HERSHA HOSPITALITY TRUST
Form 10-Q
November 09, 2007

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 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.

T 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 T Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes T No

As of September 30, 2007, the number of Class A common shares of beneficial interest outstanding was 41,197,876.

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

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

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **Assets:** | | |
| Investment in Hotel Properties, net of Accumulated Depreciation | $ 894,185 | $ 807,784 |
| Investment in Joint Ventures | 53,945 | 50,234 |
| Development Loans Receivable | 70,042 | 47,016 |
| Cash and Cash Equivalents | 10,280 | 10,316 |
| Escrow Deposits | 15,178 | 14,927 |
| Hotel Accounts Receivable, net of allowance for doubtful accounts of $50 and $30 | 11,877 | 4,608 |
| Deferred Costs, net of Accumulated Amortization of $2,760 and $1,543 | 8,509 | 7,525 |
| Due from Related Parties | 2,097 | 4,059 |
| Intangible Assets, net of Accumulated Amortization of $779 and $618 | 5,665 | 5,594 |
| Other Assets | 17,566 | 16,145 |
| Hotel Assets Held for Sale | 24,660 | - |
| **Total Assets** | $ 1,114,004 | $ 968,208 |
| | | |
| **Liabilities and Shareholders' Equity:** | | |
| Line of Credit | $ 72,100 | $ 24,000 |
| Mortgages and Notes Payable, net of unamortized discount of $74 and $1,312 | 620,131 | 556,542 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 17,458 | 14,740 |
| Dividends and Distributions Payable | 9,473 | 8,985 |
| Due to Related Parties | 2,632 | 3,297 |
| Liabilities Related to Assets Held for Sale | 17,082 | - |
| **Total Liabilities** | 738,876 | 607,564 |
| | | |
| **Minority Interests:** | | |
| Common Units | $ 40,393 | $ 25,933 |
| Interest in Consolidated Joint Ventures | 2,797 | 3,092 |
| | | |
| **Total Minority Interests** | 43,190 | 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 September 30, 2007 and December 31, 2006, respectively. (Aggregate Liquidation Preference $60,000 at September 30, 2007 and December 31, 2006, respectively) | 24 | 24 |
| Common Shares - Class A, $.01 Par Value, 80,000,000 Shares Authorized, 41,197,876 and 40,671,950 Shares Issued and Outstanding at September 30, 2007 and December 31, 2006, respectively. | 412 | 405 |
| Common Shares - Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding | - | - |

| | | |
|---|---|---|
| Accumulated Other Comprehensive Income | 86 | 233 |
| Additional Paid-in Capital | 395,730 | 381,592 |
| Distributions in Excess of Net Income | (64,314) | (50,635) |
| **Total Shareholders' Equity** | 331,938 | 331,619 |
| **Total Liabilities and Shareholders' Equity** | $ 1,114,004 | $ 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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 [UNAUDITED]**
**[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| **Revenue:** | | | | |
| Hotel Operating Revenues | $ 65,609 | $ 39,002 | $ 171,984 | $ 97,693 |
| Interest Income from Development Loans | 1,379 | 839 | 4,013 | 1,562 |
| Land Lease Revenue | 1,324 | 408 | 3,529 | 408 |
| Hotel Lease Revenue | 254 | 137 | 586 | 137 |
| Other Revenues | 265 | 202 | 592 | 555 |
| **Total Revenues** | 68,831 | 40,588 | 180,704 | 100,355 |
| | | | | |
| **Operating Expenses:** | | | | |
| Hotel Operating Expenses | 35,794 | 21,598 | 97,348 | 56,964 |
| Hotel Ground Rent | 211 | 222 | 650 | 600 |
| Land Lease Expense | 741 | - | 1,974 | - |
| Real Estate and Personal Property Taxes and Property Insurance | 2,861 | 1,559 | 8,353 | 4,151 |
| General and Administrative | 1,689 | 1,350 | 5,521 | 4,326 |
| Depreciation and Amortization | 8,905 | 4,983 | 25,123 | 12,879 |
| **Total Operating Expenses** | 50,201 | 29,712 | 138,969 | 78,920 |
| | | | | |
| **Operating Income** | 18,630 | 10,876 | 41,735 | 21,435 |
| | | | | |
| Interest Income | 136 | 443 | 590 | 923 |
| Interest Expense | 10,677 | 6,693 | 31,414 | 17,694 |
| Loss on Debt Extinguishment | - | - | - | 1,163 |
| | | | | |
| **Income before income from Unconsolidated Joint Venture Investments, Minority Interests and Discontinued Operations** | 8,089 | 4,626 | 10,911 | 3,501 |
| | | | | |
| **Income from Unconsolidated Joint Venture Investments** | 1,680 | 1,773 | 2,584 | 1,432 |
| | | | | |
| **Income before Minority Interests and Discontinued Operations** | 9,769 | 6,399 | 13,495 | 4,933 |
| | | | | |
| **Income allocated to Minority Interests in Continuing Operations** | 1,379 | 859 | 1,554 | 525 |
| **Income from Continuing Operations** | 8,390 | 5,540 | 11,941 | 4,408 |
| | | | | |
| **Discontinued Operations, net of minority interests (Note 12):** | | | | |
| Gain on Disposition of Hotel Properties | - | - | - | 436 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income from Discontinued Operations | | 106 | | 240 | | 113 | 428 |
| **Income from Discontinued Operations** | | 106 | | 240 | | 113 | 864 |
| | | | | | | | |
| **Net Income** | | 8,496 | | 5,780 | | 12,054 | 5,272 |
| Preferred Distributions | | 1,200 | | 1,200 | | 3,600 | 3,600 |
| | | | | | | | |
| **Net Income applicable to Common Shareholders** | $ | 7,296 | $ | 4,580 | $ | 8,454 | $ 1,672 |

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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 [UNAUDITED]**
**[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| **Earnings Per Share:** | | | | |
| ***BASIC*** | | | | |
| Income from continuing operations applicable to common shareholders | $ 0.18 | $ 0.15 | $ 0.20 | $ 0.03 |
| Income from Discontinued Operations | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.03 |
| Net Income applicable to common shareholders | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.06 |
| ***DILUTED**** | | | | |
| Income from continuing operations applicable to common shareholders | $ 0.18 | $ 0.15 | $ 0.20 | $ 0.03 |
| Income from Discontinued Operations | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.03 |
| Net Income applicable to common shareholders | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.06 |
| **Weighted Average Common Shares Outstanding:** | | | | |
| Basic | 40,807,626 | 28,413,553 | 40,663,670 | 24,760,185 |
| Diluted* | 40,807,626 | 28,428,637 | 40,663,670 | 24,760,185 |

* 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 September 30, 2007 and 2006 were 6,095,971 and 3,724,426, respectively. Weighted average Partnership units outstanding for the nine months ended September 30, 2007 and 2006 were 5,139,657 and 3,459,590, respectively.

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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 [UNAUDITED]**
**[IN THOUSANDS]**

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| **Operating activities:** | | |
| Net Income | $ 12,054 | 5,272 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on disposition of hotel assets held for sale | - | (497) |
| Depreciation | 25,722 | 13,798 |
| Amortization | 1,475 | 719 |
| Debt extinguishment | - | 1,163 |
| Income allocated to minority interests | 1,568 | 643 |
| Equity in income of unconsolidated joint ventures | (2,584) | (1,432) |
| Distributions from unconsolidated joint ventures | 2,703 | 1,834 |
| Gain recognized on change in fair value of derivative instrument | (57) | (68) |
| Stock based compensation expense | 554 | 198 |
| Change in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Hotel accounts receivable | (7,214) | (3,560) |
| Escrows | 490 | (757) |
| Other assets | (1,764) | (3,235) |
| Due from related party | 2,850 | (3,968) |
| Increase (decrease) in: | | |
| Due to related party | (665) | 2,646 |
| Accounts payable and accrued expenses | 2,590 | 5,263 |
| **Net cash provided by operating activities** | 37,722 | 18,019 |
| | | |
| **Investing activities:** | | |
| Purchase of hotel property assets | (32,659) | (225,857) |
| Capital expenditures | (11,874) | (8,029) |
| Proceeds from disposition of hotel assets held for sale | - | 3,665 |
| Cash paid for franchise fee intangible | (71) | (48) |
| Repayment of notes receivable | 34 | 1,843 |
| Investment in development loans receivable | (60,700) | (35,616) |
| Repayment of development loans receivable | 36,000 | 33,550 |
| Distributions from unconsolidated joint venture | 4,686 | 3,227 |
| Advances and capital contributions to unconsolidated joint ventures | (1,699) | (4,042) |
| **Net used in investing activities** | (66,283) | (231,307) |
| | | |
| **Financing activities:** | | |
| Proceeds from borrowings under line of credit, net | 48,100 | 37,768 |
| Principal repayment of mortgages and notes payable | (19,387) | (66,701) |
| Proceeds from mortgages and notes payable | 28,543 | 165,012 |
| Settlement of interest rate derivative | - | 79 |
| Cash paid for deferred financing costs | (250) | (796) |
| Proceeds from issuance of common stock | - | 103,357 |

| | | | | |
|---|---|---|---|---|
| Distributions to partners in consolidated joint ventures | | (340) | | (221) |
| Dividends paid on common shares | | (22,016) | | (12,350) |
| Dividends paid on preferred shares | | (3,600) | | (3,600) |
| Distributions paid on common partnership units | | (2,525) | | (1,767) |
| **Net cash provided by financing activities** | | 28,525 | | 220,781 |
| | | | | |
| **Net (decrease) increase in cash and cash equivalents** | | (36) | | 7,493 |
| **Cash and cash equivalents - beginning of year** | | 10,316 | | 8,780 |
| | | | | |
| **Cash and cash equivalents - end of quarter** | $ | 10,280 | $ | 16,273 |

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 NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE**
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 [UNAUDITED]**
**[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]**

**NOTE 2 — INVESTMENT IN HOTEL PROPERTIES**

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

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Land | $ 171,500 | $ 135,943 |
| Buildings and Improvements | 700,741 | 640,666 |
| Furniture, Fixtures and Equipment | 103,267 | 88,179 |
| Construction in Progress | 2,541 | 4,359 |
| | 978,049 | 869,147 |
| | | |
| Less Accumulated Depreciation | (83,864) | (61,363) |
| | | |
| **Total Investment in Hotel Properties** | $ 894,185 | $ 807,784 |

*2007 Transactions*

During the nine months ended September 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 | $ 50 | $ 15,808 | - |
| 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 | 126 | 9,358 | 6,700 |
| Hampton Inn - Seaport, New York, NY | 2/1/2007 | 7,816 | 19,056 | 1,729 | 1,036 | 29,637 | 20,202 |
| Hotel 373 and Starbucks Lease - 5th Avenue, New York, NY | 6/1/2007 | 14,239 | 16,801 | 3,294 | 11 | 34,345 | 22,000 |
| | | 10,650 | - | - | 269 | 10,919 | 6,500 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Nevins Street, Brooklyn, NY | 6/11/2007 & 7/11/2007 | | | | | | |
| Holiday Inn, Norwich, CT | 7/1/2007 | 1,984 | 12,037 | 2,041 | 67 | 16,129 | 8,162 |
| **Total 2007 Wholly Owned Acquisitions** | | $ 38,667 | $ 74,231 | $ 11,595 | $ 1,648 | $ 126,141 | $ 70,564 |

In connection with the 2007 acquisitions we acquired $798 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 affiliated 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. We assumed $6,500 in variable rate debt bearing interest at LIBOR plus 2.70% with the acquisition of a parcel of land on Nevins Street in Brooklyn, NY. This parcel of land is being leased to a hotel developer that is owned in part by certain executives and affiliated trustees of the Company. Lease income on the land includes payment of debt service on the assumed debt. We assumed $8,162 in debt with the acquisition of the Holiday Inn, Norwich, CT which was repaid on July 30, 2007.

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

**NOTE 2 — INVESTMENT IN HOTEL PROPERTIES (CONTINUED)**

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 affiliated trustees. Included in the consideration paid for the Residence Inn, Carlisle, PA was 119,818 units in our operating partnership subsidiary valued at $11.10 per unit that were issued to sellers that are not affiliated with the Company. Consideration paid for the Hampton Inn-Seaport, New York, NY, included 15,016 units of our operating partnership subsidiary 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 $203 was incurred on the notes payable during the nine months ended September 30, 2007, respectively. Included in the consideration paid for the Hotel 373 – 5th Avenue, New York, NY were 1,000,000 units in our operating partnership subsidiary valued at $12.32 per unit that were issued to a seller that is not affiliated with the Company. Consideration paid for the Holiday Inn, Norwich, CT, included 659,312 units of our operating partnership subsidiary valued at $11.83, which were issued to entities that are owned in part by certain executives and affiliated trustees of the Company.

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 contains certain provisions that entitled the seller to an earn-out payment of up to $2,500 based on the collective Net Operating Income thresholds of the three properties, as defined. The earn-out period expired on September 30, 2007 and based on the operating results of these properties, no earn-out was 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 contains certain provisions that entitle the seller to an earn-out payment 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 contains certain provisions that entitle the seller to an earn-out payment 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 we had consummated the acquisition of the 6 properties in 2007 and the 16 properties in 2006 on 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 the 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 Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Pro Forma Total Revenues | $ 68,967 | $ 55,885 | $ 182,942 | $ 152,259 |
| | | | | |
| Pro Forma Income from Continuing Operations applicable to Common Shareholders | $ 8,390 | $ 5,638 | $ 11,680 | $ 4,650 |
| Income from Discontinued Operations | 106 | 240 | 113 | 864 |
| Pro Forma Net Income | 8,496 | 5,878 | 11,793 | 5,514 |
| Preferred Distributions | 1,200 | 1,200 | 3,600 | 3,600 |
| Pro Forma Net Income (Loss) applicable to Common Shareholders | $ 7,296 | $ 4,678 | $ 8,193 | $ 1,914 |
| | | | | |
| Pro Forma Income (Loss) applicable to Common Shareholders per Common Share | | | | |
| Basic | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.08 |
| Diluted | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.08 |
| | | | | |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | 40,807,626 | 28,413,553 | 40,663,670 | 24,760,185 |
| Diluted | 40,807,626 | 28,428,637 | 40,663,670 | 24,760,185 |

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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE**
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 [UNAUDITED]**
**[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 September 30, 2007 and December 31, 2006 our investment in unconsolidated joint ventures consists of the following:

| | Percent Owned | September 30, 2007 | December 31, 2006 |
|---|---|---|---|
| PRA Glastonbury, LLC | 48.0%* | 984 | 463 |
| Inn American Hospitality at Ewing, LLC | 50.0% | 1,284 | 1,414 |
| Hiren Boston, LLC | 50.0% | 5,179 | 4,871 |
| SB Partners, LLC | 50.0% | 2,404 | 2,213 |
| Mystic Partners, LLC | 8.8%-66.7% | 33,917 | 39,180 |
| PRA Suites at Glastonbury, LLC | 48.0%* | 2,810 | 2,093 |
| Metro 29th Street Associates, LLC | 50.0% | 7,367 | - |
| | | $ 53,945 | $ 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 29$^{th}$ Street Associates, LLC (“Metro 29th”), the lessee of the 228 room Holiday Inn Express-Manhattan, New York, NY, for approximately $6,817. Metro 29$^{th}$ 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 29$^{th}$ 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 $11.15 per unit for our interest in Metro 29$^{th}$ and the option.  Metro 29$^{th}$ Street entered into an agreement with Metro 29$^{th}$ 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 September 30, 2007 and December 31, 2006 and for the three and nine months ended September 30, 2007 and 2006.

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**NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)**

**Balance Sheets**

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Investment in hotel properties, net | $ 233,384 | $ 244,113 |
| Other assets | 32,412 | 24,496 |
| **Assets** | $ 265,796 | $ 268,609 |
| | | |
| **Liabilities and Equity** | | |
| Mortgages and notes payable | $ 221,583 | $ 211,576 |
| Other liabilities | 13,848 | 11,687 |
| | | |
| Equity | 30,365 | 45,346 |
| | | |
| **Total Liabilities and Equity** | $ 265,796 | $ 268,609 |

**Statements of Operations**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Room Revenue | $ 27,480 | $ 23,567 | $ 72,770 | $ 62,735 |
| Other Revenue | 7,359 | 6,873 | 22,586 | 21,478 |
| Operating Expenses | (21,424) | (19,064) | (59,829) | (55,585) |
| Interest Expense | (3,977) | (4,361) | (11,607) | (11,830) |
| Debt Extinguishment | (2,858) | - | (2,858) | - |
| Lease Expense | (1,314) | (64) | (3,927) | (276) |
| Property Taxes and Insurance | (1,654) | (1,625) | (4,558) | (4,248) |
| Federal and State Income Taxes | (53) | (134) | (161) | (276) |
| Depreciation, Amortization, and Other | (6,004) | (7,577) | (17,731) | (18,749) |
| | | | | |
| **Net Loss** | $ (2,445) | $ (2,385) | $ (5,315) | $ (6,751) |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| HT/CNL Metro Hotels, LP | $ - | $ 168 | $ - | $ 398 |
| PRA Glastonbury, LLC | 26 | (28) | 87 | (257) |
| Inn American Hospitality at Ewing, LLC | 20 | 42 | 91 | 124 |
| Hiren Boston, LLC | 175 | 254 | 309 | 28 |
| SB Partners, LLC | 183 | 106 | 192 | 51 |

| | | | | |
|---|---|---|---|---|
| Mystic Partners, LLC | 1,006 | 1,232 | 1,253 | 1,089 |
| PRA Suites at Glastonbury, LLC | (2) | (1) | (5) | (1) |
| Metro 29th Street Associates, LLC | 272 | - | 657 | - |
| | | | | |
| Total income from unconsolidated joint venture investments | $ 1,680 | $ 1,773 | $ 2,584 | $ 1,432 |

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**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 13.5% (“Development Line Funding”). As of September 30, 2007 and December 31, 2006, we had Development Loans Receivable of $70,042 and $47,016, respectively. Interest income included in “Interest Income — Development Loans,” was $1,379 and $839 for the three months ended September 30, 2007 and 2006, respectively and $4,013 and $1,562 for the nine months ended September 30, 2007 and 2006, respectively. Accrued interest on our development loans receivable was $1,014 as of September 30, 2007 and $883 as of December 31, 2006.

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

| Hotel Property | Borrower | Principal Outstanding 9/30/2007 | Interest Rate | Maturity Date |
|---|---|---|---|---|
| Sheraton - JFK Airport, NY | Risingsam Hospitality, LLC | $ 10,016 | 10% | September 30, 2008 |
| 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, 2008 |
| 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, 2008 |
| Homewood Suites - Newtown Square, PA | Reese Hotels, LLC | 700 | 11% | June 1, 2008 |
| Boutique Hotel - Union Square, NY | Risingsam Union Square, LLC | 5,000 | 10% | May 31, 2008 |
| Candlewood Suites - Windsor Locks, CT | 44 Windsor Locks Hospitality, LLC | 2,000 | 10% | August 6, 2008 |
| Hilton Garden Inn/Homewood Suites - Brooklyn, NY | 167 Johnson Street, LLC | | | |
| Tranche 1 | | 11,000 | 11% | September 21, 2008 |
| Tranche 2 | | 9,000 | 13.5% | September 24, 2008 |
| Discount | | (1,674 | | |
| Total Hilton Garden Inn/Homewood Suites - Brooklyn, NY | | 18,326 | | |
| | | | | |
| Total Development Loans Receivable | | $ 70,042 | | |

In connection with originating the $11,000 and $9,000 development loans for the Hilton Garden Inn/Homewood Suites – Brooklyn, NY, we were granted an option to acquire a 50% interest in the entity that owns the Hilton Garden Inn – Brooklyn, NY. The option can be exercised any time during the three year period beginning on the date the property receives its certificate of occupancy or upon the borrower's default on the development loans. The fair value of the option was $1,688 at the time of acquisition and is recorded in other assets on our consolidated balance sheet. We recorded a discount on the development loans receivable of $1,688 which is being amortized over life of the development loan, including the two year renewal period. Amortization of this discount is recorded as interest income from development loans on the Company's consolidated statement of operations and was $14 for the three and nine months ended September 30, 2007.

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 |
| Total Development Loans Receivable | | $ | 47,016 | | |

*subsequent to December 31, 2006, the maturity dates of these development loans were extended.

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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 September 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 | 10,650 | - | 269 | 10,919 | 6,500 | 4,419 | 6/11/2007 & 7/11/2007 | H Nevins Street Associates, LLC | * |
| Total | $ 43,159 | $ 11,051 | $ 1,006 | $ 55,216 | $ 31,850 | $ 23,366 | | | |

* Indicates lessee is a related party.

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**NOTE 5 — OTHER ASSETS**

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

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Deferred Transaction Costs | $ 528 | $ 252 |
| Deposits on Hotel Acquisitions | 24 | 2,144 |
| Investment in Statutory Trusts | 1,548 | 1,548 |
| Notes Receivable | 2,540 | 2,438 |
| Due from Lessees | 2,075 | 2,318 |
| Prepaid Expenses | 4,216 | 3,533 |
| Interest due on Development Loans to Non-Related Parties | 829 | 871 |
| Deposits on Property Improvement Plans | 1,536 | 1,405 |
| Hotel Purchase Option | 2,620 | - |
| Other | 1,650 | 1,636 |
| | $ 17,566 | $ 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 receivable, are recorded in other assets. As of September 30, 2007, we had $-0- in interest bearing and non interest bearing deposits. 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 September 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 are 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 September 30, 2007 and December 31, 2006, was $585,415 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 July 2008 to January 2032. Aggregate interest expense incurred under the mortgages payable totaled $8,755 and $5,131 for the three months ended September 30, 2007 and 2006, respectively and $25,151 and $14,215 for the nine months ended September 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 $12,898 at September 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 $921 and $940 was recorded for the three months ended September 30, 2007 and 2006, respectively and $2,837 and $2,810 for the nine months ended September 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 $72,100 at September 30, 2007 and $24,000 at December 31, 2006. The Company recorded interest expense of $1,125 and $861 related to the line of credit borrowings, for the three months ended September 30, 2007 and 2006, respectively and $3,121 and $1,524 for the nine months ended September 30, 2007 and 2006, respectively. The weighted average interest rate on our Line of Credit for the three months ended September 30, 2007 and 2006 was 7.43% and 7.58%, respectively and 7.48% and 7.28% for the nine months ended September 30, 2007 and 2006, respectively.

Capitalized Interest

The Company utilizes its revolving line of credit to finance on-going capital improvement projects at its properties. Interest incurred on 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 and nine months ended September 30, 2007, we capitalized $339 of interest expense related to these projects.

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 September 30, 2007, deferred costs were $8,509, net of accumulated amortization of $2,760. 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 September 30, 2007 and 2006 was $448 and $225 respectively and $1,204 and $607 for the nine months ended September 30, 2007 and 2006, respectively.

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**NOTE 6 — DEBT (CONTINUED)**

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 nine months ended September 30, 2006.

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 nine months ended September 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 nine months ended September 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 subsidiary, 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 September 30, 2007, HHMLP managed forty six 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 nine months ended September 30, 2007 and 2006. For the three months ended September 30, 2007 and 2006, management fees incurred totaled $1,636 and $1,246, respectively, and $4,164 and $3,211 for the nine months ended September 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 September 30, 2007 and 2006, the Company incurred accounting fees of $345 and $281, respectively, and incurred information technology fees of $71 and $64, respectively. For the nine months ended September 30, 2007 and 2006, the Company incurred accounting fees of $1,012 and $768, respectively, and incurred information technology fees of $207 and $184, 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 September 30, 2007 and 2006 was $4,550 and $2,871 respectively and $11,785 and $7,210 for the nine months ended September 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 78 hotels, including 23 hotels acquired from entities controlled by our officers or affiliated trustees. Of the 23 acquisitions from these entities, 20 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 September 30, 2007 and 2006, we incurred expenses of $456 and $372, respectively, and for the nine months ended September 30, 2007 and 2006, we incurred expenses of $1,901 and $1,247 respectively, for hotel supplies from Hersha Hotel Supply, an unconsolidated related party, which are expenses included in Hotel Operating Expenses. Approximately $149 and $66 is included in accounts payable at September 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 September 30, 2007 and 2006 we incurred fees of $74 and $59, respectively and for the nine months ended September 30, 2007 and 2006 we incurred fees of $237 and $116, respectively, which were capitalized in with the cost of fixed asset additions.

Due From Related Parties

The Due from Related Party balance as of September 30, 2007 and December 31, 2006 was approximately $2,097 and $4,059 respectively. The majority of the balance as of September 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 September 30, 2007 and December 31, 2006 was approximately $2,632 and $3,297, respectively. The balances as of September 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 September 30, 2007 and 2006, we incurred $211 and $222, and for the nine months ended September 30, 2007 and 2006 we incurred $650 and $685, 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 interest 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 $7,825 as of September 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 September 30, 2007, the fair value of the interest rate swap was $33 and is included in Accounts Payable, Accrued Expenses and Other Liabilities and at December 31, 2006, the fair value of the interest rate swap was $47 and is included in Other Assets on the face of the consolidated balance sheets. At September 30, 2007, the fair value of the interest rate cap was $5 and is included in Other Assets on the face of the consolidated balance sheets. The change in net unrealized gains/losses was a loss of $136 and $122 for the three months ended September 30, 2007 and 2006, respectively, and a loss of $147 and loss of $87 for the nine months ended September 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 $3 on cash flow hedges was recognized in interest expense for each of the three months ended September 30, 2007 and 2006 and $12 and $10 for the nine months ended September 30, 2007 and 2006, respectively.



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

**NOTE 9 — SHARE-BASED PAYMENTS**

The following table summarizes the stock awards issued to executives of the Company pursuant to the 2004 Equity Incentive Plan:

| | | Shares Vested | | Unearned Compensation | | |
|---|---|---|---|---|---|---|
| Date of Award Issuance | Shares Issued | September 30, 2007 | December 31, 2006 | September 30, 2007 | December 31, 2006 | Period until Full Vesting |
| June 1, 2005 | 71,000 | 35,500 | 17,750 | $ 284 | $ 412 | 1.75 years |
| June 1, 2006 | 89,500 | 22,375 | - | 561 | 719 | 2.75 years |
| June 1, 2007 | 214,582 | - | - | 2,423 | - | 3.75 years |
| | 375,082 | 57,875 | 17,750 | $ 3,268 | $ 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 September 30, 2007, none of these restricted share awards was vested.

Compensation expense related to stock awards issued to executives of the Company of $260 and $95 was incurred during the three months ended September 30, 2007 and 2006, respectively, and $505 and $198 was incurred during the nine months ended September 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 $-0- and $13 was incurred during the three months ended September 30, 2007 and 2006, respectively and $49 and $38 was incurred during the nine months ended September 30, 2007 and 2006, respectively.

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

**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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Numerator:** | | | | |
| ***BASIC*** | | | | |
| **Income from Continuing Operations** | $ 8,390 | $ 5,540 | $ 11,941 | $ 4,408 |
| Dividends paid on unvested restricted shares | (57) | (26) | (140) | (64) |
| Distributions to 8.0% Series A Preferred Shareholders | (1,200) | (1,200) | (3,600) | (3,600) |
| **Income from continuing operations applicable to common shareholders** | 7,133 | 4,314 | 8,201 | 744 |
| **Income from Discontinued Operations** | 106 | 240 | 113 | 864 |
| **Net Income applicable to common shareholders** | $ 7,239 | $ 4,554 | $ 8,314 | $ 1,608 |
| | | | | |
| ***DILUTED**** | | | | |
| **Income from Continuing Operations** | $ 8,390 | $ 5,540 | $ 11,941 | $ 4,408 |
| Dividends paid on unvested restricted shares | (57) | (26) | (140) | (64) |
| Distributions to 8.0% Series A Preferred Shareholders | (1,200) | (1,200) | (3,600) | (3,600) |
| **Income from continuing operations applicable to common shareholders** | 7,133 | 4,314 | 8,201 | 744 |
| **Income from Discontinued Operations** | 106 | 240 | 113 | 864 |
| **Net Income applicable to common shareholders** | $ 7,239 | $ 4,554 | $ 8,314 | $ 1,608 |
| | | | | |
| **Denominator:** | | | | |
| Weighted average number of common shares – basic | 40,807,626 | 28,413,553 | 40,663,670 | 24,760,185 |
| Effect of dilutive securities: | | | | |
| Unvested stock awards | - | 15,084 | - | - |
| | | | | |
| Weighted average number of common shares - diluted* | 40,807,626 | 28,428,637 | 40,663,670 | 24,760,185 |

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

**NOTE 10 — EARNINGS PER SHARE (CONTINUED)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Earnings Per Share:** | | | | |
| ***BASIC*** | | | | |
| Income from continuing operations applicable to common shareholders | $ 0.18 | $ 0.15 | $ 0.20 | $ 0.03 |
| Income from Discontinued Operations | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.03 |
| Net Income applicable to common shareholders | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.06 |
| ***DILUTED**** | | | | |
| Income from continuing operations applicable to common shareholders | $ 0.18 | $ 0.15 | $ 0.20 | $ 0.03 |
| Income from Discontinued Operations | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.03 |
| Net Income applicable to common shareholders | $ 0.18 | $ 0.16 | $ 0.20 | $ 0.06 |

* 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 September 30, 2007 and 2006 were 6,095,971 and 3,724,426, respectively. Weighted average Partnership units outstanding for the nine months ended September 30, 2007 and 2006 were 5,139,657 and 3,459,590, respectively.

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

**NOTE 11 — CASH FLOW DISCLOSURES AND NON-CASH ACTIVITIES**

Interest paid during the nine months ended September 30, 2007 and 2006 totaled $31,094 and $17,378, respectively.

The following non-cash activities occurred during the nine months ended September 30, 2007 and 2006:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2007 | 2006 |
| Common Shares issued as part of the Dividend Reinvestment Plan | $ 22 | $ 19 |
| Issuance of Common Shares to the Board of Trustees | 94 | 46 |
| Issuance of Stock Awards | 2,644 | 841 |
| Issuance of Common LP Units for acquisitions of hotel properties | 21,167 | 9,940 |
| Debt assumed in acquisition of hotel properties | 70,564 | 102,301 |
| Issuance of Common LP Units for acquisition of unconsolidated joint venture | 6,817 | - |
| Issuance of Common LP Units for acquisition of option to acquire interest in hotel property | 933 | - |
| Conversion of Common LP Units to Common Shares | 2,333 | 651 |
| Reallocation to minority interest | 11,180 | 6,578 |

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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES**
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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 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 $61 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 nine months ended September 30, 2006.

In March of 2006, our Board of Trustees authorized management of the Company to sell the Holiday Inn Express, Duluth; Comfort Suites, Duluth; Hampton Inn, Newnan and the Hampton Inn, Peachtree City located in metropolitan Atlanta, Georgia. These assets were classified as “held for sale” as of September 30, 2006. The operating results for these hotels were classified as discontinued operations in the statements of operations for the three and nine months ended September 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.

In September of 2007, our Board of Trustees authorized management of the Company to sell the Hampton Inn, Linden, NJ (Hampton Inn) and Fairfield Inn, Mt. Laurel, NJ (Fairfield Inn). The Company acquired the Hampton Inn in October 2003 and the Fairfield Inn in January 2006. These assets are classified as “held for sale” on the Company’s Consolidated Balance Sheet as of September 30, 2007. The operating results for these hotels have been reclassified to discontinued operations in the statements of operations for the three and nine months ended September 30, 2007 and 2006. The Company has signed definitive agreements for the sale of the Hampton Inn and Fairfield Inn for a purchase price of $18 million and $11.5 million, respectively. The sale of these properties is expected to be completed by the end of the fourth quarter of 2007.

Assets Held for Sale consisted of the following at September 30, 2007:

| | September 30, 2007 |
|---|---|
| Land | $ 2,955 |
| Buildings and Improvements | 20,698 |
| Furniture, Fixtures and Equipment | 4,073 |
| Deferred Costs | 138 |
| Intangible Assets | 107 |
| | $ 27,971 |
| | |
| Less Accumulated Depreciation | (3,311) |
| | |
| | $ 24,660 |

Total Assets Held for Sale

As of September 30, 2007, Liabilities Related to Assets Held for Sale was $17,082 and consisted of mortgages on the Hampton Inn and Fairfield Inn.

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

**NOTE 12 — DISCONTINUED OPERATIONS (CONTINUED)**

The following table sets forth the components of discontinued operations (excluding the gains on sale) for the three and nine months ended September 30, 2007 and 2006, respectively:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenue:** | | | | |
| Hotel Operating Revenues | $ 1,904 | $ 3,250 | $ 5,397 | $ 10,263 |
| | | | | |
| **Expenses:** | | | | |
| Interest and Capital Lease Expense | 263 | 494 | 811 | 1,499 |
| Hotel Operating Expenses | 1,140 | 2,028 | 3,199 | 6,439 |
| Hotel Ground Rent | - | - | - | 85 |
| Real Estate and Personal Property Taxes and Property Insurance | 171 | 181 | 466 | 711 |
| Depreciation and Amortization | 211 | 274 | 794 | 1,041 |
| **Total Expenses** | 1,785 | 2,977 | 5,270 | 9,775 |
| | | | | |
| Income from Discontinued Operations before Minority Interest | 119 | 273 | 127 | 488 |
| Allocation to Minority Interest | 13 | 33 | 14 | 60 |
| | | | | |
| **Income from Discontinued Operations** | $ 106 | $ 240 | $ 113 | $ 428 |

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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES**
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**NOTE 13 — SUBSEQUENT EVENTS**

On October 1, 2007, HHLP acquired the remaining 20% of the limited partnership interests in Affordable Hospitality Associates, LP, the owner of the Hampton Inn, Philadelphia, PA for approximately $4,200. Consideration was paid in the form of 406,877 units of limited partnership interest of HHLP at a per unit value of $10.23. The 20% interest was acquired from entities that are owned in part by certain executives and affiliated trustees of the Company. Prior to September 30, 2007, the operating results and the financial position of the Hampton Inn, Philadelphia, PA were included in our consolidated statement of operations and our consolidated balance sheet as a consolidated joint venture with the sellers interest recorded as minority interest.

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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 September 30, 2007, we owned interests in 73 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 September 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 54 wholly owned hotels and four hotels owned through joint venture interests that are consolidated in our financial statements for the three and nine months ended September 30, 2007 and 2006.

**CONSOLIDATED HOTELS:**

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **% Variance** | **2007** | **2006** | **% Variance** |
| Rooms Available | 576,381 | 383,359 | 50.4% | 1,671,000 | 1,070,206 | 56.1% |
| Rooms Occupied | 462,994 | 303,466 | 52.6% | 1,258,096 | 790,016 | 59.2% |
| Occupancy | 80.33% | 79.16% | 1.5% | 75.29% | 73.82% | 2.0% |
| | $ 134.91 | $ 121.10 | 11.4% | $ 129.47 | $ 114.26 | 13.3% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Average Daily Rate (ADR) | | | | | | | | | |
| Revenue Per Available Room (RevPAR) | $ | 108.37 | $ | 95.86 | 13.1% | $ | 97.48 | $ | 84.35 | 15.6% |
| | | | | | | | | | | |
| Room Revenues | $ | 62,463,746 | $ | 36,748,585 | 70.0% | $ | 162,885,593 | $ | 90,270,080 | 80.4% |
| Total Revenues | $ | 65,608,796 | $ | 39,002,366 | 68.2% | $ | 171,984,264 | $ | 97,692,959 | 76.0% |
| Discontinued Assets | $ | 1,904,492 | $ | 3,250,073 | -41.4% | $ | 5,396,551 | $ | 10,262,728 | -47.4% |

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The following table outlines operating results for the three and nine months ended September 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 September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Variance | 2007 | 2006 | % Variance |
| Rooms Available | 242,328 | 234,600 | 3.3% | 712,014 | 657,919 | 8.2% |
| Rooms Occupied | 187,533 | 170,955 | 9.7% | 510,990 | 470,426 | 8.6% |
| Occupancy | 77.39% | 72.87% | 6.2% | 71.77% | 71.50% | 0.4% |
| Average Daily Rate (ADR) | $ 146.53 | $ 137.85 | 6.3% | $ 142.41 | $ 133.36 | 6.8% |
| Revenue Per Available Room (RevPAR) | $ 113.40 | $ 100.45 | 12.9% | $ 102.20 | $ 95.35 | 7.2% |
| Room Revenues | $ 27,479,930 | $ 23,566,631 | 16.6% | $ 72,769,965 | $ 62,735,207 | 16.0% |
| Total Revenues | $ 34,838,518 | $ 30,440,272 | 14.4% | $ 95,355,765 | $ 84,212,917 | 13.2% |

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

***Revenues***

Our total revenues for the three months ended September 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 $26,607, or 68.2%, from $39,002 for the three months ended September 30, 2006 to $65,609 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 13 consolidated hotels since September 30, 2006:

| Brand | Location | Acquisition Date | Rooms |
|---|---|---|---|
| Holiday Inn | Norwich, CT | 7/1/2007 | 134 |
| Independent | 373 Fifth Avenue, New York, NY | 6/1/2007 | 70 |
| Hampton Inn | Seaport, NY | 2/1/2007 | 65 |
| Holiday Inn Express | Chester, NY | 1/25/2007 | 80 |
| Residence Inn | Carlisle, PA | 1/10/2007 | 78 |
| Residence Inn | Langhorne, PA | 1/8/2007 | 100 |

| | | | |
|---|---|---|---|
| Summerfield Suites | White Plains, NY | 12/28/2006 | 159 |
| Summerfield Suites | Bridgewater, NJ | 12/28/2006 | 128 |
| Summerfield Suites | Gaithersburg, MD | 12/28/2006 | 140 |
| Summerfield Suites | Pleasant Hill, CA | 12/28/2006 | 142 |
| Summerfield Suites | Pleasanton, CA | 12/28/2006 | 128 |
| Summerfield Suites | Scottsdale, AZ | 12/28/2006 | 164 |
| Summerfield Suites | Charlotte, NC | 12/28/2006 | 144 |
| | | | 1,532 |

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Revenues for all 13 hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the three months ended September 30, 2007 included revenues for a full quarter related to the following 4 hotels that were purchased during the three months ended September 30, 2006:

| Brand | Location | Acquisition Date | Rooms |
|---|---|---|---|
| Courtyard | Alexandria, VA | 9/29/2006 | 203 |
| Hampton Inn | Farmingville, NY | 9/6/2006 | 161 |
| Holiday Inn Express | Hauppauge, NY | 9/1/2006 | 133 |
| Residence Inn | Norwood, MA | 7/27/2006 | 96 |
| | | | |
| | | | 593 |

We invest in hotel development projects by providing secured first mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income is earned on our development loans at rates of 10.0% to 13.5%. Interest income from development loans receivable was $1,379 the three months ended September 30, 2007 compared to $839 for the same period in 2006. The average balance of development loans receivable outstanding during the three months ended September 30, 2006 was lower than the average balance outstanding during the same period in 2007 resulting in a $540 increase in interest income.

In June and July of 2006 we acquired two parcels of land which are being leased to hotel developers. On June 11, 2007 and July 11, 2007, we acquired two adjacent parcels of land which are being leased to a hotel developer that is owned in part by certain executives and affiliated trustees of the Company.  Our net investment in these parcels is approximately $23,366. The land is leased to hotel developers at a minimum rental rate of 10% of our net investment in the land. Additional rents are paid by the lessee for the principal and interest on the mortgage, real estate taxes and insurance. During the three months ended September 30, 2007, we recorded $1,324 in land lease revenue from these parcels. We incurred $741 in expense related to these land leases resulting in a contribution of $583 to our operating income during the three months ended September 30, 2007.  Land leases contributed $408 to our operating income during the three months ended September 30, 2006.

Total revenues for the three months ended September 30, 2007 also included hotel lease revenue for the lease of the Holiday Inn Conference Center, New Cumberland, PA which has a fixed rent over the five year term. Beginning on July 1, 2006 this hotel was leased to an unrelated party. Prior to July 1, 2006, this hotel was leased to our wholly owned TRS and operating revenues and expenses of the hotel were recorded in hotel operating revenue and hotel operating expenses.  Hotel lease revenue of $254 and $137 was recorded related to the lease of this property during the three months ended September 30, 2007 and September 30, 2006, respectively.

Other revenue consists primarily of fees earned for asset management services provided to certain properties owned by our unconsolidated joint ventures.

***Expenses***

Total hotel operating expenses increased 65.7% to approximately $35,794 for the three months ended September 30, 2007 from $21,598 for the three months ended September 30, 2006. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable

period in 2006, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization from $4,983 for the three months ended September 30, 2006 to $8,905 for the three months ended September 30, 2007. Similarly, real estate and personal property tax and property insurance increased $1,302, or 83.5%, in the three months ended September 30, 2007 when compared to the same period in 2006.

General and administrative expense increased by approximately $339 from $1,350 for the nine months ended September 30, 2006 to $1,689 during the same period in 2007. The increase in general and administrative expense is due primarily to an increase in compensation costs related to increasing resources dedicated to our asset management, acquisition and finance functions.

***Unconsolidated Joint Venture Investments***

Income from unconsolidated joint venture investments decreased $93 from $1,773 for the three months ended September 30, 2006 to $1,680 for the three months ended September 30, 2007. On September 28, 2006 we acquired the remaining 66.7% interest in the joint venture that owned the Hampton Inn-Chelsea, New York, NY. Prior to acquiring the remaining interest in this hotel, we owned a 33.3% interest and income was recorded in income from investments in unconsolidated joint ventures. After this acquisition, results of operations of this hotel property were included in our consolidated hotel operating results. Offsetting the impact of acquiring the remaining interest in the Hampton Inn Chelsea is the acquisition of an unconsolidated joint venture interest in the 228 room Holiday Inn Express – Madison Square Garden, New York, NY. Income from unconsolidated joint venture investments during the three months ended September 30, 2007 was also favorably impacted by the continued stabilization of these properties which were newly constructed when acquired.

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***Net Income***

Net income applicable to common shareholders for the three months ended September 30, 2007 was approximately $7,296 compared to net income applicable to common shareholders of $4,580 for the same period in 2006.

Operating income for the three months ended September 30, 2007 was $18,630 compared to operating income of $10,876 during the same period in 2006. The $7,754 increase in operating income resulted from improved performance of our portfolio and acquisitions that have increased the scale of our operations enabling us to leverage the absorption of administrative costs.

The increase in our operating income was partially offset by increases in interest expense, which increased $3,984 from $6,693 for the three months ended September 30, 2006 to $10,677 for the three months ended September 30, 2007. The increase in interest expense is the result of mortgages placed on newly acquired properties and increased average balances on our line of credit.

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

***Revenues***

Our total revenues for the nine months ended September 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 $74,291, or 76.0%, from $97,693 for the nine months ended September 30, 2006 to $171,984 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. As noted above, we acquired interests in 13 consolidated hotels since September 30, 2006. Revenues for all 13 hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the nine months ended September 30, 2007 included revenues for the full period related to the following 15 hotels that were purchased during the nine months ended September 30, 2006:

| Brand | Location | Acquisition Date | Rooms |
|---|---|---|---|
| Courtyard | Alexandria, VA | 9/29/2006 | 203 |
| Hampton Inn | Farmingville, NY | 9/6/2006 | 161 |
| Holiday Inn Express | Hauppauge, NY | 9/1/2006 | 133 |
| Residence Inn | Norwood, MA | 7/27/2006 | 96 |
| Holiday Inn Express | Cambridge, MA | 5/3/2006 | 112 |
| Residence Inn | North Dartmouth, MA | 5/1/2006 | 96 |
| Comfort Inn | North Dartmouth, MA | 5/1/2006 | 84 |
| Hawthorne Suites | Franklin, MA | 4/25/2006 | 100 |
| Hilton Garden Inn | JFK Airport, NY | 2/16/2006 | 188 |
| Hampton Inn | Philadelphia, PA | 2/15/2006 | 250 |
| Residence Inn | Tysons Corner, VA | 2/2/2006 | 96 |
| Courtyard | Scranton, PA | 2/1/2006 | 120 |
| Courtyard | Langhorne, PA | 1/3/2006 | 118 |
| Fairfield Inn | Mt. Laurel, NJ | 1/3/2006 | 118 |
| Fairfield Inn | Bethlehem, PA | 1/3/2006 | 103 |

| | |
|---|---|
| | 1,978 |

We invest in hotel development projects by providing secured first mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income is earned on our development loans at rates of 10.0% to 13.5%. Interest income from development loans receivable was $4,013 for the nine months ended September 30, 2007 compared to $1,562 for the same period in 2006. The average balance of development loans receivable outstanding during the nine months ended September 30, 2006 was lower then the average balance outstanding during the same period in 2007 resulting in a $2,451 increase in interest income.

In June and July of 2006 we acquired two parcels of land which are being leased to hotel developers. On June 11, 2007 and July 11, 2007, we acquired two adjacent parcels of land which are being leased to a hotel developer that is owned in part by certain executives and affiliated trustees of the Company. Our net investment in these parcels is approximately $23,366. The land is leased to hotel developers at a minimum rental rate of 10% of our net investment in the land. Additional rents are paid by the lessee for the principal and interest on the mortgage, real estate taxes and insurance. During the nine months ended September 30, 2007, we recorded $3,529 in land lease revenue from these parcels. We incurred $1,974 in expense related to these land leases resulting in a contribution of $1,555 to our operating income during the nine months ended September 30, 2007. Land leases contributed $408 to our operating income during the nine months ended September 30, 2006.

Total revenues for the nine months ended September 30, 2007 also included hotel lease revenue for the lease of the Holiday Inn Conference Center, New Cumberland, PA which has a fixed rent over the five year term. Beginning on July 1, 2006 this hotel was leased to an unrelated party. Prior to July 1, 2006, this hotel was leased to our wholly owned TRS and operating revenues and expenses of the hotel were recorded in hotel operating revenue and hotel operating expenses. Hotel lease revenue of $586 and $137 was recorded related to the lease of this property during the nine months ended September 30, 2007 and September 30, 2006, respectively.

Other revenue consists primarily of fees earned for asset management services provided to certain properties owned by our unconsolidated joint ventures.

***Expenses***

Total hotel operating expenses increased 70.9% to approximately $97,348 for the nine months ended September 30, 2007 from $56,964 for the nine months ended September 30, 2006. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2006, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization from $12,879 for the nine months ended September 30, 2006 to $25,123 for the nine months ended September 30, 2007. Similarly, real estate and personal property tax and property insurance increased $4,202, or 101.2%, in the nine months ended September 30, 2007 when compared to the same period in 2006.

General and administrative expense increased by approximately $1,195 from $4,326 for the nine months ended September 30, 2006 to $5,521 during the same period in 2007. General and administrative expenses increased primarily due to higher compensation expense related to increasing resources dedicated to our asset management, acquisition and finance functions. This increase in cost has been partially offset by the reduction in costs related to enhancing our process to evaluate internal controls that were incurred during the nine months ended September 30, 2006.

***Unconsolidated Joint Venture Investments***

Income from unconsolidated joint venture investments increased $1,152 from $1,432 for the nine months ended September 30, 2006 to $2,584 for the nine months ended September 30, 2007. Income from unconsolidated joint venture investments during the nine months ended September 30, 2007 was favorably impacted by the continued stabilization of these properties which were newly constructed when acquired. We have acquired interests in one unconsolidated joint venture since September 30, 2006 and we acquired joint venture interests in two properties during the nine months ended September 30, 2006. Partially, offsetting the increase in income from unconsolidated joint ventures caused by acquisition of joint venture interests, was the impact of the acquisition of the remaining interest in Hampton Inn-Chelsea, New York, NY. On September 28, 2006 we acquired the remaining 66.7% interest in the joint venture that owned the Hampton Inn-Chelsea, New York, NY. Prior to acquiring the remaining interest in this hotel, we owned a 33.3% interest and income was recorded in income from investments in unconsolidated joint

ventures. After this acquisition, results of operations of this hotel property were included in our consolidated hotel operating results.

***Net Income***

Net income applicable to common shareholders for the nine months ended September 30, 2007 was approximately $8,454 compared to $1,672 for the same period in 2006.

Operating income for the nine months ended September 30, 2007 was $41,735 compared to operating income of $21,435 during the same period in 2006. The $20,300 increase in operating income resulted from improved performance of our portfolio and acquisitions that have increased the scale of our operations enabling us to leverage the absorption of administrative costs.

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The increase in our operating income was partially offset by increases in interest expense, which increased $13,720 from $17,694 for the nine months ended September 30, 2006 to $31,414 for the nine months ended September 30, 2007. As noted above, the increase in interest expense is the result of mortgages placed on newly acquired properties and increased average balances on our line of credit. Also in the nine months ended September 30, 2006, we refinanced $56,125 in variable rate debt, replacing it with $62,800 of fixed rate debt, and replaced our line of credit with a more flexible and expanded credit facility. As a result of terminating the variable rate debt and line of credit, we incurred $1,163 in debt extinguishment expense due to early termination fees and to write-off deferred loan costs associated with the retired debt and credit facility.

***Liquidity and Capital Resources***

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our line of credit. We believe that the net cash provided by operations will be adequate to fund the Company's operating requirements, debt service and the payment of dividends in accordance with REIT requirements of the federal income tax laws. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and property acquisitions, through long-term secured and unsecured borrowings, the issuance of additional equity securities or, in connection with acquisitions of hotel properties, the issuance of units of operating partnership interest in our operating partnership subsidiary.

We maintain a revolving credit loan and security agreement with Commerce Bank, N.A. with a maximum amount of $100,000 and interest rate terms, at our discretion, 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%. The line of credit is collateralized by a first lien-security interest in all existing and future assets of HHLP, and title-insured, first-lien mortgages on certain hotel properties and collateral assignment of all hotel management contracts from which HHLP or its affiliates derive revenue. The line of credit includes certain financial covenants and requires that we maintain (1) a minimum tangible net worth of $110.0 million; (2) a maximum accounts and other receivables from affiliates of $75.0 million; and (3) certain financial ratios. The Company is in compliance with each of these covenants as of September 30, 2007.

We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. Our bylaws require the approval by a majority of our Board of Trustees, including a majority of the independent trustees, to acquire any additional hotel in which one of our affiliated trustees or officers, or any of their affiliates, has an interest (other than solely as a result of his status as our trustee, officer or shareholder). We expect that future investments in hotels will depend on and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of common shares, issuances of operating partnership units or other securities or borrowings. We make available to the TRS of our hotels 4% (6% for full service properties) of gross revenues per quarter, on a cumulative basis, for periodic replacement or refurbishment of furniture, fixtures and equipment at each of our hotels. We believe that a 4% (6% for full service hotels) reserve is a prudent estimate for future capital expenditure requirements. We intend to spend amounts in excess of the obligated amounts if necessary to comply with the reasonable requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be in our best interests. We are also obligated to fund the cost of certain capital improvements to our hotels. We will use undistributed cash or borrowings under credit facilities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above.

***Cash Flow Analysis***

Net cash provided by operating activities for the nine months ended September 30, 2007 and 2006 was $37,722 and $18,019, respectively. The increase in net cash provided by operating activities was primarily the result of an increase

in income before depreciation and amortization, a decrease in due from related parties and an increase in accounts payable and accrued expenses. The increase in net cash provided by income before depreciation and amortization was partially offset by an increase in hotel accounts receivable and other assets.

Net cash used in investing activities for the nine months ended September 30, 2007 decreased $165,024 from $231,307 in the nine months ended September 30, 2006 compared to $66,283 for the nine months ended September 30, 2007. Net cash used for the purchase of hotel properties decreased $193,198 in 2007 over 2006. Offsetting this decrease in cash used to invest in hotel properties is an increase in net cash used to invest in development loans receivables in 2007, which increased by $22,634 over the same period in 2006. We also increased our capital expenditures from $8,029 in 2006 to $11,874 in 2007 as a result of continuing property improvement plans at certain properties in 2007 that began in the second half of 2006 in addition to capital expenditures in the ordinary course of business. Cash provided by the repayment of notes receivable decreased $1,809 from $1,843 during the nine months ended September 30, 2006 to $34 for the nine months ended September 30, 2007. The sale of a hotel asset held for sale during the nine months ended September 30, 2006 provided $3,665 in proceeds. No hotel assets were sold during the same period in 2007.

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Net cash provided by financing activities for the nine months ended September 30, 2007 was $28,525 compared to cash provided by financing activities of $220,781 for the nine months ended September 30, 2006. This decrease was, in part, the result of proceeds from mortgages and notes payable, net of repayments, of $9,156 in 2007 compared to net proceeds of $98,311 in 2006. Net cash provided by borrowing under our line of credit facility was $37,768 in 2006 compared to $48,100 in 2007. Net borrowings under the line of credit were used in 2007 and 2006 to fund the acquisition of hotel properties. Also, proceeds from common stock issuances during the nine months ended September 30, 2006 were $103,357. As a result of this issuance and other issuance during the year ended December 31, 2006, our cash used to pay dividends to common shareholders increased $10,424 during the nine months ended September 30, 2007. We did not have a common stock issuance during the first nine months of 2007.

**Funds From Operations**

The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Partnership units in accordance with the April 2002 National Policy Bulletin of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated assets, plus certain non-cash items, such as depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shares, includes depreciation and amortization expenses, gains or losses on property sales, minority interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations.

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of Hersha's performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Partnership units because our Partnership units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Partnership units.

The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods.

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*(dollars in thousands)*

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| Net income applicable to common shares | $ 7,296 | $ 4,580 | $ 8,454 | $ 1,672 |
| Income allocated to minority interest | 1,379 | 859 | 1,554 | 525 |
| Income from discontinued operations allocated to minority interest | 13 | 33 | 14 | 60 |
| Income from unconsolidated joint ventures | (1,680) | (1,773) | (2,584) | (1,432) |
| Gain on sale of assets | - | - | - | (436) |
| Depreciation and amortization | 8,905 | 4,983 | 25,123 | 12,879 |
| Depreciation and amortization from discontinued operations | 211 | 274 | 794 | 1,041 |
| FFO related to the minority interests in consolidated joint ventures (1) | (450) | (121) | (562) | (292) |
| **Funds from consolidated hotel operations applicable to common shares and Partnership units** | 15,674 | 8,835 | 32,793 | 14,017 |
| | | | | |
| Income from Unconsolidated Joint Ventures | 1,680 | 1,773 | 2,584 | 1,432 |
| Add: | | | | |
| Depreciation and amortization of purchase price in excess of historical cost (2) | 588 | 447 | 1,532 | 1,368 |
| Interest in depreciation and amortization of unconsolidated joint venture (3) | (1,245) | 869 | 1,757 | 3,270 |
| **Funds from unconsolidated joint ventures operations applicable to common shares and Partnership units** | 1,023 | 3,089 | 5,873 | 6,070 |
| | | | | |
| **Funds from Operations applicable to common shares and Partnership units** | $ 16,697 | $ 11,924 | $ 38,666 | $ 20,087 |
| | | | | |
| Weighted Average Common Shares and Units Outstanding | | | | |
| Basic | 46,903,597 | 32,137,978 | 45,803,327 | 28,219,775 |
| Diluted | 47,220,803 | 32,280,729 | 46,024,039 | 28,322,839 |

(1) Adjustment made to deduct FFO related to the minority interest in our consolidated joint ventures. Represents the portion of net income and depreciation allocated to our joint venture partners.

(2) Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.

(3) Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures. Allocation of depreciation and amortization is consistent with allocation of income and loss.

FFO was $16,697 the three month period ended September 30, 2007, which was an increase of $ 4,773 over FFO in the comparable period in 2006. FFO was $38,666 for the nine month period ended September 30, 2007, which was an

increase of $18,579 over FFO in the comparable period in 2006. The increase in FFO was primarily a result of a strengthened economy; the benefits of acquiring assets and interests in joint ventures; continued stabilization and maturation of the existing portfolio; and continued attention to the average daily rate.

FFO was negatively impacted by increases in our interest expense during the three and nine months ended September 30, 2007.

**Critical Accounting Policies**

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2007 and 2006, and none of the estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods.  See our Annual Report on Form 10-K for the year ended December 31, 2006 for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

**Subsequent Events**

On October 1, 2007, HHLP acquired the remaining 20% of the limited partnership interests in Affordable Hospitality Associates, LP, the owner of the Hampton Inn, Philadelphia, PA for approximately $4,200.  Consideration was paid in the form of 406,877 units of limited partnership interest of HHLP at a per unit value of $10.23. The 20% interest was acquired from entities that are owned in part by certain executives and affiliated trustees of the Company.  Prior to September 30, 2007, the operating results and the financial position of the Hampton Inn, Philadelphia, PA was included in our consolidated statement of operations and our consolidated balance sheet as a consolidated joint venture with the sellers interest record as minority interest.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**
**(dollars in thousands, except per share data)**

Our primary market risk exposure is to changes in interest rates on our variable rate Line of Credit and other floating rate debt. At September 30, 2007, we maintained a balance of $72,100 under our Line of Credit. The total floating rate mortgages payable of $60,397 had a current weighted average interest rate of 7.87% as of September 30, 2007. The total fixed rate mortgages and notes payable of $576,890 had a current weighted average interest rate of 6.20%.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We may enter into derivative financial instruments such as interest rate swaps or caps and treasury options or locks to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. Currently, we have one interest rate swap related to debt on the Four Points by Sheraton, Revere, MA and one interest rate cap related to debt on the Hotel 373, New York, New York. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

Approximately 90.5% of our outstanding mortgages payable are subject to fixed rates, including the debt whose rate is fixed through a derivative instrument, while approximately 9.5% of our outstanding mortgages payable are subject to floating rates. The total weighted average interest rate on our debt and Line of Credit as of September 30, 2007 was approximately 6.47%. If the interest rate for our Line of Credit and other variable rate debt was 100 basis points higher or lower during the period ended September 30, 2007, our interest expense for the three and nine month period ended September 30, 2007 would have been increased or decreased by approximately $294 and $910, respectively.

Changes in market interest rates on our fixed-rate debt impact the fair value of the debt, but it has no impact on interest incurred for cash flow. If interest rates raise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease, the same way the price of a bond declines as interest rates rise. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their September 30, 2007 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in the fair value of our fixed-rate debt approximating $513,500, and a 100 basis point decrease in market interest rates would result in the fair value of our fixed-rate debt approximating $622,006.

We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. For debt obligations outstanding at September 30, 2007, the following table presents expected principal repayments and related weighted average interest rates by expected maturity dates (in thousands):

| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Mortgages & Notes Payable | | | | | | | |
| Fixed Rate Debt | $ 805 | $ 21,609 | $ 29,900 | $ 24,488 | $ 6,765 | $ 493,323 | $ 576,890 |
| Average Interest Rate | 6.20% | 6.20% | 6.18% | 6.07% | 6.07% | 6.07% | 6.13% |
| | | | | | | | |
| Floating Rate Debt | 107 | 489 | 50,157 | 7,031 | 182 | 2,431 | 60,397 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Average Interest Rate | 7.55% | 7.56% | 7.23% | 7.79% | 7.79% | 7.79% | 7.62% |
| | 912 | 22,098 | 80,057 | 31,519 | 6,947 | 495,754 | 637,287 |
| | | | | | | | |
| Credit Facility (1) | - | 72,100 | - | - | - | - | 72,100 |
| Average Interest Rate | | 7.00% | | | | | |
| Total | $ 912 | $ 94,198 | $ 80,057 | $ 31,519 | $ 6,947 | $ 495,754 | $ 709,387 |

(1) Our Credit Facility has a term that expires in December 2008.

The table incorporates only those exposures that existed as of September 30, 2007 and does not consider exposure or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the future period, prevailing interest rates, and our hedging strategies at that time.

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**Item 4. Controls and Procedures.**

Based on the most recent evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2007. There were no changes to the Company's internal controls over financial reporting during the three and nine months ended September 30, 2007, that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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**PART II.OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Default Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

(a) Exhibits Required by Item 601 of Regulation S-K.

10.1 Contribution Agreement, dated as of July 1, 2007, by and among Hersha Norwich Associates, LLC; Kirit Patel; Ashwin Shah; K&D Investment Associates, LLC and Hersha Hospitality Limited Partnership and 44 Norwich Manager, LLC. (filed as Exhibit 10.1 to the Current Report on Form 8-K filed July 3, 2007 (SEC File No. 001-14765) and incorporated by reference herein).

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HERSHA HOSPITALITY TRUST
(Registrant)

November 9, 2007

/s/ Ashish R. Parikh
Ashish R. Parikh
Chief Financial Officer