HERSHA HOSPITALITY TRUST
Form 10-Q
May 05, 2011

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, 2011

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

Hersha Hospitality Trust
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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

	Shareholders' Equity							Noncontrolling Interests				Redeem Noncont Intere
	Series A Preferred Shares	Class A Common Shares	Class B Common Shares	Additional Paid-In Capital	Other Comprehensive Income	Distributions in Excess of Net Earnings	Total Shareholders' Equity	Common Units	Consolidated Joint Ventures	Total Noncontrolling Interests	Total Equity	Comm Uni
Balance at December 31, 2010	$24	$1,692	$-	$918,215	$(338)	$(236,159)	$683,434	$19,410	$474	$19,884	$703,318	$19,8
Issuance Costs	-	-	-	(78)	-	-	(78)	-	-	-	(78)	-
Unit Conversion	-	-	-	168	-	-	168	(168)	-	(168)	-	-
Reallocation of Noncontrolling Interest	-	-	-	1,584	-	-	1,584	13	-	13	1,597	(1,5
Dividends and Distributions declared:												
Common Stock ($0.05 per share)	-	-	-	-	-	(8,486)	(8,486)	(215)	-	(215)	(8,701)	(15
Preferred Stock ($0.50 per share)	-	-	-	-	-	(1,200)	(1,200)	-	-	-	(1,200)	-
Dividend Reinvestment Plan	-	-	-	3	-	-	3	-	-	-	3	-
Stock Based Compensation												
Grants	-	5	-	1,339	-	-	1,344	-	-	-	1,344	-
Amortization	-	-	-	1,407	-	-	1,407	-	-	-	1,407	-
Comprehensive Income (Loss):												
Other Comprehenive Loss	-	-	-	-	(18)	-	(18)	-	-	-	(18)	-
Net Loss	-	-	-	-	-	(13,392)	(13,392)	(348)	(437)	(785)	(14,177)	(24
Total Comprehensive Loss							(13,410)	(348)	(437)	(785)	(14,195)	(24
	$24	$1,697	$-	$922,638	$(356)	$(259,237)	$664,766	$18,692	$37	$18,729	$683,495	$17,9

Balance at March 31, 2011												
Balance at December 31, 2009	$24	$577	$-	$487,481	$(160)	$(185,725)	$302,197	$27,126	$267	$27,393	$329,590	$14,7
Common Stock Issuance	-	794	-	260,233	-	-	261,027	-	-	-	261,027	-
Unit Conversion	-	1	-	601	-	-	602	(602)	-	(602)	-	-
Units Issued for Acquisitions	-	-	-	-	-	-	-	5,299	-	5,299	5,299	-
Reallocation of Noncontrolling Interest	-	-	-	(1,745)	-	-	(1,745)	-	-	-	(1,745)	1,74
Dividends and Distributions declared:												
Common Stock ($0.05 per share)	-	-	-	-	-	(6,862)	(6,862)	(350)	-	(350)	(7,212)	(152
Preferred Stock ($0.50 per share)	-	-	-	-	-	(1,200)	(1,200)	-	-	-	(1,200)	-
Dividend Reinvestment Plan	-	-	-	3	-	-	3	-	-	-	3	-
Stock Based Compensation Amortization	-	-	-	656	-	-	656	-	-	-	656	-
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	(5)	-	(5)	-	-	-	(5)	-
Net Loss	-	-	-	-	-	(14,622)	(14,622)	(949)	(314)	(1,263)	(15,885)	(452
Total Comprehensive Loss							(14,627)	(949)	(314)	(1,263)	(15,890)	(452
Balance at March 31, 2010	$24	$1,372	$-	$747,229	$(165)	$(208,409)	$540,051	$30,524	$(47)	$30,477	$570,528	$15,8

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, 2011 AND 2010 [UNAUDITED]
[IN THOUSANDS]

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

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

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

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

NOTE 1 – BASIS OF PRESENTATION

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

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

Noncontrolling Interest

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

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

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

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

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

NOTE 1 – BASIS OF PRESENTATION (continued)

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

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

Reclassification

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES
Investment in Hotel Properties consists of the following at March 31, 2011 and December 31, 2010:

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

Acquisitions

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

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

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

Pro Forma Results (Unaudited)

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

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

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (continued)

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

Renovation

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

Hotel Closing

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
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[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

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

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

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

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

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

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

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

Balance Sheets

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

Statements of Operations

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

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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, 2011 and December 31, 2010.

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

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

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

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NOTE 4 - DEVELOPMENT LOANS RECEIVABLE

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

Hotel Property	Borrower	Principal Outstanding March 31, 2011		Principal Outstanding December 31, 2010	Interest Rate	Maturity Date (1)
Operational Hotels						
Renaissance by Marriott - Woodbridge, NJ	Hersha Woodbridge Associates, LLC	5,000		5,000	11 %	April 1, 2012 *
Element Hotel - Ewing, NJ	American Properties @ Scotch Road, LLC	2,000		2,000	11 %	August 6, 2011 *
Hilton Garden Inn - Dover, DE	44 Aasha Hospitality Associates, LLC	1,000		1,000	10 %	November 1, 2011 *
Construction Hotels						
Hyatt 48Lex - New York, NY	44 Lexington Holding, LLC	13,295	(2)	12,939	11 %	December 31, 2011 *
Hyatt Union Square - New York, NY	Risingsam Union Square, LLC	13,032	(2)	12,714	10 %	December 31, 2011
Hampton Inn - New York, NY (3)	SC Waterview, LLC	8,000		8,000	10 %	December 31, 2011
Total Development Loans Receivable		$ 42,327		$ 41,653		

*Indicates borrower is a related party.

(1) Represents current maturity date in effect. Agreements for our development loans receivable typically allow for two 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) We have 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, 2011	2010	Cumulative Interest Income Paid In Kind
Risingsam Union Square, LLC	$ 318	$ 287	$ 3,032
44 Lexington Holding, LLC	356	319	3,295
Total	$ 674	$ 606	$ 6,327

(3) Subsequent to March 31, 2011, we entered into a purchase and sale agreement to acquire a vacant property located in New York, NY from SC Waterview, LLC. Consideration to be given in exchange for the property will include conversion of the $8,000 principal balance and $300 of the accrued interest receivable on the development loan receivable with the seller into equity. See Note 13 – Subsequent Events for additional discussion of this purchase and sale agreement.

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NOTE 5 – OTHER ASSETS

Other Assets consisted of the following at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Transaction Costs	$737	$340
Investment in Statutory Trusts	1,548	1,548
Deposits on Hotel Acquisitions	9,000	5,500
Prepaid Expenses	6,097	6,986
Interest Receivable from Development Loans to Non-Related Parties	1,922	1,767
Hotel Purchase Option	933	933
Other	1,336	1,340
	$21,573	$18,414

Transaction Costs - Transaction costs include legal fees and other third party transaction costs incurred relative to entering into debt facilities and issuances of equity securities 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.

Deposits on Hotel Acquisitions - Deposits paid in connection with the acquisition of hotels, including accrued interest, are recorded in other assets. As of March 31, 2011 we had $9,000, in non-interest bearing deposits related to the acquisition of hotel properties.

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 $1,444 as of March 31, 2011, which is included in due from related parties on the consolidated balance sheets.

Hotel Purchase Option – We have an option to acquire a 50% interest in the entity that owns the Holiday Inn Express – Manhattan. This 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.

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NOTE 6 - DEBT

Mortgages and Notes Payable

We had total mortgages payable at March 31, 2011, and December 31, 2010 of $595,111 and $596,949, respectively. These balances consisted of mortgages with fixed and variable interest rates, which ranged from 2.22% to 8.25% as of March 31, 2011. Aggregate interest expense incurred under the mortgage loans payable totaled $9,060 and $9,461 for the three months ended March 31, 2011 and 2010, 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 fourteen of our hotel properties were not met as of March 31, 2011 due to recent economic conditions. These covenants do not constitute an event of default for these loans. As of March 31, 2011 we were in compliance with all events of default covenants under the applicable loan agreements, with the exception of our non-recourse mortgage loan payable on the Comfort Inn, North Dartmouth, MA. As noted in “Note 2 – Investment in Hotel Properties,” the Comfort Inn, North Dartmouth, MA, ceased operations on March 31, 2011. We are currently in discussions to transfer title to the property to the lender. As of March 31, 2011, the remaining principal and accrued interest due on the mortgage loan payable related to this asset were $2,968 and $65, respectively.

As of March 31, 2011, the maturities for the outstanding mortgage loans ranged from July 2011 to September 2023, including $17,861 due in 2011.

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. Effective July 30, 2010, 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. For the period from January 30, 2011, to April 29, 2011, we incurred interest expense at a variable rate of 3.304%. Prior to this, the $25,774 note issued to Hersha Statutory Trust I incurred interest at a fixed rate of 7.34% per annum through July 30, 2010, and the $25,774 note issued to Hersha Statutory Trust II incurred interest at a fixed rate of 7.173% per annum through July 30, 2010.Interest expense in the amount of $425 and $935 was recorded for the three months ended March 31, 2011 and 2010.

Other Notes Payable

HHLP has entered into a management agreement with an unaffiliated hotel manager that has extended a $349 interest-free loan to HHLP for working capital contributions that are due at either the termination or expiration of the management agreement. A discount was recorded on the note payable which reduced the principal balances recorded in the mortgages and notes payable. The discount is being amortized over the remaining life of the loan and is recorded as interest expense. The balance of the note payable, net of unamortized discount, was $227 as of March 31, 2011 and $223 as of December 31, 2010.

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NOTE 6 - DEBT(continued)

Revolving Line of Credit

We maintain 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 swing line loans. Borrowings under the line of credit provided by T.D. Bank, NA may be used for working capital and general corporate purposes and for the future purchase of additional hotels. The line of credit expires on November 5, 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 line of credit for an additional one-year period.

The line of credit 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	- Residence Inn, Langhorne, PA
- Hampton Inn, Philadelphia, PA	- Residence Inn, Norwood, MA
- Hampton Inn, Carlisle, PA	- Sheraton Hotel, JFK Airport, New York, NY
- Hampton Inn, Selinsgrove, PA	- Holiday Inn Express, Times Square, NY
- Holiday Inn, Norwich, CT	- Hampton Inn, Washington, DC
- Towneplace Suites, Harrisburg, PA	- Hyatt Place, King of Prussia, PA
- Comfort Inn, Harrisburg, PA	

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 line of credit 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 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 will increase to 1.35 to 1.00 as of September 30, 2011, and 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, 2011.

The outstanding principal balance under the line of credit was $63,000 at March 31, 2011. The Company recorded interest expense of $504 and $742 related to the line of credit borrowings for the three months ended March 31, 2011 and 2010. The weighted average interest rate on our line of credit during the three months ended March 31, 2011 and 2010 was 4.25% and 4.32%.

As of March 31, 2011 we had $7,397 in irrevocable letters of credit issued and our remaining borrowing capacity under the facility was $179,603.

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NOTE 6 - DEBT(continued)

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. As of March 31, 2011, the carrying value and estimated fair value of the Company's debt was $709,886 and $675,290, respectively.

Capitalized Interest

We utilize mortgage debt and our revolving line of credit to finance on-going capital improvement projects at our properties. Interest incurred on mortgages and the revolving line of credit 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, 2011 and 2010, we capitalized $170 and $0, 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, 2011, deferred financing costs were $9,599 net of accumulated amortization of $6,629. Amortization of deferred costs for the three months ended March 31, 2011 and 2010 was $777 and $538, respectively.

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NOTE 7 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned TRS, 44 New England Management Company ("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, 2011 and 2010, base management fees incurred totaled $1,538 and $1,216, respectively and are recorded as hotel operating expenses.

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, 2011 and 2010 was $3,935 and $3,197. 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 are approximately $1 per property. For the three months ended March 31, 2011 and 2010, the Company incurred accounting fees of $452 and $375, respectively. For the three months ended March 31, 2011 and 2010, the Company incurred information technology fees of $111 and $84, respectively. Accounting fees and information technology fees are included in general and administrative 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, 2011 and 2010, we incurred fees of $279 and $40, 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 affiliated 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 our 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, 2011 and 2010, we incurred charges for hotel supplies of $24 and $27. For the three months ended March 31, 2011 and 2010, we incurred charges for capital expenditure purchases of $3,475 and $379, 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 $2 and $22 is included in accounts payable at March 31, 2011 and December 31, 2010, respectively.

Due from Related Parties

The due from related party balance as of March 31, 2011 and December 31, 2010 was approximately $6,740 and $5,069, respectively. The balances primarily consisted of accrued interest due on our development loans, a notes receivable to 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 due to related parties balance as of March 31, 2011 and December 31, 2010 was approximately $1,359 and $939, 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, 2011 and 2010, we incurred $364 and $292, 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 liability, 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, 2011, 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, 2011 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 our debt financing Hotel 373, New York, NY. The notional amount of the interest rate cap is $22,000 and equals the principal of the variable interest rate debt being hedged. This interest rate cap matures on May 9, 2011.

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

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 maintained an interest rate swap agreement that effectively fixes the interest rate on a variable rate mortgage on the nu Hotel, Brooklyn, NY. The debt secured by this property bears interest at one month U.S. dollar LIBOR plus 2.0%. Under the terms of the interest rate swap, we paid fixed rate interest of 1.1925% on the $18,000 notional amount and we received floating rate interest equal to the one month U.S. dollar LIBOR, which effectively fixed our interest on the mortgage debt at a rate of 3.1925%. This swap matured on January 10, 2011 and was not replaced.

The following table shows the estimated fair value of our derivatives at March 31, 2011 and December 31, 2010:

				Estimated Fair Value	
Date of Transaction	Hedged Debt	Type	Maturity Date	March 31, 2011	December 31, 2010