22,000
Nevins Street, Brooklyn,	6/11/2007	4,339	-	-	-	4,339	-

NY						
Total 2007 Wholly Owned Acquisitions	$ 30,372	$ 62,171	$ 9,554	$ 1,395	$ 103,492	$ 55,902

In connection with the 2007 acquisitions we acquired $781 in working capital. In addition to cash and assumed debt, consideration included $2,100 in deposits made in 2006. Included in the purchase price of Residence Inn, Langhorne, PA is $226 that was reimbursed to entities that are owned in part by certain executives and trustees of the Company.

Interest rates on debt assumed in the acquisition of the Residence Inn, Carlisle, PA and the Holiday Inn Express & Suites, Chester, NY were at market rates. We assumed $19,250 in debt with the acquisition of the Hampton Inn-Seaport, New York, NY bearing interest at a fixed rate of 6.36% which was determined to be above market rates. We recorded a premium of $952 related to the assumption of this debt. In the acquisition of Hotel 373 – 5th Avenue, New York, NY, we assumed $22,000 in variable rate debt bearing interest at LIBOR plus 2.00% and an interest rate cap which effectively caps interest on this debt at 7.75%. The debt matures and the interest rate cap terminates on April 9, 2009. The interest rate cap had a fair value of $15 on the date of acquisition.

The Residence Inn, Carlisle, PA and the Hampton Inn-Seaport, New York, NY were acquired from entities that are owned by certain of the Company's executives and trustees. Included in the consideration for the Residence Inn, Carlisle, PA were 119,818 units in our operating partnership valued at $11.10 per unit that were issued to sellers that are not affiliated with the Company. Consideration for the Hampton Inn-Seaport, New York, NY, included 15,016 units of our operating partnership valued at $11.20 per unit and an $8,208 note payable. The operating partnership units were issued to certain executives and affiliated trustees of the Company and the note payable was with entities that are owned in part by certain executives and affiliated trustees of the Company. On May 24, 2007 the note payable was fully repaid. Interest expense of $106 and $212 was incurred on the notes payable during the three and six months ended June 30, 2007, respectively. Included in the consideration for the Hotel 373 – 5th Avenue, New York, NY were 1,000,000 units in our operating partnership valued at $12.32 per unit that were issued to a seller that is not affiliated with the Company.

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NOTE 2 — INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

The purchase agreement entered into for the 2006 acquisition of the Courtyard, Langhorne, PA; the Fairfield Inn, Bethlehem, PA; and the Fairfield Inn, Mt. Laurel, NJ contained certain provisions that entitle the seller to an earn-out of up to $2,500 based on the collective Net Operating Income thresholds of the three properties, as defined. The earn-out period expires on September 30, 2007. Based on current projections, no earn-out is expected to be paid by the Company to the seller. On December 28, 2006, we closed on the acquisition of seven Summerfield Suites. The purchase agreement for this acquisition contained certain provisions that entitle the seller to an earn-out of up to $6,000 based on the Net Operating Income of the properties, as defined. The earn-out period expires on December 31, 2009. On January 8, 2007, we closed on the acquisition of the Residence Inn, Langhorne, PA. The purchase agreement for this acquisition contained certain provisions that entitle the seller to an earn-out of up to $1,000 based on the Net Operating Income of the property, as defined. The earn-out period expires on August 31, 2008. We are currently unable to determine whether amounts will be paid under these two earn-out provisions since significant time remains until the expiration of the earn-out periods. Due to uncertainty of the amounts that will ultimately be paid, if any, no accrual has been recorded on the consolidated balance sheet for amounts due under these earn-out provisions. In the event amounts are payable under these provisions, payments made will be recorded as additional consideration given for the properties.

All of the newly acquired wholly owned hotels are leased to our wholly owned taxable REIT subsidiary (TRS), 44 New England Management Company and all are managed by Hersha Hospitality Management, LP (“HHMLP”). HHMLP is owned by three of the Company’s executives, two of its affiliated trustees and other investors that are not affiliated with the Company.

The following condensed pro forma financial information is presented as if 5 properties acquired in 2007 and 16 properties acquired in 2006 had been consummated as of January 1, 2006. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated at the beginning of the years presented, nor does it purport to represent the results of operations for future periods.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Pro Forma Total Revenues	$ 66,630	$ 58,527	$ 116,195	$ 100,263
Pro Forma Income from Continuing Operations applicable to Common Shareholders	$ 7,795	$ 2,718	$ 3,537	$ (917)
Income from Discontinued Operations	-	153	-	123
Pro Forma Net Income	7,795	2,871	3,537	(794)
Preferred Distributions	1,200	1,200	2,400	2,400
Pro Forma Net Income (Loss) applicable to Common Shareholders	$ 6,595	$ 1,671	$ 1,137	$ (3,194)

Pro Forma Income (Loss) applicable to Common Shareholders per Common Share				
Basic	$ 0.16	$ 0.07	$ 0.03	$ (0.14)
Diluted	$ 0.16	$ 0.07	$ 0.03	$ (0.14)
Weighted Average Common Shares Outstanding				
Basic	40,642,569	25,469,708	40,590,499	22,903,225
Diluted	40,842,832	25,564,362	40,762,164	22,903,225

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
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NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

We account for our investment in the following unconsolidated joint ventures using the equity method of accounting. As of June 30, 2007 and December 31, 2006 our investment in unconsolidated joint ventures consists of the following:

	Percent Owned	June 30, 2007	December 31, 2006
PRA Glastonbury, LLC	48.0%*	1,158	463
Inn American Hospitality at Ewing, LLC	50.0%	1,265	1,414
Hiren Boston, LLC	50.0%	5,004	4,871
SB Partners, LLC	50.0%	2,221	2,213
Mystic Partners, LLC	8.8%-66.7%	38,512	39,180
PRA Suites at Glastonbury, LLC	48.0%*	2,812	2,093
Metro 29th Street Associates, LLC	50.0%	7,202	-
		$ 58,174	$ 50,234

* Percent owned was 40.0% through March 31, 2007. On April 1, 2007 our percent owned increased to 48.0%

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.

On April 1, 2007, we increased our investment in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and PRA Suites at Glastonbury, LLC, the owner of the Homewood Suites, Glastonbury, CT by acquiring an additional 8% preferred interest from our partner in each venture. The purchase prices for our additional equity interests were $780 and $716 for PRA Glastonbury, LLC and PRA Suites at Glastonbury, LLC, respectively.

On February 1, 2007 we acquired a 50.0% interest in Metro 29th Street Associates, LLC (“Metro 29th”), the lessee of the 228 room Holiday Inn Express-Manhattan, New York, NY, for approximately $6,817. Metro 29th holds a twenty five year lease with certain renewal options at the end of the lease term. We also acquired an option to acquire a 50% interest in the entity that owns the Holiday Inn Express-Manhattan. The option is exercisable after February 1, 2012 or upon termination of Metro 29th Street’s lease of the hotel and expires at the end of the lease term. The fair value of the option was $933 at the time of acquisition and is recorded in other assets on our consolidated balance sheet. We issued 694,766 units in our operating partnership valued at $11.15 per unit for our interest in Metro 29th and the option. Metro 29th Street entered into an agreement with Metro 29th Sublessee, LLC, a joint venture owned by 44 New England and our joint venture partner, to sublease the hotel property. The hotel is managed by HHMLP.

The following tables set forth the total assets, liabilities, equity and components of net income, including the Company’s share, related to the unconsolidated joint ventures discussed above as of June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006.

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[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Balance Sheets

	June 30, 2007	December 31, 2006
Investment in hotel properties, net	$ 236,982	$ 244,113
Other Assets	32,903	24,496
Assets	$ 269,885	$ 268,609
Liabilities and Equity		
Mortgages and notes payable	$ 212,155	$ 211,576
Other liabilities	16,325	11,687
Equity	41,405	45,346
Total Liabilities and Equity	$ 269,885	$ 268,609

Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Room Revenue	$ 26,368	$ 22,745	$ 45,290	$ 39,169
Other Revenue	8,196	8,410	15,227	14,604
Operating Expenses	(20,390)	(19,726)	(38,405)	(36,520)
Interest Expense	(3,881)	(3,956)	(7,630)	(7,469)
Lease Expense	(1,694)	(96)	(2,613)	(213)
Property Taxes and Insurance	(1,490)	(1,334)	(2,905)	(2,623)
Federal and State Income Taxes	(108)	(142)	(108)	(142)
Depreciation, Amortization, and Other	(6,257)	(6,087)	(11,727)	(11,171)
Net Income (loss)	$ 744	$ (186)	$ (2,871)	$ (4,365)

Equity income recognized during the three and six months ended June 30, 2007 and 2006 for our Investments in Unconsolidated Joint Ventures are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
HT/CNL Metro Hotels, LP	$ -	$ 193	$ -	$ 231
PRA Glastonbury, LLC	53	30	61	(229)
Inn American Hospitality at Ewing, LLC	83	71	71	81
Hiren Boston, LLC	380	108	134	(226)
SB Partners, LLC	138	76	9	(55)
Mystic Partners, LLC	655	291	247	(143)

PRA Suites at Glastonbury, LLC		(2)		-		(3)		-
Metro 29th Street Associates, LLC		434		-		385		-
Total income (loss) from unconsolidated joint venture investments	$	1,741	$	769	$	904	$	(341)

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 4 — DEVELOPMENT LOANS RECEIVABLE AND LAND LEASES

We have approved mortgage lending to entities, including entities in which our executive officers and affiliated trustees own an interest, to enable such entities to construct hotels and conduct related improvements on specific hotel projects at interest rates ranging from 10.0% to 11.0% (“Development Line Funding”). As of June 30, 2007 and December 31, 2006, we had Development Loans Receivable of $44,716 and $47,016, respectively. Interest income included in “Interest Income — Development Loans,” was $1,331 and $295 for the three months ended June 30, 2007 and 2006, respectively and $2,634 and $723 for the six months ended June 30, 2007 and 2006, respectively. Accrued interest on our development loans receivable was $913 as of June 30, 2007 and $883 as of December 31, 2006.

As of June 30, 2007, our development loans receivable balance consisted of the following:

Hotel Property	Borrower	Principal Outstanding 6/30/2007	Interest Rate	Maturity Date
Sheraton - JFK Airport, NY	Risingsam Hospitality, LLC	$ 10,016	10%	September 30, 2007
Holiday Inn Express - 29th Street, NY	Brisam Management, LLC	15,000	10%	May 30, 2008
Hampton Inn & Suites - West Haven, CT	44 West Haven Hospitality, LLC	2,000	10%	October 9, 2007
Hilton Garden Inn - New York, NY	York Street LLC	15,000	11%	July 1, 2008
Hampton Inn - Smithfield, RI	44 Hersha Smithfield, LLC	2,000	10%	October 9, 2007
Homewood Suites - Newtown, PA	Reese Hotels, LLC	700	11%	June 1, 2008
		$ 44,716		

As of December 31, 2006 our development loans receivable balance consisted of the following:

Hotel Property	Borrower	Principal Outstanding 12/31/2006	Interest Rate	Maturity Date
Sheraton - JFK Airport, NY	Risingsam Hospitality, LLC	$ 9,016	10%	March 30, 2007
Hilton Garden Inn - Union Square, NY	Risingsam Union Square, LLC	10,000	10%	May 31, 2007

Holiday Inn Express - 29th Street, NY	Brisam Management, LLC		15,000	10%	May 31, 2007
Boutique Hotel - Manhattan, NY	Brisam East 52, LLC		3,000	10%	December 6, 2007
Boutique Hotel - Manhattan, NY	Brisam Greenwich, LLC		10,000	10%	September 12, 2007
		$	47,016		

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NOTE 4 — DEVELOPMENT LOANS RECEIVABLE AND LAND LEASES (CONTINUED)

We acquire land and improvements and lease them to entities, including entities in which our executive officers and affiliated trustees own an interest, to enable such entities to construct hotels and related improvements on the leased land. The land is leased under fixed lease agreements which earn rents at a minimum rental rate of 10% of our net investment in the leased property. Additional rents are paid by the lessee for the interest on the mortgage, real estate taxes and insurance. Revenues from our land leases are recorded in land lease revenue on our consolidated statement of operations. All expenses related to the land leases are recorded in operating expenses as land lease expense. Leased land and improvements are included in investment in hotel properties on our consolidated balance sheet. As of June 30, 2007 our investment in leased land and improvements consists of the following:

	Investment In Leased Properties							
Location	Land	Improvements	Other	Total Investment	Debt	Net Investment	Acquisition/ Lease Date	Lessee
440 West 41st Street, New York, NY	$ 10,735	$ 11,051	$ 196	$ 21,982	$ 12,100	$ 9,882	7/28/2006	Metro Forty First Street, LLC
39th Street and 8th Avenue, New York, NY	21,774	-	541	22,315	13,250	9,065	6/28/2006	Metro 39th Street Associates, LLC
Nevins Street, Brooklyn, NY	4,339	-	-	4,339	-	4,339	6/11/2007	H Nevins Street Associates, LLC *
Total	$ 36,848	$ 11,051	$ 737	$ 48,636	$ 25,350	$ 23,286		

* Indicates lessee is a related party

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NOTE 5 — OTHER ASSETS

Other Assets consisted of the following at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
Transaction Costs	$ 245	$ 252
Deposits on Hotel Acquisitions	4,024	2,144
Investment in Statutory Trusts	1,548	1,548
Notes Receivable	2,549	2,438
Due from Lessees	1,982	2,318
Prepaid Expenses	2,943	3,533
Interest due on Development Loans to Non-Related Parties	805	871
Deposits on Property Improvement Plans	1,786	1,405
Hotel Purchase Option	933	-
Other	1,831	1,636
	$ 18,646	$ 16,145

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

Deposits on Hotel Acquisitions - Refundable deposits paid in connection with the acquisition of hotels, including accrued interest, are recorded in other assets. As of June 30, 2007, we had $4,000 in interest bearing deposits related to the acquisition of two hotel properties. These deposits each accrue interest at 10%. As of December 31, 2006, we had $2,000 in interest bearing deposits and $100 in non-interest bearing deposits related to the acquisition of hotel properties. The interest bearing deposit as of December 31, 2006 accrued interest at 10%.

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.

Notes Receivable - Notes receivable as of June 30, 2007 and December 31, 2006 include notes receivable of $1,350 extended in November and December 2006 to the purchaser of the Holiday Inn Express, Duluth, GA; Comfort Suites, Duluth, GA; Hampton Inn, Newnan, GA; and the Hampton Inn Peachtree City, GA (collectively the “Atlanta Portfolio”). Each of these notes bear interest at 8% and have maturity dates of December 31, 2007 or January 1, 2008. Also included in notes receivable is a loan made to one of our partners in an unconsolidated joint venture in the amount of $1,000 bearing interest at 12% with a maturity date of December 27, 2007.

Due from Lessees - Due from lessees represent rents due under our land lease and hotel lease agreements.

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

Interest due on Development Loans– Interest due on development loans represents interest income due from loans extended to non-related parties that is used to enable such entities to construct hotels and conduct related improvements on specific hotel projects.

Deposits on Property Improvement Plans– Deposits on property improvement plans consists of amounts advanced to HHMLP that is to be used to fund capital expenditures as part of our property improvement programs at certain properties.

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NOTE 6 — DEBT

Mortgages and Notes Payable

The total mortgages payable balance at June 30, 2007 and December 31, 2006, was $579,598 and $504,523, respectively, and consisted of mortgages with fixed and variable interest rates ranging from 4.0% to 9.0%. The maturities for the outstanding mortgages ranged from August 2008 to January 2032. Aggregate interest expense incurred under the mortgages payable totaled $8,436 and $4,774 for the three months ended June 30, 2007 and 2006, respectively and $16,370 and $9,084 for the six months ended June 30, 2007 and 2006, respectively. Based on our estimate of market interest rates, the fair value of the Company's debt exceeded its carrying value by approximately $5,851 at June 30, 2007.

We have two junior subordinated notes payable in the aggregate amount of $51,548 to the Hersha Statutory Trusts pursuant to indenture agreements. The $25,774 note issued to Hersha Statutory Trust I will mature on June 30, 2035, but may be redeemed at our option, in whole or in part, beginning on June 30, 2010 in accordance with the provisions of the indenture agreement. The $25,774 note issued to Hersha Statutory Trust II will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, beginning on July 30, 2010 in accordance with the provisions of the indenture agreement. The note issued to Hersha Statutory Trust I bears interest at a fixed rate of 7.34% per annum through June 30, 2010, and the note issued to Hersha Statutory Trust II bears interest at a fixed rate of 7.173% per annum through July 30, 2010. Subsequent to June 30, 2010 for notes issued to Hersha Statutory Trust I and July 30, 2010 for notes issued to Hersha Statutory Trust II, the notes bear interest at a variable rate of LIBOR plus 3.0% per annum. Interest expense in amount of $959 and $946 was recorded for the three months ended June 30, 2007 and 2006, respectively and $1,915 and $1,870 for the six months ended June 30, 2007 and 2006, respectively.

Revolving Line of Credit

We have a revolving credit loan and security agreement with Commerce Bank, N.A. with a maximum amount of $100,000 and interest rate terms of either the bank's prime rate of interest minus 0.75% or LIBOR available for the periods of 1, 2, 3, or 6 months plus 2.00%, at our discretion. This revolving credit loan replaced both the secured and unsecured lines of credit that we previously maintained.

The Company maintained a line of credit balance of $48,800 at June 30, 2007 and $24,000 at December 31, 2006. The Company recorded interest expense of $1,046 and $264 related to the line of credit borrowings, for the three months ended June 30, 2007 and 2006, respectively and $1,996 and $664 for the six months ended June 30, 2007 and 2006, respectively. The weighted average interest rate on our Line of Credit for the three months ended June 30, 2007 and 2006 was 7.50% and 7.33%, respectively and 7.50% and 7.13% for the six months ended June 30, 2007 and 2006, respectively.

Deferred 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 costs is recorded in interest expense. As of June 30, 2007, deferred costs were $8,724, net of accumulated amortization of $2,270. Deferred costs were $7,525, net of accumulated amortization of $1,543, as of December 31, 2006. Amortization of deferred costs for the three months ended June 30, 2007 and 2006 was $410 and $105 respectively and $756 and $163 for the six months ended June 30, 2007 and 2006, respectively.

Debt Extinguishment

As noted above, the Sovereign Bank Line of Credit was replaced by the Commerce Line of Credit in January 2006. As a result of this termination, we expensed $255 in unamortized deferred costs related to the origination of the Sovereign Bank Line of Credit, which are included in the Debt Extinguishment caption on the face of the consolidated statements of operations for the six months ended June 30, 2006.

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NOTE 6 — DEBT (CONTINUED)

On April 7, 2006, we repaid $21,900 on our mortgage with Merrill Lynch for the Hampton Inn Herald Square property as a result of a debt refinancing. The new debt of $26,500 has a fixed interest rate of 6.085% and a maturity date of May 1, 2016. As a result of this extinguishment, we expensed $534 in unamortized deferred costs and prepayment penalties, which are included in the Debt Extinguishment caption on the face of the consolidated statements of operations for the three and six months ended June 30, 2006.

On June 9, 2006, we repaid $34,200 on our mortgage with UBS for the McIntosh Portfolio, as a result of a debt refinancing. The new debt of $36,300 has a fixed interest rate of 6.33% and maturity date of June 11, 2016. As a result of this extinguishment, we expensed $374 in unamortized deferred costs, which are included in the Debt Extinguishment caption on the face of the consolidated statements of operations for the three and six months ended June 30, 2006.

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NOTE 7 — COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

We are the sole general partner in our operating partnership, Hersha Hospitality Limited Partnership (the "Partnership") , which is indirectly the sole general partner of the subsidiary partnerships. The Company does not anticipate any losses as a result of our obligations as general partner in the Partnership.

Management Agreements

Our wholly owned TRS, 44 New England, engages eligible independent contractors, including HHMLP, as the property managers for hotels it leases from us pursuant to management agreements. 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.

As of June 30, 2007, HHMLP managed forty five of the properties leased to our TRS. HHMLP also managed two consolidated joint venture hotel properties and four unconsolidated joint venture hotel properties in which we maintain an investment. 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 hotel. There were no incentive management fees for the three and six months ended June 30, 2007 and 2006. For the three months ended June 30, 2007 and 2006, management fees incurred totaled $1,489 and $1,170, respectively, and $2,528 and $1,965 for the six months ended June 30, 2007 and 2006, respectively and are recorded as Hotel Operating Expenses. In addition, the Company incurred $30 related to the sale of one hotel in the second quarter of 2006. These fees are included in discontinued operations.

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 $2 per property and monthly information technology fees are $0.5 per property. In addition, each of the wholly owned hotels not managed by HHMLP, but for which the accounting is provided by HHMLP incurs a monthly accounting fee of $3. For the three months ended June 30, 2007 and 2006, the Company incurred accounting fees of $337 and $260, respectively, and incurred information technology fees of $68 and $63, respectively. For the six months ended June 30, 2007 and 2006, the Company incurred accounting fees of $668 and $487, respectively, and incurred information technology fees of $134 and $120, respectively. Accounting and information technology fees are included in General and Administrative expenses.

Franchise Agreements

The 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 June 30, 2007 and 2006 was $3,961 and $2,580 respectively and $7,235 and $4,340 for the six months ended June 30, 2007 and 2006, respectively. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

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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 affiliated trustees such that we obtain a first right of 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 our Company. Since our initial public offering in 1999, we have acquired, wholly or through joint ventures, a total of 77 hotels, including 22 hotels acquired from entities controlled by our officers or affiliated trustees. Of the 22 acquisitions from these entities, 18 were newly-constructed or newly-renovated by these entities prior to our acquisition. 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 June 30, 2007 and 2006, we incurred expenses of $1,099 and $434, respectively, and for the six months ended June 30, 2007 and 2006, we incurred expenses of $1,445 and $685, respectively, for hotel supplies from Hersha Hotel Supply, an unconsolidated related party, which are expenses included in Hotel Operating Expenses. Approximately $213 and $66 is included in accounts payable at June 30, 2007 and December 31, 2006, respectively.

Capital Expenditure Fees

Beginning April 1, 2006, HHMLP began to charge a 5% fee on all capitalized 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 June 30, 2007 and 2006 we incurred fees of $124 and $57, respectively and for the six months ended June 30, 2007 and 2006 we incurred fees of $163 and $57, respectively, which were capitalized in with the cost of fixed asset additions.

Due From Related Parties

The Due from Related Party balance as of June 30, 2007 and December 31, 2006 was approximately $2,237 and $4,059 respectively. The majority of the balance as of June 30, 2007 and December 31, 2006 were receivables owed from our unconsolidated joint ventures.

Due to Related Parties

The Due to Related Parties balance as of June 30, 2007 and December 31, 2006 was approximately $3,555 and $3,297, respectively. The balances as of June 30, 2007 and December 31, 2006 consisted of amounts payable to HHMLP for administrative, management, and benefit related fees.

Hotel Ground Rent

During 2003, in conjunction with the acquisition of the Hilton Garden Inn, Edison, NJ, we assumed a land lease from a third party with an original term of 75 years. Monthly payments as determined by the lease agreement are due through the expiration in August 2074. On February 16, 2006, in conjunction with the acquisition of the Hilton Garden Inn, JFK Airport, we assumed a land lease with an original term of 99 years. Monthly payments are determined by the lease agreement and are due through the expiration in July 2100. Both land leases provide rent increases at scheduled intervals. We record rent expense on a straight-line basis over the life of the lease from the beginning of the lease term. For the three months ended June 30, 2007 and 2006, we incurred $190 and $216, and for the six months ended June 30, 2007 and 2006 we incurred $439 and $378, respectively, in hotel ground rent expense under the agreement.

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NOTE 8 — DERIVATIVE INSTRUMENTS

We maintain an interest rate swap that fixes our interest rate on a variable rate mortgage. Under the terms of this interest rate swap, we pay fixed rate interest of 4.73% of the notional amount and we receive floating rate equal to the one month U.S. dollar LIBOR. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $7,865 as of June 30, 2007.

On June 1, 2007, through the acquisition of Hotel 373, New York, NY, the Company assumed a mortgage containing an interest rate cap with a notional amount of $22,000 to hedge against the variability in cash flows on a variable interest rate debt instrument. The principal of the variable interest rate debt being hedged equals the notional amount of the interest rate cap. The interest rate cap effectively fixes interest payments when LIBOR exceeds 5.75%. The interest rate cap terminates on April 9, 2009, the maturity date of the hedged debt instrument.

At June 30, 2007 and December 31, 2006, the fair value of the interest rate swap was $72 and $47, respectively, and is included in other assets on the face of the consolidated balance sheets. At June 30, 2007, the fair value of the interest rate cap was $19 and is included in other assets on the face of the consolidated balance sheets. The change in net unrealized gains/losses was a gain of $32 and gain of $92 for the three months ended June 30, 2007 and 2006, respectively, and a loss of $14 and gain of $210 for the six months ended June 30, 2007 and 2006, respectively, for derivatives designated as cash flow hedges which were reflected on our Balance Sheet in Accumulated Other Comprehensive Income. Hedge ineffectiveness of $5 and $3 on cash flow hedges was recognized in interest expense for the three months ended June 30, 2007 and 2006, respectively and $9 and $7 for the six months ended June 30, 2007 and 2006, respectively.

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NOTE 9 — SHARE-BASED PAYMENTS

A summary of the stock awards issued to executives of the Company under the 2004 Equity Incentive Plan are as follows:

		Shares Vested		Unearned Compensation		
Date of Award Issuance	**Shares Issued**	**June 30, 2007**	**December 31, 2006**	**June 30, 2007**	**December 31, 2006**	**Period until Full Vesting**
June 1, 2005	71,000	35,500	17,750	$ 327	$ 412	2.00 years
June 1, 2006	89,500	22,375	-	613	719	3.00 years
June 1, 2007	214,582	-	-	2,589	-	4.00 years
	375,082	57,875	17,750	$ 3,529	$ 1,131	

On June 1, 2007, the Compensation Committee of the Board of Trustees granted 214,582 restricted share awards to executives. The restricted share awards vest 25% each year over four years and compensation expense is recognized ratably over the four year vesting period based on the fair value of the shares on the date of grant. The fair value of the restricted share awards on the grant date was $12.32 per share. As of June 30, 2007, none of these restricted share awards was vested.

Compensation expense related to stock awards issued to executives of the Company of $150 and $60 was incurred during the three months ended June 30, 2007 and 2006, respectively, and $245 and $103 was incurred during the six months ended June 30, 2007 and 2006, respectively, related to the restricted share awards.

On January 3, 2006, we awarded 1,000 common shares to each of our five independent trustees. The fair value of each of the shares on the grant date was $9.12 per share. On January 2, 2007, we awarded 1,000 common shares to each of our four independent trustees. The fair value of each of the shares on the grant date was $11.44 per share. On July 2, 2007, we awarded 1,000 common shares to each of our four independent trustees. The fair value of each of the shares on the grant date was $12.12. Compensation expense related to stock awards issued to the Board of Trustees of $36 and $13 was incurred during the three months ended June 30, 2007 and 2006, respectively and $49 and $25 was incurred during the six months ended June 30, 2007 and 2006, respectively.

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NOTE 10 — EARNINGS PER SHARE

The following table is a reconciliation of the income (numerator) and weighted average shares (denominator) used in the calculation of basic earnings per common share and diluted earnings per common share in accordance with SFAS No. 128, Earnings Per Share. The computation of basic and diluted earnings per share is presented below.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Numerator:				
BASIC				
Income (Loss) from Continuing Operations	$ 7,795	$ 2,789	$ 3,558	$ (1,065)
Distributions to 8.0% Series A Preferred Shareholders	(1,200)	(1,200)	(2,400)	(2,400)
Income (Loss) from continuing operations applicable to common shareholders	6,595	1,589	1,158	(3,465)
Income from Discontinued Operations	-	587	-	557
Net Income (Loss) applicable to common shareholders	$ 6,595	$ 2,176	$ 1,158	$ (2,908)
DILUTED*				
Income (Loss) from Continuing Operations	$ 7,795	$ 2,789	$ 3,558	$ (1,065)
Distributions to 8.0% Series A Preferred Shareholders	(1,200)	(1,200)	(2,400)	(2,400)
Income (Loss) from continuing operations applicable to common shareholders	6,595	1,589	1,158	(3,465)
Income from Discontinued Operations	-	587	-	557
Net Income (Loss) applicable to common shareholders	$ 6,595	$ 2,176	$ 1,158	$ (2,908)
Denominator:				
Weighted average number of common shares - basic	40,642,569	25,469,708	40,590,499	22,903,225
Effect of dilutive securities:				
Unvested stock awards	200,263	94,654	171,665	- **
	40,842,832	25,564,362	40,762,164	22,903,225 **

Weighted average number of common shares - diluted*	

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NOTE 10 — EARNINGS PER SHARE (CONTINUED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Earnings Per Share:				
BASIC				
Income (Loss) from continuing operations applicable to common shareholders	$ 0.16	$ 0.06	$ 0.03	$ (0.15)
Income from Discontinued Operations	$ -	$ 0.03	$ -	$ 0.02
Net Income (Loss) applicable to common shareholders	$ 0.16	$ 0.09	$ 0.03	$ (0.13)
DILUTED*				
Income (Loss) from continuing operations applicable to common shareholders	$ 0.16	$ 0.06	$ 0.03	$ (0.15)**
Income from Discontinued Operations	$ -	$ 0.03	$ -	$ 0.02**
Net Income (Loss) applicable to common shareholders	$ 0.16	$ 0.09	$ 0.03	$ (0.13)**

* Income allocated to minority interest in the Partnership has been excluded from the numerator and Partnership units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average Partnership units outstanding for the three months ended June 30, 2007 and 2006 were 4,899,856 and 3,492,177, respectively. Weighted average Partnership units outstanding for the six months ended June 30, 2007 and 2006 were 4,653,575 and 3,324,977, respectively.

** For the six months ended June 30, 2006, 82,892 weighted average unvested stock awards have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including this amount in the denominator would be anti-dilutive to loss from continuing operations applicable to common shareholders.

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NOTE 11 — CASH FLOW DISCLOSURES AND NON-CASH INVESTING AND FINANCING ACTIVITIES

Interest paid during the six months ended June 30, 2007 and 2006 totaled $19,386 and $11,320, respectively.

The following non-cash investing and financing activities occurred during the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Common Shares issued as part of the Dividend Reinvestment Plan	$ 14	$ 13
Issuance of Common Shares to the Board of Trustees	46	46
Issuance of Stock Awards	2,644	841
Compensation Expense from vesting of Stock Awards	245	103
Issuance of Common LP Units for acquisitions	21,568	6,000
Reallocation to minority interest as a result of issuance of Common LP Units	8,428	6,621
Debt assumed in hotel property acquisition	55,902	31,616
Conversion of Common LP Units to Common Shares	694	-

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NOTE 12 — DISCONTINUED OPERATIONS

In September of 2005, our Board of Trustees authorized management of the Company to sell the Holiday Inn Express, Hartford, CT. The Company had acquired the hotel in January 2004 and sold the hotel on April 12, 2006. Proceeds from the sale were $3,600, and the gain on the sale was $497, of which $63 was allocated to minority interest in HHLP. The operating results for this hotel have been classified as discontinued operations in the statements of operations for the three and six months ended June 30, 2006.

In March of 2006, our Board of Trustees authorized management of the Company to sell the following four properties located in metropolitan Atlanta, Georgia: Holiday Inn Express, Duluth, Comfort Suites, Duluth, Hampton Inn, Newnan and the Hampton Inn, Peachtree City. These assets were classified as "held for sale" as of June 30, 2006. The operating results for these hotels were classified as discontinued operations in the statements of operations for the three months ended June 30, 2006. These hotels were acquired by the Company in April and May 2000 and were sold during November and December 2006. Proceeds from the sales were $18,100, and the gain on the sale was $290, of which $33 was allocated to minority interest in HHLP. Notes receivable in the aggregate amount of $1,350 were received as part of the proceeds of the sale of the Atlanta Portfolio. Interest payments are due quarterly with repayment of the principal due upon maturity on December 31, 2007 or January 1, 2008.

The following table sets forth the components of discontinued operations (excluding the gains on sale) for the three and six months ended June 30, 2006:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Revenue:		
Hotel Operating Revenues	$ 1,596	$ 3,550
Expenses:		
Interest and Capital Lease Expense	228	465
Hotel Operating Expenses	1,120	2,427
Hotel Ground Rent	10	85
Real Estate and Personal Property Taxes and Property Insurance	64	174
General and Administrative	-	-
Depreciation and Amortization	-	258
Total Expenses	1,422	3,409
Income from Discontinued Operations before Minority Interest	174	141
Allocation to Minority Interest	21	18
Income from Discontinued Operations	$ 153	$ 123

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 13 — SUBSEQUENT EVENTS

On July 1, 2007, we acquired the Holiday Inn, Norwich, CT from an entity owned in part by certain officers and affiliated directors of the Company for approximately $16,100, which included the assumption of approximately $8,200 in existing debt and the issuance of 659,312 units in our operating partnership valued at $12.01 per unit. The existing debt includes both a first mortgage of $5,200 and a second mortgage of $3,000. The first mortgage is secured by a first lien on the property, matures on July 31, 2025 and bears interest at a fixed rate of 6.75% per annum. The second mortgage is secured by a second lien on the Holiday Inn, matures on September 26, 2027 and bears interest at the prime rate plus 0.75% per annum.

On July 11, 2007, we acquired a second parcel of land on Nevins Street, Brooklyn, NY for $7,535, adjacent to land we acquired on June 11, 2007. In connection with the acquisition of the land, we entered into interest only mortgage debt in the amount of $6,500 bearing interest at a variable rate of LIBOR plus 2.70%. The debt matures in July of 2009. The land was immediately leased to H Nevins Associates, LLC, an entity owned in part by certain officers and affiliated directors of the Company. The lease bears the same terms as the lease for the first Nevins Street parcel acquired on June 11, 2007.

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

All statements contained in this section that are not historical facts are based on current expectations. Words such as "believes", "expects", "anticipates", "intends", "plans" and "estimates" and variations of such words and similar words also identify forward-looking statements. Our actual results may differ materially, including the following: economic conditions generally and the real estate market specifically; the effect of threats of terrorism and increased security precautions on travel patterns and demand for hotels; the threatened or actual outbreak of hostilities and international political instability; governmental actions; legislative/regulatory changes, including changes to laws governing the taxation of REITs; level of proceeds from asset sales; cash available for capital expenditures; availability of capital; ability to refinance debt; rising interest rates; rising insurance premiums; competition; supply and demand for hotel rooms in our current and proposed market areas, including the existing and continuing weakness in business travel and lower-than expected daily room rates; other factors that may influence the travel industry, including health, safety and economic factors; and changes in generally accepted accounting principles, policies and guidelines applicable to REITs. Additional risks are discussed in the Company's filings with the Securities and Exchange Commission. We caution you not to place undue reliance on any such forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, subsequent events or any other circumstances.

General

As of June 30, 2007, we owned interests in 72 hotels located primarily in the eastern United States including 19 hotels owned through joint ventures. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels. The REIT qualification rules allow a hotel REIT to lease its hotels to a taxable REIT subsidiary, or TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of June 30, 2007, we have leased all but one of our hotels to a wholly-owned TRS, a joint venture owned TRS, or a corporate entity owned by our wholly-owned TRS. The hotel not leased to a TRS entity is leased to an unrelated third party lessee. Each of these TRS entities pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including Hersha Hospitality Management, LP, or HHMLP, to operate our hotels. The TRS directly receives all revenue from, and funds all expenses relating to hotel operations. The TRS is also subject to income tax on its earnings. We intend to lease all newly acquired hotels to a TRS.

Operating Results

The following table outlines operating results for the Company's portfolio of 53 wholly owned hotels and four hotels owned through joint venture interests that are consolidated in our financial statements for the three and six months ended June 30, 2007 and 2006.

CONSOLIDATED HOTELS:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	**2006**	**% Variance**	**2007**	**2006**	**% Variance**
Rooms Available	578,868	395,501	46.4%	1,143,328	734,938	55.6%
Rooms Occupied	462,531	308,778	49.8%	828,810	523,870	58.2%
Occupancy	79.90%	78.07%	2.3%	72.49%	71.28%	1.7%
	$ 130.21	$ 114.19	14.0%	$ 125.30	$ 108.61	15.4%

Average Daily Rate (ADR)						
Revenue Per Available Room (RevPAR)	$ 104.04	$ 89.15	16.7%	$ 90.83	$ 77.42	17.3%
Room Revenues	$ 60,223,978	$ 35,260,531	70.8%	$ 103,847,392	$ 56,896,337	82.5%
Total Revenues	$ 63,477,897	$ 38,226,190	66.1%	$ 109,868,197	$ 62,154,932	76.8%
Discontinued Assets	$ -	$ 1,595,642	-100.0%	$ -	$ 3,550,315	-100.0%

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The following table outlines operating results for the three and six months ended June 30, 2007 and 2006 for the 15 hotels we own through unconsolidated joint venture interests. These operating results reflect 100% of the operating results of the property including our interest and the interests of our joint venture partners and minority interests.

UNCONSOLIDATED JOINT VENTURES:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	**2006**	**% Variance**	**2007**	**2006**	**% Variance**
Rooms Available	239,694	221,601	8.2%	469,686	423,319	11.0%
Rooms Occupied	179,947	165,885	8.5%	323,457	299,471	8.0%
Occupancy	75.07%	74.86%	0.3%	68.87%	70.74%	-2.6%
Average Daily Rate (ADR)	$ 146.53	$ 137.11	6.9%	$ 140.02	$ 130.79	7.1%
Revenue Per Available Room (RevPAR)	$ 110.01	$ 102.64	7.2%	$ 96.43	$ 92.53	4.2%
Room Revenues	$ 26,367,808	$ 22,745,246	15.9%	$ 45,290,035	$ 39,168,576	15.6%
Total Revenues	$ 34,564,205	$ 31,155,058	10.9%	$ 60,517,247	$ 53,772,645	12.5%

Comparison of the three month period ended June 30, 2007 and 2006 (dollars in thousands, except per share data).

Revenues

Our total revenues for the three months ended June 30, 2007 consisted of hotel operating revenues, interest income from our development loan program, land lease revenue, hotel lease revenue and other revenue. Hotel operating revenue is recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenue increased $25,252, or 66.1%, from $38,226 for the three months ended June 30, 2006 to $63,478 for the same period in 2007. The increase in revenues is primarily attributable to the acquisitions consummated in 2006 and improved RevPAR at certain of our hotels. We acquired interests in the following 16 consolidated hotels since June 30, 2006:

Brand	Location	Acquisition Date	Rooms
Independent - Hotel 373	New York (5th Avenue), NY	6/1/2007	70
Hampton Inn	New York (Seaport), NY		