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HERSHA HOSPITALITY TRUST
Form 10-Q/A
March 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QA

(Mark One)

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

For the quarterly period ended June 30, 2002
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
(State or Other Jurisdiction of
Incorporation or Organization)

251811499
(I.R.S. Employer
Identification No.)

148 SHERATON DRIVE, BOX A
NEW CUMBERLAND, PENNSYLVANIA 17070
(Address of Registrant's Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (717) 770-2405

Indicate by check mark whether the registrant (1) 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 (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of June 30, 2002, the number of outstanding Priority Class A Common Shares of Beneficial Interest outstanding was 2,575,459.

HERSHA HOSPITALITY TRUST

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REPORT OF INDEPENDENT ACCOUNTANT

To the Shareholders and Board of Trustees of
Hersha Hospitality Trust
New Cumberland, Pennsylvania

We have reviewed the accompanying consolidated balance sheet of Hersha Hospitality Trust and Subsidiaries as of June 30, 2002, and the related consolidated statements of operations and consolidated statements of cash flows for the three and six month periods ended June 30, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management.

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We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended [not presented herein]; and in our report dated March 8, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

MOORE STEPHENS, P.C.
Certified Public Accountants.

New York, New York
August 1, 2002

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS [IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	JUNE 30, ----- 2002 ----- [UNAUDITED] -----	DECEMBER 31, ----- 2001 -----
ASSETS:		
Cash and cash equivalents	\$ 173	\$ 167
Investment in Hotel Properties, Net of Accumulated Depreciation	89,587	88,100
Escrow and Lease Deposits	1,862	1,647
Lease Payments Receivable - Related Party	3,275	2,376
Intangibles, Net of Accumulated Amortization	810	1,515
Due from Related Party	2,083	1,884
Other Assets	445	328
	-----	-----
TOTAL ASSETS	\$ 98,235	\$ 96,017

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	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Lines of Credit	\$ 9,124	\$ 7,058
Deposits Payable	1,000	1,000
Mortgages Payable	53,388	54,477
Dividends Payable	1,378	1,325
Due to Related Party	1,242	1,093
Accounts Payable and Accrued Expenses	657	418
	-----	-----
TOTAL LIABILITIES	66,789	65,371
	-----	-----
Minority Interest	19,824	20,436
	-----	-----
Shareholders' Equity:		
Preferred Shares, \$.01 par value, 10,000 Shares authorized, None Issued and Outstanding	--	--
Common Shares - Priority Class A, \$.01 Par Value, 50,000,000 Shares Authorized, 2,575,459 and 2,275,000 Shares Issued and Outstanding at June 30, 2002 and December 31, 2001, Respectively (Aggregate Liquidation Preference \$15,453 and 13,650, Respectively)	26	23
Common Shares - Class B, \$.01 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding at June 30, 2002 and December 31, 2001, Respectively	--	--
Additional Paid-in Capital	13,669	11,968
Distributions in Excess of Net Earnings	(2,073)	(1,781)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	11,622	10,210
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 98,235	\$ 96,017
	=====	=====

The Accompanying Notes Are an Integral Part of This Consolidated Financial Statement.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2002 AND 2001 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	THREE MONTHS ENDED	SIX MONTHS ENDED
	JUNE 30,	JUNE 30,
	2002	2001
	2002	2001
REVENUE:	-----	-----

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Percentage Lease Revenues - HHMLP	\$ 3,275	\$ 2,693	\$ 5,494	\$ 4,747
Percentage Lease Revenues - Other	700	700	1,400	1,400
Interest - Related Party	63	26	113	51
Other Revenue	1	5	4	18
	-----	-----	-----	-----
TOTAL REVENUE	4,039	3,424	7,011	6,216
EXPENSES:				
Interest expense	1,237	1,262	2,477	2,566
Land Lease - Related Party	-	4	-	8
Real Estate and Personal Property				
Taxes and Property Insurance	268	247	513	461
General and Administrative	207	146	359	280
Loss on Disposition of Hotel Properties	-	12	-	12
Depreciation and Amortization	1,055	978	2,076	2,022
	-----	-----	-----	-----
TOTAL EXPENSES	2,767	2,649	5,425	5,349
	-----	-----	-----	-----
INCOME BEFORE MINORITY INTEREST AND DISCONTINUED OPERATIONS	1,272	775	1,586	867
INCOME ALLOCATED TO MINORITY INTEREST	964	540	968	540
INCOME FROM DISCONTINUED OPERATIONS	-	10	-	34
	-----	-----	-----	-----
NET INCOME	\$ 308	\$ 245	\$ 618	\$ 361
	=====	=====	=====	=====
EARNINGS PER SHARE DATA:				

Basic - before discontinued Operations	\$ 0.12	\$ 0.10	\$ 0.25	\$ 0.15
Discontinued operations	\$ -	\$ 0.01	\$ -	\$ 0.01
Basic	\$ 0.12	\$ 0.11	\$ 0.25	\$ 0.16
Diluted - before discontinued operations	\$ 0.12	\$ 0.10	\$ 0.21	\$ 0.11
Discontinued operations	\$ -	\$ 0.01	\$ -	\$ 0.01
Diluted	\$ 0	\$ 0.11	\$ 0.21	\$ 0.12
WEIGHTED AVERAGE SHARES:				
Basic	2,575,459	2,275,000	2,462,220	2,275,000
Diluted	7,675,181 (1)	7,229,172 (1)	7,561,942 (1)	7,238,313

(1) Includes 5,099,722 and 5,071,840 units at June 30, 2002 and 2001, respectively, that are redeemable on a one-for-one basis for Class B common shares.

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JUNE 30, 2002 AND 2001[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	SIX MONTHS ENDED JUNE 30, 2002	2001
	-----	-----
OPERATING ACTIVITIES:		
Net Income	\$ 618	\$ 361
	-----	-----
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,076	2,203
Income Allocated to Minority Interest	968	540
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Lease and Escrow Deposits	(215)	(203)
Lease Payments Receivable - Related Party	(899)	(365)
Other Assets	(117)	(115)
Due from Related Party	(199)	(273)
Increase (Decrease):		
Due to Related Parties	149	(345)
Accounts Payable and Accrued Expenses	239	170
	-----	-----
Total Adjustments	2,002	1,612
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,620	1,973
INVESTING ACTIVITIES:		
Purchase of Hotel Property Assets	(2,241)	(2,987)
Sale of Hotel Property Assets	-	8,826
Purchase of Intangible Assets	-	(35)
	-----	-----
NET CASH (USED) IN INVESTING ACTIVITIES	(2,241)	5,804
FINANCING ACTIVITIES:		
Proceeds from Borrowings Under Line of Credit	7,053	2,577
Repayment of Borrowings Under Line of Credit	(4,987)	(5,580)
Cash Received from Stock Sales	1,700	-
Principal Repayment of Mortgages Payable	(451)	(325)
Dividends Paid	(856)	(819)
Limited Partnership Unit Distributions Paid	(1,833)	(1,694)
Repayment of Related Party Loans	-	(1,936)
Loans to Related Party	(1,000)	-
	-----	-----
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	(374)	(7,777)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5	-
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	168	-
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 173	\$ -
	=====	=====

The Accompanying Notes Are an Integral Part of This Consolidated Financial Statement.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND
2001 [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]
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SIX MONTHS ENDED JUNE 30, -----	
2002	2001
----	----

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: -----

CASH PAID DURING THE PERIOD:

Interest	\$2,496	\$2,690
----------	---------	---------

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of January 1, 2001, we issued an additional 531,559 units of limited partnership interest in connection with the repricing of the Holiday Inn Express, Hershey, Hampton Inn, Carlisle, Holiday Inn Express, New Columbia and the Comfort Inn, Harrisburg. The total number of units outstanding as of January 1, 2001 was 4,972,555.

On April 1, 2001, we sold the Best Western, Indiana for \$2,200 to some of our executive officers, trustees and their affiliates. In conjunction with this transaction, we received cash proceeds of \$400 and redeemed 76,252 limited partnership units valued at \$457. The buyer also assumed the outstanding mortgage balance of \$1,342.

On May 1, 2001, we sold the Comfort Inn, Denver for \$2,100 to an unrelated third party. Net of settlement fees and other costs, we received \$1,868. In conjunction with this transaction, we received cash proceeds of \$460 and have paid down the outstanding mortgage balance of \$1,408 to Shreenathji Enterprises, Ltd., a related party.

On June 1, 2001, we sold the Comfort Inn, JFK for \$7,000 to an unrelated third party. Net of settlement fees and other costs, we received cash proceeds of \$6,613. Based upon the initial repricing formula, we issued an additional 175,538 limited partnership units in conjunction with this transaction.

On June 1, 2001, we purchased the Mainstay Suites and Sleep Inn in King of Prussia from some of our executive officers, trustees and their affiliates. We purchased these assets for \$9,445 plus settlement costs and leased them to Hersha Hospitality Management, LP ("HHMLP"). In conjunction with this transaction, we assumed the mortgage indebtedness of \$6,738, assumed \$1,000 of related party debt and funded the remainder of the proceeds of \$1,768 from our available cash and outstanding line of credit.

On November 1, 2001, we purchased the Holiday Inn Express hotel located in Long Island City, New York. We purchased this asset for \$8,500 plus settlement costs of approximately \$100 and leased it to HHMLP. In conjunction with this transaction, we assumed the mortgage indebtedness of approximately \$5,445, assumed \$1,000 of related party debt, issued additional units for \$459 and paid cash of approximately \$1,600.

On November 1, 2001, we sold the Comfort Inn, McHenry, MD to some of our executive officers, trustees and their affiliates for approximately \$1,800, including the assumption of approximately \$1,180 in indebtedness, redemption of 55,175 limited partnership units valued at approximately \$331 and cash proceeds

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of approximately \$300.

On November 1, 2001, we sold the Comfort Inn, Riverfront, Harrisburg, PA to some of our executive officers, trustees and their affiliates for \$3,400 net of selling costs, including the assumption of approximately \$2,500 in indebtedness and approximately \$900 in cash.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED

JUNE 30, 2001 AND 2000 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

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On November 1, 2001, we sold the Holiday Inn, Milesburg, PA to a third party owner operator for approximately \$4,700 less broker fees, settlement and transfer costs of \$617. Net of these fees and expenses we received cash proceeds of \$3,926 and paid down a related party loan receivable of \$157.

As of January 1, 2002, we issued an aggregate of 333,541 additional operating partnership units in connection with the re-pricing of the Holiday Inn Express & Suites, Harrisburg, the Hampton Inn, Danville and the Hampton Inn & Suites, Hershey, Pennsylvania. The total number of units outstanding as of January 1, 2002 was 5,099,722.

The Board of Trustees approved the purchase of the Mainstay Suites, Frederick, Maryland, on February 27, 2002 to be effective January 1, 2002. We purchased this asset for \$5,500 plus settlement costs of approximately \$21 and leased it to HHMLP. In conjunction with this transaction, we assumed mortgage indebtedness of approximately \$3.1 million, assumed \$800 of related party debt, and paid cash of approximately \$1,600. The financial position and results of operations related to the Mainstay Suites, Frederick, Maryland are included as of January 1, 2002.

Further, on February 27, 2002, the Board of Trustees also approved the sale of the Sleep Inn, Corapolis, Pennsylvania to some of our executive officers, trustees and their affiliates to be effective as of January 1, 2002. We sold this asset for \$5,500, including the assumption of approximately \$3,500 in indebtedness and the redemption of 327,038 limited partnership units valued at approximately \$2,000. We initially purchased this property from these executive officers, trustees and their affiliates as of October 1, 2000 for \$5,500, including 327,038 limited partnership units. This transaction has been accounted for as of January 1, 2002.

During the quarter ended March 31, 2002, we issued an additional 300,000 Priority Class A Common Shares. We received gross proceeds of \$1,800. We received net proceeds of \$1,700 after selling and offering expenses.

The quarterly dividend distribution pertaining to the Class A Priority Common Shares and limited partnership units for the second quarter ended June 30, 2002 was paid on July 26, 2002, at the rate of \$0.18 per share, which represents an annualized rate of \$0.72 per annum.

The Accompanying Notes Are an Integral Part of This Consolidated Financial Statement.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[1] ORGANIZATION AND BASIS OF FINANCIAL PRESENTATION

Hersha Hospitality Trust was formed in May 1998 to acquire equity interests in ten existing hotel properties. We are a self-administered, Maryland real estate investment trust for federal income tax purposes. On January 26, 1999, we completed an initial public offering of 2,275,000 shares of \$.01 par value Priority Class A Common Shares. The offering price per share was \$6, resulting in gross proceeds of \$13,650. Net of underwriters discount and offering expenses, we received proceeds of \$11,991. During the quarter ended March 31, 2002, we issued 300,000 shares of \$.01 par value Priority Class A Common Shares. The offering price per share was \$6, resulting in gross proceeds of \$1,800. Net of selling and offering expenses, we received proceeds of \$1,700.

Upon completion of the initial public offering, we contributed substantially all of the net proceeds to Hersha Hospitality Limited Partnership [the "Partnership"] in exchange for a 36.1% general partnership interest in the Partnership. The Partnership used these proceeds to acquire an equity interest in ten hotels [the "Initial Hotels"] through subsidiary partnerships, and to retire certain indebtedness relating to these hotels. The Partnership acquired these hotels in exchange for (i) units of limited partnership interest in the Partnership which are redeemable, subject to certain limitations, for an aggregate of 4,032,431 Priority Class B Common Shares, with a value of approximately \$24.2 million based on the initial public offering, and (ii) the assumption of approximately \$23.3 million of indebtedness of which approximately \$6.1 million was repaid immediately after the acquisition of the hotels. Some of our executive officers, trustees and their affiliates [the "Hersha Affiliates"] received units of limited partnership interests in the Partnership aggregating a 63.9% equity interest in the Partnership. The Partnership owns a 99% limited partnership interest and Hersha Hospitality, LLC ["HHLLC"], a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships. The Partnership is the sole member of HHLLC.

We instituted a dividend reinvestment plan ("DRIP") for our Priority Class A Common Shares on February 13, 2002. Our DRIP provides holders of our Priority Class A Common Shares with a convenient method of purchasing additional priority common shares without payment of any brokerage commission or service charges. Any holder of record of priority common shares is eligible to participate in the plan. Participants in the plan may have cash dividends on all or a portion of their priority common shares automatically reinvested.

The purchase price of the priority common shares purchased with reinvested cash dividends will be at a price equal to 95% of the "average market price," which means the average of the close prices of our priority common shares as reported by the American Stock Exchange for each of the five (5) trading days immediately preceding the investment date as of which such purchase is made. Shareholders who do not elect to participate in the plan will continue to receive cash dividends on shares registered in their names.

As of June 30, 2002 we had issued an additional 459 Priority Class A Common Shares pursuant to the DRIP. Of the total dividends payable of \$464 at June 30, 2002, on July 26, 2002 we paid a cash dividend of \$460 and issued an additional 642 shares.

We lease 14 of our hotel facilities to Hersha Hospitality Management, LP,

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["HHMLP"], a limited partnership owned by certain members of the Hersha Affiliates. HHMLP operates and leases the hotel properties pursuant to separate percentage lease agreements that provide for initial fixed rents or percentage rents based on the revenues of the hotels. The hotels are located principally in the Mid-Atlantic region of the United States. We have also entered into percentage leases with Noble Investment Group, Ltd. ["Noble"], an independent third party management company, to lease and manage four hotels in the metropolitan Atlanta market.

Since the completion of the initial public offering, we have issued an additional 173,539 units of limited partnership interest in connection with the acquisition of the Hampton Inn, Danville, PA and 76,555 units in connection with the acquisition of the Holiday Inn Express, Long Island City. We also issued an additional 1,275,662 units of limited partnership interest in connection with final settlement of the purchase prices of several hotels and redeemed 458,465 units of limited partnership interest in connection with the sale of certain hotels. The total number of units of limited partnership interest outstanding as of June 30, 2002 and June 30, 2001, was 5,099,722 and 5,071,840, respectively.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

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[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION - Percentage lease income is recognized when earned from the Lessee under the agreements from the date of acquisition of each hotel property. Contingent rent is recognized when the contingency is met. Lease income is recognized under fixed rent agreements ratably over the lease term. All leases between us and the lessees are operating leases.

We recognize lease revenue for interim and annual reporting purposes on an accrual basis pursuant to the terms of the respective percentage leases and on an interim basis in accordance with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." Under the provisions of SAB 101, which we adopted in the fourth quarter of 2000, a portion of our percentage lease revenues, which historically were recognized in the first, second, and third quarters, are deferred and recognized in the fourth quarter. The adoption of SAB 101 impacts the interim reporting of revenues related to our leases, but has no impact on its interim cash flow or year-end results of operations.

MINORITY INTEREST - Minority interest in the Partnership represents the limited partners proportionate share of the equity of the Partnership. Income is allocated to minority interest based on weighted average percentage ownership throughout the year.

EARNINGS PER COMMON SHARE - We compute earnings per share in accordance with Statement of Financial Accounting Standards ["SFAS"] No. 128, "Earnings Per Share."

INCOME TAXES - We qualify as a real estate investment trust under Section 856 and 860 of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been reflected in the financial statements.

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IMPAIRMENT OF LONG LIVED ASSETS - We review the carrying value of each hotel property in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 to determine if circumstances exist indicating an impairment in the carrying value of the investment in the hotel property or if depreciation periods should be modified. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. We perform undiscounted cash flow analyses to determine if impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Hotel properties held for sale are presented at the lower of carrying amount or fair value less cost to sell.

RECENT ACCOUNTING PRONOUNCEMENTS - On April 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.

Statement 145 rescinds Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of any income tax effect. As a result, the criteria in Opinion No. 30 will now be used to classify those gains and losses. Statement 64 amended Statement 4 and is no longer necessary because Statement 4 has been rescinded.

Statement 145 amended Statement 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects.

This Statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice.

In June 2002 the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]
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[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements. It is not possible to quantify the impact until the newly issued statements have been studied.

On August 15, 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 will be effective for financial statements issued for fiscal years beginning after June 15, 2002. An entity shall recognize the cumulative effect of adoption of SFAS No. 143 as a change in accounting

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principle.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", collectively referred to as the "Standards". SFAS No. 141 supersedes Accounting Principles Board Opinion ("APB") No. 16, "Business Combinations". SFAS No. 141 (1) requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; (2) provides specific criteria for the initial recognition and measurement of intangible assets apart from goodwill; and (3) requires that unamortized negative goodwill be written off immediately as an extraordinary gain. SFAS No. 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001.

SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. SFAS No. 142 (1) prohibits the amortization of goodwill and indefinite-lived intangible assets; (2) requires testing of goodwill and indefinite-lived intangible assets on an annual basis for impairment (and more frequently if the occurrence of an event or circumstance indicates an impairment); (3) requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill; and (4) removes the forty-year limitation on the amortization period of intangible assets that have finite lives. The provisions of the Standards also apply to equity-method investments made both before and after June 30, 2001. SFAS No. 141 requires that the unamortized deferred credit, related to an excess over cost arising from an investment acquired prior to July 1, 2001, accounted for using the equity method (equity-method negative goodwill), must be written-off immediately and recognized as the cumulative effect of a change in accounting principle. Equity-method negative goodwill arising from equity investments made after June 30, 2001 must be written-off immediately and recorded as an extraordinary gain. We adopted SFAS No. 142 on January 1, 2002. Going forward, we will test goodwill for impairment annually or more frequently if the occurrence of an event or circumstance indicate potential impairment.

Non-amortization of goodwill during the current three and six months ended June 30, 2002 had a non-material impact on our net income, basic earnings per share and diluted earnings per share.

[3] COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

The Priority Class A Common Shares have priority as to the payment of dividends until dividends equal \$0.72 per share on a cumulative basis and shares equally in additional dividends after the Class B Common Shares have received \$0.72 per share in each annual period. The Priority Class A Common Shares carry a liquidation preference of \$6.00 per share plus unpaid dividends and votes with the Class B Common Shares on a one vote per share basis. The Priority period of the Class A Shares will commence on the date of the closing of the initial public offering and end on the earlier of (i) five years after the initial public offering of the Priority Common Shares, or (ii) the date

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]
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[3] COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS [CONTINUED]

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that is 15 trading days after we send notice to the holders of the Priority Common Shares, provided that the closing bid price of the Priority Common Shares is at least \$7 on each trading day during such 15-day period.

Pursuant to the Hersha Hospitality Limited Partnership agreement, the limited partners have certain redemption rights that enable them to cause the partnership to redeem their units of limited partnership interest in exchange for Class B Common Shares or for cash at our election. In the event the Class B Common Shares are converted into Priority Class A Common Shares prior to redemption of the units, the units will be redeemable for Priority Class A Common Shares. If we do not exercise our option to redeem the units for Class B Common Shares, then the limited partner may make a written demand that we redeem the units for Class B Common Shares. These redemption rights may be exercised by the limited partners. At June 30, 2002 and June 30, 2001, the aggregate number of Class B Common Shares issuable to the limited partners upon exercise of the redemption rights is 5,099,722 and 5,071,840, respectively. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidation or similar pro rata share transactions, that otherwise would have the effect of diluting the ownership interest of the limited partners or our shareholders.

We are the sole general partner in the Partnership, which is the sole general partner in the Subsidiary Partnerships and, as such, are liable for all recourse debt of the Partnership to the extent not paid by the subsidiary partnerships. In the opinion of management, we do not anticipate any losses as a result of our obligations as general partner.

In conjunction with the initial public offering, we acquired the Initial Hotels and entered into percentage lease agreements with HHMLP. We have acquired twelve properties from the Hersha Affiliates that were subsequently leased to HHMLP and acquired four properties from Noble that were leased back to Noble, subsequent to our public offering. Under the percentage leases, the Partnership is obligated to pay the costs of certain capital improvements, real estate and personal property taxes and property insurance, and to make available to the lessee an amount equal to 4% [6% for some hotels] of room revenues per quarter, on a cumulative basis, for the periodic replacement or refurbishment of furniture, fixtures and equipment at these hotels.

We have entered into percentage leases relating to 14 hotels with HHMLP. Each percentage lease has an initial non-cancelable term of five years. All, but not less than all, of the percentage leases for these 14 hotels may be extended for an additional five-year term at HHMLP's option. At the end of the first extended term, HHMLP, at its option, may extend some or all of the percentage leases for these hotels for an additional five-year term. Pursuant to the terms of the percentage leases, HHMLP is required to pay either initial fixed rent, base rent or percentage rent and certain other additional charges and is entitled to all profits from the operations of the hotels after the payment of certain specified operating expenses.

We have future lease commitments from HHMLP through June 2006. Minimum future rental income under these non-cancelable operating leases at June 30, 2002, is as follows:

December 31, 2002	\$3,503
December 31, 2003	5,601
December 31, 2004	2,497
December 31, 2005	2,011
December 31, 2006	1,074
Thereafter	0

TOTAL	\$14,686

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We have entered into percentage leases relating to four hotels with Noble. Each percentage lease has an initial non-cancelable term of three years. All, but not less than all, of the percentage leases for these four hotels may be extended for an additional three-year term at Noble's option. At the end of the first extended term, we or Noble may extend all, but not less than all, of the percentage leases for these hotels for an additional three-year term. Pursuant to the terms of the percentage leases, Noble is required to pay either initial fixed rent or percentage rent

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

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[3] COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS [CONTINUED]

and certain other additional charges and is entitled to all profits from the operations of the hotels after the payment of certain specified operating expenses.

We have future lease commitments from Noble through May 19, 2003. Minimum future rental income under these non-cancelable operating leases at June 30, 2002, is as follows:

December 31, 2002	\$1,400
December 31, 2003	946
Thereafter	0

TOTAL	\$2,346
	=====

For the period January 1, 2002 through June 30, 2002, we earned initial fixed rents of \$3,057 and earned percentage rents of \$3,837. For the period January 1, 2001 through June 30, 2001, we earned initial fixed rents of \$3,445 and earned percentage rents of \$3,122.

The hotel properties are operated under franchise agreements assumed by the lessee that have 10 to 20 year lives but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The agreements require annual payments for franchise royalties, reservation, and advertising services, which are calculated as a percentage of gross room revenues. These fees are paid by our lessees.

We have acquired, and expect to acquire in the future, from affiliates of certain of our executive officers and trustees, newly-developed or newly-renovated hotels that do not have an operating history that would allow us to make purchase price decisions based on historical performance. In buying these hotels, we have utilized, and expect to continue to utilize, a "re-pricing" methodology that, in effect, adjusts the initial purchase price for the hotel, one or two years after we initially purchase the hotel, based on the actual operating performance of the hotel during the previous twelve months. All purchase price adjustments are approved by a majority of our independent trustees.

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The initial purchase price for each of these hotels was based upon management's projections of the hotel's performance for one or two years following our purchase. The leases for these hotels provide for fixed initial rent for the one- or two-year adjustment period that provides us with a 12% annual yield on the initial purchase price, net of certain expenses. At the end of the one or two-year period, we calculate a value for the hotel, based on the actual net income during the previous twelve months, net of certain expenses, such that it would have yielded a 12% return. We then apply the percentage rent formula to the hotel's historical revenues for the previous twelve months on a pro forma basis. If the pro forma percentage rent formula would not have yielded a pro forma annual return to us of 11.5% to 12.5% based on this calculated value, this value is adjusted either upward or downward to produce a pro forma return of either 11.5% or 12.5%, as applicable. If this final purchase price is higher than the initial purchase price, then the seller of the hotel will receive consideration in an amount equal to the increase in price. If the final purchase price is lower than the initial purchase price, then the sellers of the hotel will return to us consideration in an amount equal to the difference. Any purchase price adjustment will be made either in operating partnership units or cash as determined by our Board of Trustees, including the independent trustees. Any operating partnership units issued by us or returned to us as a result of the purchase price adjustment historically have been valued at \$6.00 per unit. Any future adjustments will be based upon a value per unit approved by our Board of Trustees, including our independent trustees. The sellers are entitled to receive quarterly distributions on the operating partnership units prior to the units being returned to us in connection with a downward purchase price adjustment.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

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[3] COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS [CONTINUED]

Before we implemented the current pricing methodology in December 2000, our pricing methodology provided for repricing of a hotel if there was any variance from our initial forecasted 12% return. We repriced three hotels under this previous pricing methodology. As of January 1, 2000, the purchase prices for the Holiday Inn, Milesburg, Comfort Inn, Denver and the Holiday Inn Express, Riverfront were adjusted based upon the financial results of these hotels and their respective cash flows, the properties were repriced at higher aggregate values of \$588, \$471 and \$351, respectively. Based upon the \$6.00 offering price, some of our executive officers, trustees and their affiliates received an additional 98,050, 78,427 and 58,549 units of limited partnership interest for the three hotels, respectively. These hotels gave rise to an additional investment in hotel properties of \$485, \$388 and \$290, respectively.

Some of our executive officers, trustees and their affiliates and the independent trustees have revised the return criteria upon which the repricings are to occur going forward. The revised pricing methodology has been established in order to ensure that we receive a minimum return of 11.5% and a maximum return of 12.5% based upon audited results for the property and the pre-established percentage lease formulas.

We have acquired four hotels, since the commencement of operations, for prices

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that will be adjusted on either December 31, 2002 or 2003.

Based upon this revised repricing formula, the purchase prices for the Hampton Inn, Carlisle, Comfort Inn, West Hanover, Holiday Inn Express, New Columbia, and Holiday Inn Express, Hershey were adjusted based upon the financial results of the hotels for the twelve months ended December 31, 2000. Based upon the financial results of these hotels and their respective cash flows, the properties were repriced at higher aggregate values of \$1,083, \$694, \$200 and \$1,212, respectively. Based upon the \$6.00 offering price, some of our executive officers, trustees and their affiliates received an additional 180,566, 115,657, 33,370 and 201,966 units of limited partnership interest for the four hotels, respectively. These hotels gave rise to an additional investment in hotel properties of \$1,017, \$651, \$188 and \$1,137, respectively. We also issued 175,538 operating partnership units at a value equal to approximately \$1,000 in connection with the repricing of the Comfort Inn, Jamaica, New York located at John F. Kennedy International Airport prior to its sale in June 2001.

The purchase prices for the Holiday Inn Express and Suites, Harrisburg, Hampton Inn, Danville, and Hampton Inn and Suites, Hershey were adjusted based upon the financial results of the hotels for the twelve months ended December 31, 2001. Based upon the financial results of these hotels and their respective cash flows, the properties were repriced at higher aggregate values of \$880, \$1,086 and \$35, respectively. Based upon the \$6.00 offering price, some of our executive officers, trustees and their affiliates received an additional 146,649, 181,049 and 5,843 units of limited partnership interest for the three hotels, respectively. These hotels gave rise to an additional investment in hotel properties of \$808, \$997 and \$32, respectively.

On February 27, 2002, the Board of Trustees approved the purchase of the Mainstay Suites, effective as of January 1, 2002, based upon an agreed upon procedures report to be completed by an independent third party accounting firm. Upon receipt of this report, the Board of Trustees certified the transaction on May 15, 2002. We purchased this asset for \$5,500 plus settlement costs of approximately \$21 and leased it to HHMLP. In conjunction with this transaction, we assumed mortgage indebtedness of approximately \$3.1 million, assumed \$800 of related party debt, and paid cash of approximately \$1,600. The consideration for this transaction and all applicable revenue and expense recognition has been accounted for as of January 1, 2002.

On February 27, 2002, the Board of Trustees approved the sale of the Sleep Inn, Corapolis, Pennsylvania to some of our executive officers, trustees and their affiliates for \$5,500, including the assumption of approximately \$3,500 in indebtedness and the redemption of 327,038 limited partnership units valued at approximately \$2,000. We initially purchased this property from these executive officers, trustees and their affiliates as of October 1, 2000 for \$5,500 including 327,038 limited partnership units. The sale of the Sleep Inn, Corapolis, Pennsylvania was approved effective as of January 1, 2002, based upon an agreed upon procedures report to be completed by an independent third party accounting firm. Upon receipt of this report, the Board of Trustees certified the transaction on May 15,

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[3] COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS [CONTINUED]

2002. The consideration for this transaction and all applicable revenue and expense recognition has been accounted for as of January 1, 2002.

On January 26, 1999, we executed an administrative services agreement with HHMLP to provide accounting and securities reporting services for the Company. The terms of the agreement provided for us to pay HHMLP a fixed fee of \$55 with an additional \$10 per property (prorated from the time of acquisition) for each hotel added to our portfolio

HHMLP has reduced the administrative services fee by \$75 pursuant to the revised repricing methodology discussed above. As of June 30, 2002 and 2001, \$88 and \$91 has been charged to operations, respectively.

We have approved the lending of up to \$3,000 to certain of our executive officers and trustees and their affiliates to construct hotels and related improvements on specific hotel projects at an interest rate of 12.0%. As of June 30, 2002 and 2001, certain of our executive officers and trustees and their affiliates owed us \$2,000 and \$800, respectively. Interest income from these advances was \$113 and \$48 for the six months ended June 30, 2002 and 2001, respectively.

Our Due from Related Party balance was \$2,083 as of June 30, 2002. The June 30, 2002 balance consisted primarily of \$2,000 of development line funding, as mentioned above. The remainder of the balance of approximately \$83 consisted primarily of outstanding payments related to property acquisitions and dispositions between the related parties and interest receivable.

We borrowed certain funds from Shreenathji Enterprises, Ltd. ("SEL"), an affiliated company, during the six months ended June 30, 2002 and 2001. Our total borrowings outstanding from SEL at June 30, 2002 and 2001 were \$1,012 and \$1,000. We borrow from SEL at a fixed rate of 9% per annum. We incurred related party interest expense of \$30 and \$40 for the six month period ending June 30, 2002 and 2001, respectively.

[4] DEBT

Debt is comprised of the following at June 30, 2002 and December 31, 2001:

	6/30/02	12/31/01
	-----	-----
Mortgages Payable	\$53,388	\$54,477
Revolving Credit Facility	9,124	7,058
	-----	-----
Total Long Term Debt	\$62,512	\$61,535
	=====	=====

Substantially all of our long-term debt is collateralized by property and equipment and in certain situations is personally guaranteed by the Hersha Affiliates. During March 2000, we completed a portfolio refinancing of \$22,050 with Lehman Brothers Bank. We have repaid \$15,450 of mortgages payable and \$2,000 of related party debt with proceeds from the refinancing. The remainder of the funds was utilized for acquisition of hotel properties and general corporate purposes. These funds are collateralized by seven of our hotel properties.

Outstanding borrowings under the refinancing bear interest at a annual interest rate of 8.94% and have a total loan amortization period of 23.5 years. The first eighteen months of the loan period is structured to be interest only

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financing with no principal payoff during the period. We have incurred one-time early prepayment penalties of \$107 in connection with the portfolio refinancing.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[UNAUDITED]

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

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[5] EARNINGS PER SHARE

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30, 2001
Income before Minority Interest and Discontinued Operations	\$ 1,272	\$ 775	\$ 1,586	\$ 775
Add: Discontinued Operations	--	10	--	10
Less: Minority Interest	964	540	968	540
NET INCOME FOR BASIC EARNINGS PER SHARE	\$ 308	\$ 245	\$ 618	\$ 245
Add: Minority Interest	964	540	968	540
NET INCOME FOR DILUTED EARNINGS PER SHARE	\$ 1,272	\$ 785	\$ 1,586	\$ 785
Weighted Average Shares for Basic Earnings Per Share	2,575,459	2,275,000	2,462,220	2,275,000
Dilutive Effect of Limited Partnership Units	5,099,722	4,954,172	5,099,722	4,954,172
WEIGHTED AVERAGE SHARES FOR DILUTED EARNINGS PER SHARE	7,675,181	7,229,172	7,561,942	7,229,172

Options to purchase 534,000 shares of Class B common shares for the six months ended June 30, 2002 and June 30, 2001, respectively, were outstanding but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

[6] DISCONTINUED OPERATIONS

On February 27, 2002, the Board of Trustees approved the sale of the Sleep Inn, Corapolis, Pennsylvania to some of our executive officers, trustees and their affiliates for \$5,500, including the assumption of approximately \$3,500 in

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indebtedness and the cancellation of 327,038 limited partnership units valued at approximately \$2,000. We initially purchased this property from these executive officers, trustees and their affiliates as of October 1, 2000 for \$5,500 including 327,038 limited partnership units. The sale of the Sleep Inn, Corapolis, Pennsylvania was approved effective as of January 1, 2002, based upon an agreed upon procedures report to be completed by an independent third party accounting firm. Upon receipt of this report, the Board of Trustees certified the transaction on May 15, 2002. The consideration for this transaction and all applicable revenue and expense recognition has been accounted for as of January 1, 2002. We did not recognize any gain or loss on the sale of this asset.

Total revenues related to the asset of \$210 and \$420 and income from discontinued operations of \$10 and \$34 for the three and six months ended June 30, 2001, respectively are included in discontinued operations.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[UNAUDITED]
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

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[7] UNAUDITED INTERIM INFORMATION

The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and accordingly, do not include all of the disclosures normally required by generally accepted accounting principles. The financial information has been prepared in accordance with our customary accounting practices. In the opinion of management, the information presented reflects all adjustments [consisting of normal recurring accruals] considered necessary for a fair presentation of our financial position as of June 30, 2002, and the results of our operations for the interim periods presented. The results of operations for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The unaudited financial statements should be read in conjunction with the financial statements and footnotes thereto included in Hersha Hospitality Trust's Annual Report on Form 10-K for the year ended December 31, 2001.

[8] SUBSEQUENT EVENTS

The quarterly dividend pertaining to the second quarter of 2002 was paid on July 26, 2002 at the rate of \$0.18 per share, which represents an annualized rate of \$0.72 per annum.

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REPORT OF INDEPENDENT ACCOUNTANT

To the Partners of
Hersha Hospitality Management L.P.
New Cumberland, Pennsylvania

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We have reviewed the accompanying balance sheet of Hersha Hospitality Management L.P. as of June 30, 2002, and the related statements of operations for the three and six months ended June 30, 2002 and 2001 and statements of cash flows for the six months ended June 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Hersha Hospitality Management L.P., as of December 31, 2001, and the related statements of operations, partners' capital, and cash flows for the year then ended [not presented herein]; and in our report dated March 8, 2002, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

MOORE STEPHENS, P.C.
Certified Public Accountants.

New York, New York
August 1, 2002

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HERSHA HOSPITALITY MANAGEMENT, L.P.
BALANCE SHEETS
[IN THOUSANDS]

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	JUNE 30, ----- 2002 -----	DECEMBER 31, ----- 2001 -----
CURRENT ASSETS:	[UNAUDITED]	
Cash and Cash Equivalents	\$ 334	\$ 222
Accounts Receivable, less allowance for doubtful accounts of \$144 and \$230 at June 30, 2002 and December 31, 2001, respectively	1,383	698
Prepaid Expenses	2	34

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Due from Related Party - HHLP	220	63
Due from Related Parties	664	1,097
Other Assets	257	252
	-----	-----
TOTAL CURRENT ASSETS	2,860	2,366
FRANCHISE LICENSES [NET OF ACCUMULATED AMORTIZATION OF 169 AND \$149 AT JUNE 30, 2002 AND DECEMBER 31, 2001, RESPECTIVELY]	273	293
PROPERTY AND EQUIPMENT	978	1,079
CONSTRUCTION IN PROGRESS	-	8
	-----	-----
TOTAL ASSETS	\$ 4,111	\$ 3,746
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,364	\$ 1,278
Accrued Expenses	407	268
Other Liabilities	450	-
Due to Related Party - HHLP	76	310
Lease Payments Payable - Related Party - HHLP	3,275	2,376
	-----	-----
TOTAL CURRENT LIABILITIES	5,572	4,232
COMMITMENTS	-	-
ACCRUED CONTINGENT LEASE	459	-
PARTNERS' CAPITAL	(1,920)	(486)
	-----	-----
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 4,111	\$ 3,746
	=====	=====

The Accompanying Notes Are an Integral Part of This Financial Statement.

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HERSHA HOSPITALITY MANAGEMENT, L.P.
STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2002 AND 2001 [UNAUDITED]
[IN THOUSANDS]

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
REVENUES FROM HOTEL OPERATIONS				
Room Revenue	\$7,288	\$7,692	\$12,020	\$13,122
Restaurant Revenue	672	357	1,269	796
Other Revenue	387	453	669	874
	-----	-----	-----	-----

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TOTAL REVENUES FROM HOTEL OPERATIONS	\$8,347	\$8,502	\$13,958	\$14,792
	-----	-----	-----	-----
EXPENSES:				
Hotel Operating Expenses	2,702	2,891	5,052	5,798
Restaurant Operating Expenses	477	307	949	659
Advertising and Marketing	553	490	1,072	942
Bad Debts	(4)	10	-	11
Depreciation and Amortization	65	58	129	117
General and Administrative	1,311	1,123	2,365	1,988
General and Admin. - Related Parties	-	9	-	434
Lease Expense - HHLP	3,009	2,711	5,952	5,720
	-----	-----	-----	-----
TOTAL EXPENSES	\$8,113	\$7,599	\$15,519	\$15,669
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 234	\$ 903	\$ (1,561)	\$ (877)
	=====	=====	=====	=====

The Accompanying Notes Are an Integral Part of This Financial Statement.

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HERSHA HOSPITALITY MANAGEMENT, L.P.
STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED
JUNE 30, 2002 AND 2001 [UNAUDITED]
[IN THOUSANDS]

	JUNE 30, 2002	JUNE 30, 2001
	-----	-----
OPERATING ACTIVITIES:		
Net (Loss)	\$ (1,561)	\$ (877)
	-----	-----
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	129	117
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(685)	(631)
Prepaid Expenses	32	(163)
Other Assets	(5)	13
Due from Related Parties	276	(250)
Increase (Decrease):		
Accounts Payable	86	(496)
Accounts Payable - Related Party	-	(60)
Lease Payments Payable - HHLP	1,358	1,152
Advance FF&E Related Party - HHLP	76	275
Due to Related Parties	(310)	810
Accrued Expenses	139	240
Other Liabilities	450	(14)
	-----	-----
Total Adjustments	1,546	993
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(15)	116

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INVESTING ACTIVITIES:		
Property and Equipment	(11)	(427)
Franchise Licenses	-	(23)
NET CASH USED IN INVESTING ACTIVITIES	(11)	(450)
FINANCING ACTIVITIES:		
Partners Capital Contribution	138	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	138	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	112	(334)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	222	623
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 334	\$ 289

The Accompanying Notes Are an Integral Part of This Financial Statement.

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HERSHA HOSPITALITY MANAGEMENT, L.P.
NOTES TO FINANCIAL STATEMENTS [UNAUDITED]
[IN THOUSANDS]

[1] ORGANIZATION

Hersha Hospitality Management, L.P., ["HHMLP" or the "Lessee"], was organized under the laws of the State of Pennsylvania in May 1998 to lease and operate existing hotel properties from Hersha Hospitality Limited Partnership ["HHLP" or the "Partnership"]. The Lessee is owned by Mr. Hasu P. Shah and certain of our other executive officers, trustees and their affiliates, some of whom have ownership interests in the Partnership. We also manage certain other properties owned by some of our executive officers, trustees and their affiliates that are not owned by the Partnership as well as certain properties owned by unaffiliated third parties. HHMLP commenced operations on January 1, 1999 and as of June 30, 2002 leased 14 hotel properties from the Partnership.

[2] COMMITMENTS AND CONTINGENCIES

We have assumed the rights and obligations under the terms of existing franchise licenses relating to the hotels upon acquisition of the hotels by the partnership. The franchise licenses generally specify certain management, operational, accounting, reporting and marketing standards and procedures with which the franchisee must comply and provide for annual franchise fees based upon percentages of gross room revenues.

We have entered into percentage lease agreements ["Percentage Leases"] with HHLP. Each Percentage Lease has an initial non-cancelable term of five years and may be extended for an additional five-year term at our option. Pursuant to the terms of the Percentage Leases, we are required to pay the greater of the base rent or the percentage rent for hotels with established operating

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histories. The base rent is 6.5 percent of the purchase price assigned to each hotel. The percentage rent for each hotel is comprised of (i) a percentage of room revenues up to a certain threshold amount for each hotel up to which we receive a certain percentage of room revenues as a component of percentage rent, (ii) a percentage of room revenues in excess of the threshold amount, but not more than a certain incentive threshold amount for each hotel in excess of the threshold amount up to which we receive a certain percentage of the room revenues in excess of the threshold amount as a component of percentage rent (iii) a percentage for room revenues in excess of the incentive threshold amount and (iv) a percentage of revenues other than room revenues. For hotels with limited operating histories, the leases provide for the payment of an initial fixed rent for certain periods as specified in the leases and the greater of base rent or percentage rent thereafter. The leases commenced on January 26, 1999.

Minimum future lease payments due during the noncancellable portion of the leases as of June 30, 2002 is as follows:

December 31, 2002	\$ 3,503
December 31, 2003	5,601
December 31, 2004	2,497
December 31, 2005	2,011
December 31, 2006	1,074
Thereafter	-0-

 TOTAL	 \$14,686
	=====

On January 26, 1999, we executed an agreement with HHLP to provide accounting and securities reporting services. The terms of the agreement provided for a fixed fee of \$55 with an additional \$10 per property (prorated from the time of acquisition) for each hotel added to HHLP's portfolio. We have reduced the administrative services fee by \$75 pursuant to a revised repricing methodology between the Hersha Affiliates and the Partnership. As of June 30, 2002 and 2001, \$88 and \$91 has been earned from operations, respectively.

For the six months ended June 30, 2002 and 2001 we incurred lease expense of \$5,952 and \$5,720, respectively. As of June 30, 2002 and 2001 the amount due to the Partnership for lease payments was \$3,275 and \$2,376, respectively.

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HERSHA HOSPITALITY MANAGEMENT, L.P.
NOTES TO FINANCIAL STATEMENTS [UNAUDITED]
[IN THOUSANDS]
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[4] UNAUDITED INTERIM INFORMATION

The accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and accordingly, do not include all of the disclosures normally required by generally accepted accounting principles. The financial information has been prepared in accordance with the Lessee's customary accounting practices. In the opinion of management, the information presented reflects all adjustments [consisting of normal recurring accruals] considered necessary for a fair presentation of our financial position as of June 30, 2002 and the results of our operations for the interim periods presented. The results of operations for the six months ended June 30, 2002, are not

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necessarily indicative of the results that may be expected for the year ending December 31, 2002. The unaudited financial statements should be read in conjunction with the financial statements and footnotes thereto included in Hersha Hospitality Trust's Annual Report on Form 10-K for the year ended December 31, 2001.

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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. This includes statements regarding our 2002 anticipated revenues, expenses and returns, and future capital requirements. Words such as "believes", "expects", "anticipates", "intends", "plans" and "estimates" and variations of such words and similar words also identify forward-looking statements. Such statements are forward-looking in nature and involve a number of risks and uncertainties, including the risks described under the caption "Risk Factors" in our registration statement on Form S-11 (File No. 333-56087). Our actual results may differ materially. 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.

Hersha Hospitality Trust was formed in May 1998 to own initially ten hotels in Pennsylvania and to continue the hotel acquisition and development strategies of Hasu P. Shah, Chairman of the board of trustees and Chief Executive Officer of our Company. We are a self-advised Maryland real estate investment trust for federal income tax purposes.

We completed an initial public offering of two million of our Class A Priority Common Shares at \$6.00 per share and commenced operations on January 26, 1999. On February 5, 1999, we sold an additional 275,000 Class A Priority Common Shares pursuant to an over allotment option granted to the underwriter in our initial public offering. During the quarter ended March 31, 2002, we sold an additional 300,000 Class A Priority Common Shares. Our Priority Class A Common Shares are traded on the American Stock Exchange under the symbol "HT."

We contributed substantially all of the net proceeds from our initial public offering to our operating partnership subsidiary, Hersha Hospitality Limited Partnership, of which we are the sole general partner. We currently own a 33.6% partnership interest in that partnership. With the proceeds of our initial public offering, we caused the partnership to acquire ten hotels in exchange for (i) 4,032,431 subordinated units of limited partnership interest in the partnership that are redeemable for the same number of Class B Common Shares with a value of approximately \$24.2 million based on the initial public offering price, and (ii) the assumption of approximately \$23.3 million of indebtedness of which approximately \$6.1 million was repaid immediately after the acquisition of the hotels.

Since the completion of the initial public offering, we have issued an additional 173,539 units of limited partnership interest in connection with the acquisition of the Hampton Inn, Danville, PA and 76,555 units in connection with the acquisition of the Holiday Inn Express, Long Island City. We have also issued an additional 1,275,662 units of limited partnership interest in

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connection with final settlement of the purchase prices of several hotels and have redeemed 458,465 units of limited partnership interest in connection with the sale of certain hotels. The total number of units of limited partnership interest outstanding as of June 30, 2002 and 2001 was 5,099,722 and 5,071,840, respectively.

We have acquired four hotels, since the commencement of operations, for prices that will be adjusted at either December 31, 2002 or 2003.

The initial purchase price for each of these hotels was based upon management's projections of the hotel's performance for one or two years following our purchase. The leases for these hotels provide for fixed initial rent for the one or two-year adjustment period that provides us with a 12% annual yield on the initial purchase price, net of certain expenses. At the end of the one or two-year period, we calculate a value for the hotel, based on the actual net income during the previous twelve months, net of certain expenses, such that it would have yielded a 12% return. We then apply the percentage rent formula to the hotel's historical revenues for the previous twelve months on a pro forma basis. If the pro forma percentage rent formula would not have

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yielded a pro forma annual return to us of 11.5% to 12.5% based on this calculated value, this value is adjusted either upward or downward to produce a pro forma return of either 11.5% or 12.5%, as applicable. If this final purchase price is higher than the initial purchase price, then the seller of the hotel will receive consideration in an amount equal to the increase in price. If the final purchase price is lower than the initial purchase price, then the sellers of the hotel will return to us consideration in an amount equal to the difference. Any purchase price adjustment will be made either in operating partnership units or cash as determined by our Board of Trustees, including the independent trustees. Any operating partnership units issued by us or returned to us as a result of the purchase price adjustment historically have been valued at \$6.00 per unit. Any future adjustments will be based upon a value per unit approved by our Board of Trustees, including our independent trustees. The sellers are entitled to receive quarterly distributions on the operating partnership units prior to the units being returned to us in connection with a downward purchase price adjustment.

On February 27, 2002, the Board of Trustees approved the purchase of the Mainstay Suites, effective as of January 1, 2002, based upon an agreed upon procedures report to be completed by an independent third party accounting firm. Upon receipt of this report, the Board of Trustees certified the transaction on May 15, 2002. We purchased this asset for \$5,500 plus settlement costs of approximately \$21 and leased it to HHMLP. In conjunction with this transaction, we assumed mortgage indebtedness of approximately \$3.1 million, assumed \$800 of related party debt, and paid cash of approximately \$1,600. The consideration for this transaction and all applicable revenue and expense recognition has been accounted for as of January 1, 2002.

On February 27, 2002, the Board of Trustees approved the sale of the Sleep Inn, Corapolis, Pennsylvania to some of our executive officers, trustees and their affiliates for \$5,500, including the assumption of approximately \$3,500 in indebtedness and the redemption of 327,038 limited partnership units valued at approximately \$2,000. We initially purchased this property from these executive officers, trustees and their affiliates as of October 1, 2000 for \$5,500 including 327,038 limited partnership units. The sale of the Sleep Inn, Corapolis, Pennsylvania was approved effective as of January 1, 2002, based upon an agreed upon procedures report to be completed by an independent third party accounting firm. Upon receipt of this report, the Board of Trustees certified the transaction on May 15, 2002. The consideration for this transaction and all

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applicable revenue and expense recognition has been accounted for as of January 1, 2002.

As of August 1, 2002, we owned five Hampton Inn hotels, one Hampton Inn & Suites hotel, one Holiday Inn hotel, one Holiday Inn Express and Suites hotel, four Holiday Inn Express hotels, one Comfort Inn hotel, one Comfort Suites hotel, two Mainstay Suites hotels, one Sleep Inn hotel and one Clarion Suites hotel, which contain an aggregate of 1,580 rooms.

RESULTS OF OPERATIONS, SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO JUNE 30, 2001 (\$'s in thousands)

Our revenues for the six months ended June 30, 2002 and 2001, substantially consisted of percentage lease revenues recognized pursuant to the percentage leases. Percentage lease revenues during the six month period ended June 30, 2002 were \$6,894 an increase of \$747, or 10.8%, as compared to percentage lease revenues of \$6,147 for the same period during 2001. The improvement in lease revenues is primarily attributable to additional percentage lease revenues derived from the Holiday Inn New Cumberland, Hampton Inn & Suites, Hershey and other existing properties and from a full six months of operations at the Mainstay Suites and Sleep Inn, King of Prussia that was acquired on June 1, 2001.

Percentage lease revenues from continuing operations were also slightly higher for the six months ended June 30, 2002 due to the sale of the Sleep Inn, Corapolis effective January 1, 2002. Total revenues related to the Sleep Inn,

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Corapolis of \$420 and income from discontinued operations of \$34 for the six months ended June 30, 2001, are included in discontinued operations.

Net income increased by \$257 or 71.2% to \$618, for the six months ended June 30, 2002 as compared to net income of \$361 for the same period during 2001. The increase in net income is primarily attributable to an increase in percentage lease revenues in addition to a decrease in interest expense and depreciation expense. The increase in net income was partially offset by higher general and administrative expenses during the period.

HHMLP's room revenues from the hotels decreased by \$1,102, or 8.4%, to \$12,020 for the six months ended June 30, 2002, as compared to \$13,122 for the same period in 2001. This decrease in revenues is primarily attributable to a decrease in the number of hotel properties leased and managed during the period. Room revenues were slightly offset by an increase in occupancies from 55.3% to 59.1% and a increase in revenues per available room from \$39.89 to \$44.21.

The Lessee maintains the ability to borrow funds from related entities, partners and shareholders. The Lessee's borrowing costs range from 8.5% on short-term loans to 10.5% on longer term loans.

The following table shows certain other information for the periods indicated.

	SIX MONTHS ENDED	
	JUNE 30,	
	2002	2001
Occupancy rate	59.1%	55.3%
ADR	\$ 74.75	\$ 72.17
REVPAR	\$ 44.21	\$ 39.89
Room revenue	12,019,948	13,122,235

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Room nights available	271,870	328,964
Room nights occupied	160,807	181,831
Rooms available	1,580	1,817

RESULTS OF OPERATIONS, THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO JUNE 30, 2001 (\$'s in thousands)

Our revenues for the three months ended June 30, 2002 and 2001, substantially consisted of percentage lease revenues recognized pursuant to the percentage leases. Percentage lease revenues during the three month period ended June 30, 2002 were \$3,975 an increase of \$582, or 17.2%, as compared to percentage lease revenues of \$3,393 for the same period during 2001.

The improvement in lease revenues is primarily attributable to additional percentage lease revenues derived from the Holiday Inn New Cumberland, Hampton Inn & Suites, Hershey and other existing properties and from a full three months of operations at the Mainstay Suites and Sleep Inn, King of Prussia that was acquired on June 1, 2001.

Lease revenues were slightly higher for several properties due to the methodology change in percentage lease revenue recognition versus straight-line revenue recognition. The Holiday Inn Express and Suites, Harrisburg, Hampton Inn, Danville and Hampton Inn & Suites, Hershey were repriced on January 1, 2002. These properties now receive percentage lease revenues based upon a percentage lease formula. During each quarter of the fiscal year ended December 31, 2001, all of these properties received an equivalent amount of fixed lease revenues although the properties were seasonal in nature. Due to the seasonality of the hotels that were repriced, we will receive a higher portion of the total lease payments during the second and third quarters and lower lease revenues during the first and fourth quarters.

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Percentage lease revenues from continuing operations were also slightly higher for the three months ended June 30, 2002 due to the sale of the Sleep Inn, Corapolis effective January 1, 2002. Total revenues related to the Sleep Inn, Corapolis of \$210 and income from discontinued operations of \$10 for the three months ended June 30, 2001, are included in discontinued operations.

Net income increased by \$63 or 25.7% to \$308, for the three months ended June 30, 2002 as compared to net income of \$245 for the same period during 2001. The increase in net income is primarily attributable to higher percentage lease revenues as described above, and decreased increased expense. Net income was slightly offset by higher General and Administrative expenses during the period.

HHMLP's room revenues from the hotels decreased by \$404, or 5.3%, to \$7,288 for the three months ended June 30, 2002, as compared to \$7,692 for the same period in 2001.

This decrease in revenues is primarily attributable to a decrease in the number of hotel properties leased and managed during the period. Room revenues were slightly offset by an increase in occupancies from 62.8% to 69.1% and a increase in revenues per available room from \$47.63 to \$54.03.

HHMLP maintains the ability to borrow funds from related entities, partners and shareholders. The Lessee's borrowing costs range from 8.5% on short-term loans to 10.5% on longer term loans.

The following table shows certain other information for the periods indicated.

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	THREE MONTHS ENDED	
	JUNE 30,	
	2002	2001
	-----	-----
Occupancy rate	69.1%	62.8%
ADR	\$ 78.16	\$ 75.83
REVPAR	\$ 54.03	\$ 47.63
Room revenue	7,288,213	7,692,048
Room nights available	134,890	161,474
Room nights occupied	93,246	101,439
Rooms available	1,580	1,775

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of cash to meet our cash requirements, including distributions to shareholders, is our share of the Partnership's cash flow. The Partnership's principal source of revenue is rent payments under the percentage leases with HHMLP and Noble. The lessee's obligations under the leases are unsecured. The lessee's ability to make rent payments, and our liquidity, including our ability to make distributions to common shareholders, is dependent on the lessee's ability to generate sufficient cash flow from the operation of the hotels.

We note that industry analysts and investors use Funds From Operations ("FFO") as a tool to compare equity REIT performance. In accordance with the resolution adopted by the Board of Governors of the National Association of Real Estate Investments Trusts ("NAREIT"), FFO represents net income (loss) (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring or sales of property, plus depreciation, and after adjustments for unconsolidated partnerships and joint ventures. FFO was \$3,662 in the six months ended June 30, 2002, which is an increase of \$546, or 17.5% over FFO in the comparable period in 2001, which was \$3,116. The increase in FFO can be attributed to increased lease revenues and decrease interest expense costs as mentioned above.

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FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. However, our FFO is comparable to the FFO of the real estate companies that use the current definition of NAREIT.

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 a secured line of credit. We believe that our net cash provided by operations will be adequate to fund both operating requirements and payment of dividends by us in accordance with REIT requirements.

We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and property acquisitions, through long-term secured and unsecured borrowing, the issuance of additional equity securities of the Company, or, in connection with acquisitions of hotel properties, issuance of Units in the Partnership.

We intend to make additional investments in hotel properties and may incur, or cause the Partnership to incur, indebtedness to make such investments or to meet distribution requirements imposed on a REIT under the Internal Revenue Code to the extent that working capital and cash flow from our investments are insufficient to make such distributions. Our policy is to limit consolidated indebtedness to less than 67% of the total purchase prices paid by us for the

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hotels in which we have invested. However, our organizational documents do not limit the amount of indebtedness that we may incur and our board of trustees may modify the debt policy at any time without shareholder approval.

The hotel business is seasonal, with hotel revenue generally greater in the second and third quarters than in the first and fourth quarters. To the extent that cash flow from operating activities is insufficient to provide all of the estimated quarterly distributions, we anticipate that we will be able to fund any such deficit from future working capital.

INFLATION

Operators of hotels in general possess the ability to adjust room rates quickly. However, competitive pressures may limit the lessee's ability to raise room rates in the face of inflation, and annual increases in average daily rates have failed to keep pace with inflation.

SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting higher occupancy rates during the second and third quarters. This seasonality can be expected to cause fluctuations in our quarterly lease revenue to the extent that we receive percentage rent.

SUBSEQUENT EVENTS

The quarterly dividend pertaining to the second quarter of 2002 was paid on July 26, 2002 at the rate of \$0.18 per share and represents an annualized rate of \$0.72 per annum.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to the general instructions to Item 305 of Regulation S-K, the quantitative and qualitative disclosures called for by this Item 3 and by Rule 305 of Regulation S-K are inapplicable to our Company at this time.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN 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.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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(a) EXHIBITS

None.

(b) REPORTS ON FORM 8-K

We did not file any reports on Form 8-K during the quarter ended June 30, 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

August 14, 2002

/s/ Ashish R. Parikh

Ashish R. Parikh
Chief Financial Officer

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