



HERSHA

ANNUAL REPORT
2003
HERSHA HOSPITALITY TRUST

HERSHA HOSPITALITY TRUST

In thousands except per share data.	Year Ended December 31,				
	2003	2002	2001	2000	1999 ⁽¹⁾
HERSHA HOSPITALITY TRUST					
OPERATING DATA:					
Total Revenues	\$ 19,386	\$ 14,448	\$ 12,545	\$ 11,624	\$ 7,370
Net Income	785	1,292	834	847	1,338
Adjusted Funds from Operations (AFFO) ⁽²⁾	9,151	8,293	7,054	6,754	5,109
PER SHARE DATA:					
Basic Earnings Per Common Share	\$ 0.17	\$ 0.51	\$ 0.37	\$ 0.37	\$ 0.59
Diluted Earnings Per Common Share	0.17	-	-	0.37	0.48
AFFO	0.82	1.09	0.97	0.99	0.79
Distributions to Common Shareholders	0.72	0.72	0.72	0.72	0.67
BALANCE SHEET DATA (as of December 31):					
Total Assets	\$ 196,568	\$ 101,516	\$ 96,017	\$ 94,531	\$ 56,382
Total Debt	71,837	65,341	61,535	61,450	27,754
Minority Interest in Partnership	38,971	20,258	20,436	17,679	18,980
Total Shareholder's Equity	71,460	11,378	10,210	11,014	11,805

(1) Operations commenced January 26, 1999.

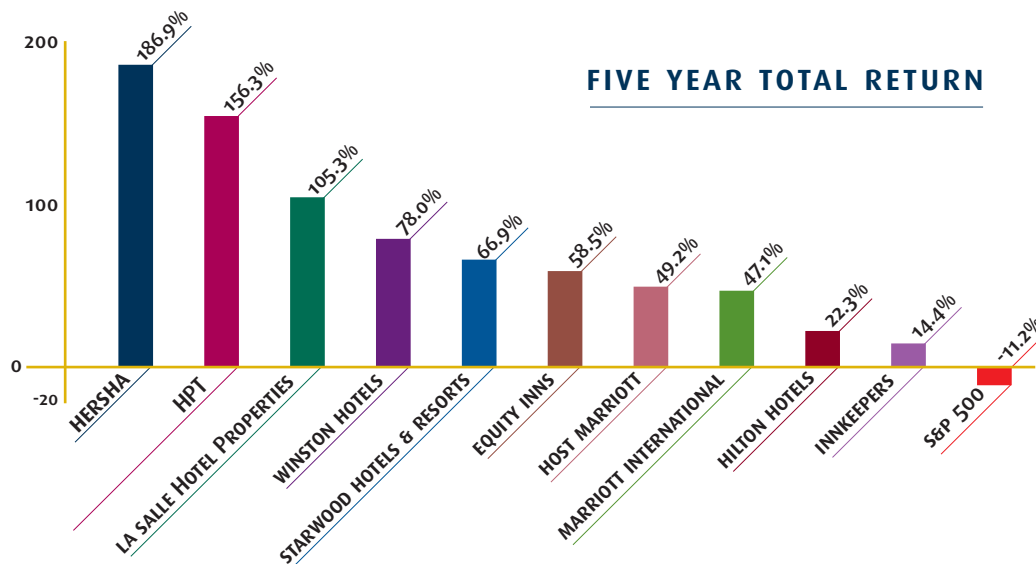
(2) Funds from Operations (FFO) represents net income (loss) (computed in accordance with generally accepted accounting principals), excluding gains (or losses) from debt structuring or sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We also adjust FFO for preferred stock distributions and have adjusted FFO to exclude non-recurring prepayment penalties and non-recurring compensation expense in 2003 related to the redemption of outstanding stock options to present AFFO applicable to common shares.

In thousands except per share data.	Year Ended December 31,				
	2003	2002	2001	2000	1999 ⁽¹⁾
HOTEL OPERATING RESULTS ^(a)					
Total Revenues	\$ 38,428	\$ 33,384	\$ 30,755	\$ 32,828	\$ 25,299
Net Operating Income	\$ 10,735	\$ 10,502	\$ 10,970	\$ 11,802	\$ 8,314
Average Daily Rate	\$ 85.52	\$ 81.66	\$ 76.91	\$ 74.60	\$ 69.10
Occupancy	64.80%	63.80%	61.70%	61.30%	57.12%
Revenue Per Available Room	\$ 55.41	\$ 52.11	\$ 47.44	\$ 45.73	\$ 39.47

(a) Pertains to hotels owned at the end of the fiscal year.

FINANCIAL HIGHLIGHTS 2003

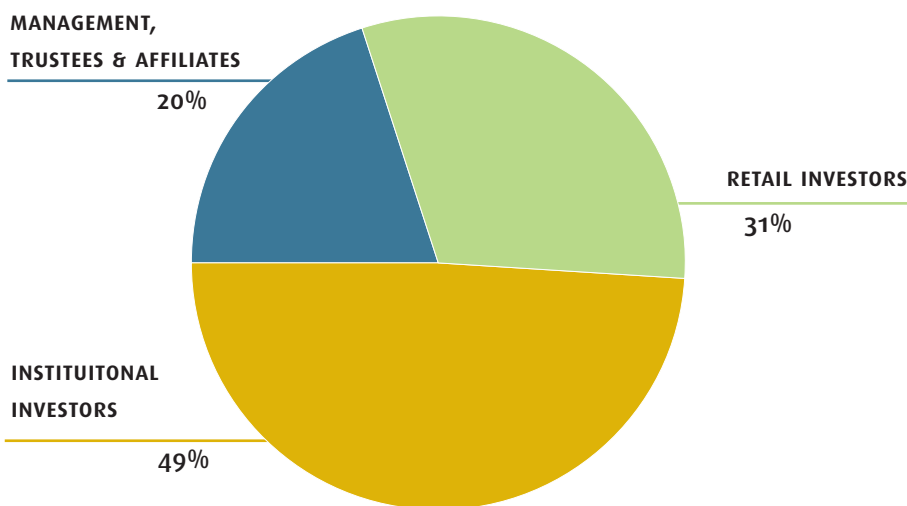
HERSHA HOSPITALITY TRUST (HT)



Assumes dividend reinvestment as of the date paid. Source: FactSet

Hersha Hospitality Trust (HT) is a real estate investment trust (REIT) focused on the acquisitions and aggressive management of mid-priced hotels in primarily metropolitan markets. HT has offered its investors among the highest returns in the REIT sector since its IPO in January 1999.

SHAREHOLDER BASE



Hersha trades under the symbol HT on the American Stock Exchange. As of December 31, 2003, the Company owned 22 mid-priced hotels located primarily in the Northeastern United States.

Qualification as a REIT under the Internal Revenue Code enables the Company to distribute income to shareholders without federal income tax liability to the Company.

DEAR FELLOW SHAREHOLDERS:



Trends that began to form in the final quarter of 2003 give us the confidence to believe that our industry has moved through the trough of the cycle and the long awaited recovery is slowly underway. Nonetheless, the strength demonstrated in the fourth quarter was preceded by three difficult quarters for our industry. Our peers were beleaguered with consumer uncertainty aggravated by unanswered domestic and international political questions, trepidation associated with the threat of exogenous events, and hesitation caused by inexplicable macro-economic circumstances.

Despite these challenging conditions, Hersha had a very strong year. Our company outperformed the broader equities markets, the real estate equities markets and our peers in the publicly traded hotel REIT market. Our shareholders enjoyed a total return last year, including stock price appreciation and dividends of 70%. Since our 1999 IPO we have provided one of the highest returns of any hotel REIT -

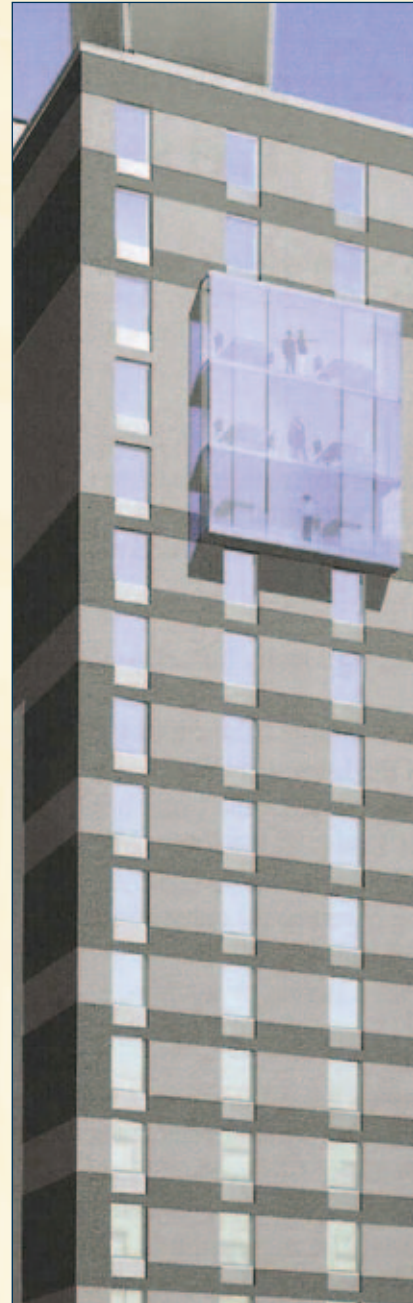
2003

a total return of 186.9% over five years.

We stay true to our objective of building a great company - being the most profitable hotel REIT, not necessarily the largest. We focus on institutional grade real estate in deep and resilient markets in the northeastern United States with the highest barriers to entry. We acquire brands like Hampton Inn, Hilton Garden Inn, Residence Inn by Marriott - category-killers with rate integrity and superlative customer loyalty. We invest primarily in newly-built hotels that suggest an inherent upside in the portfolio as assets mature towards stabilization. And we look forward to continue executing on our unique Northeastern franchise through our relationships and to build on our reputation as preferred acquirers and local sharpshooters.

OPERATIONS

In 2003, our Adjusted Funds from Operations (AFFO) for the full year, increased to \$9.15 million from \$8.29



HERSHA HOSPITALITY TRUST



million the prior year. AFFO per share was \$0.82 on 11,137,894 weighted average shares outstanding, compared to \$1.09 per share on 7,619,542 weighted average shares outstanding for the previous year due to the equity offering completed in the fall. RevPAR increased 3.6% to \$54.10, based on a 2.5% increase in occupancy to 65.5% and a 1.1% rise in ADR to \$82.56. The company's portfolio also outperformed its local competitive set for the full year. According to Smith Travel Research, our portfolio achieved a 107.7% market share in 2003.

CAPITAL

The Company consummated two significant equity transactions in 2003. CNL Hospitality Properties invested approximately \$20 million in Hersha in convertible preferred securities and also invested approximately \$8 million in a joint venture established to jointly purchase the Hampton Inn New York City- Chelsea. By aligning with a strategic partner like CNL, our

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company gained access to a consistent stream of capital, a leveraged acquisition pipeline, and a close friend in the industry. The joint venture portion of the relationship involves Hersha investing 33% of the capital and leverages our expertise through asset management fees and a promoted equity interest.

We also executed a follow on offering of 9.775 million common shares in October 2003, raising approximately \$77 million of net proceeds through this very successful offering. Hersha can now boast a roster of the leading institutions in the real estate investment community. Both the CNL transaction and our follow on offering give us the present ability to make acquisitions that will provide Hersha with even greater breadth with which to participate in the imminent economic recovery.

ACQUISITIONS

We continued to make on-strategy acquisitions during the year





purchasing the Hampton Inn New York City- Chelsea, Hilton Garden Inn, Edison, New Jersey, the Hampton Inn Linden/Newark, New Jersey, and the Hilton Garden Inn, Glastonbury, Connecticut. Each hotel embodies our strategic criteria - quality income streams, strong room rates that allow for margin growth, heavy barriers to new competition, and ages of less than one year.

We continue to purchase hotels in clusters, which allows our managers to rapidly integrate new acquisitions into the portfolio and realize efficiencies of scale and scope translating to more robust margins. Moreover, as we continue to expand our portfolio in this focused, clustered approach, we are exposed to new opportunities in those same markets. In our small world, we intend to be market leaders while remaining local sharpshooters.

We are proud of our performance - our fourth quarter 2003 dividend

payment was our 20th consecutive \$0.18 dividend representing a \$0.72 dividend per year for each of the five years since our initial public offering in 1999. During this same period, we have amassed one of the highest quality portfolios of assets in the hotel REIT sector.

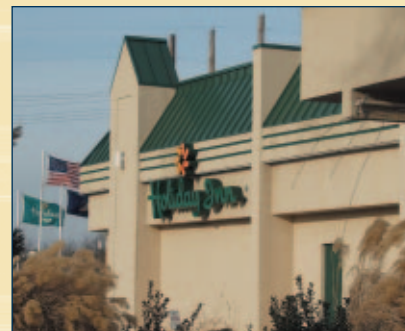
We were able to accomplish this with the support of our highly vested and passionate management team, our experienced Board of Trustees and our faithful shareholders. We fully intend to further execute our focused strategy, taking advantage of our unique franchise and positioning our company to leverage the recovering market. We believe that 2004 will be another successful year for Hersha Hospitality Trust and we look forward to your continued confidence in this fine company that we have built together over the years.



Hasu P. Shah
Chairman and
Chief Executive Officer



Jay H. Shah
President and
Chief Operating Officer



HERSHA HOSPITALITY TRUST 2003

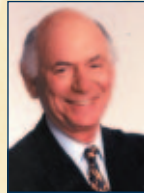
BOARD OF TRUSTEES



Hasu P. Shah
Chairman & Chief Executive Officer
Hersha Hospitality Trust



Thomas S. Capello
Founder & Principal
First Capital Equities



Michael A. Leven
Chairman & CEO
US Franchise Systems, Inc.



Donald J. Landry
Former CEO and President
Sunburst Hospitality, Inc.



K.D. Patel
President
Hersha Hospitality Management, L.P.



William Lehr, Jr.
Former Senior Vice President
Hershey Foods Corporation



John M. Sabin
CFO and General Counsel
Novascreen Biosciences Corporation

CORPORATE OFFICERS

Hasu P. Shah
Chairman & Chief Executive Officer
Hersha Hospitality Trust



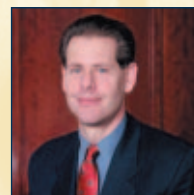
Jay H. Shah
President & Chief Operating Officer
Hersha Hospitality Trust



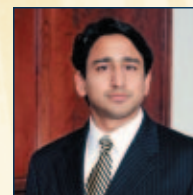
Ashish R. Parikh
Chief Financial Officer



Kiran P. Patel
Corporate Secretary



David L. Desfor
Treasurer



Neil H. Shah
Vice President of
Acquisitions & Development

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITIONAL
REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2003

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
(Address of Registrant's Principal Executive Offices)

17070
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
**Class A Common Shares of Beneficial Interest,
par value \$.01 per share**

Name of each exchange on which registered
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

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. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant, as of June 30, 2003, was approximately \$20.35 million.

As of March 18, 2004, the number of outstanding Class A common shares of beneficial interest outstanding was 13,571,665.

Documents Incorporated By Reference: None.

HERSHA HOSPITALITY TRUST

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CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words, “believes,” “anticipates,” “expects” and words of similar import. Such forward-looking statements relate to future events, our future financial performance, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified, or incorporated by reference in this report including, but not limited to those discussed in the sections entitled “Growth Strategy” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” and those discussed in any documents filed by us with the Securities and Exchange Commission that could cause actual results to differ. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments, except as required by law.

Item 1. Business

OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the American Stock Exchange under the symbol “HT.”

We focus primarily on owning and operating high quality, mid-scale limited service hotels in established markets in the Eastern United States. Our primary strategy is to continue to acquire high quality, mid-scale hotels in metropolitan markets with high barriers to entry in the Northeastern United States. As of December 31, 2003, our portfolio consisted of 22 hotels with a total of 2,169 rooms located in Pennsylvania, New York, New Jersey, Maryland, Georgia, and Connecticut, which operate under leading brands, such as Hampton Inn[®], Hilton Garden Inn[®], Holiday Inn[®], Holiday Inn Express[®], DoubleTree[®], Comfort Inn[®], Comfort Suites[®], Mainstay Suites[®], and Sleep Inn[®].

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels through our operating partnership, Hersha Hospitality Limited Partnership, for which we serve as general partner. All of our hotels are leased or managed by Hersha Hospitality Management, L.P., or HHMLP, a private management company owned by certain of our trustees, officers and other third party investors. In response to tax law changes, we formed a wholly-owned taxable REIT subsidiary, or TRS, to which we lease twelve hotels (as of January 26, 2004) and to which we intend to lease all of our hotels, including hotels we may acquire in the future and hotels currently leased to HHMLP as those leases expire. We have also established two TRS’s to lease our assets owned via joint venture entities. We believe that transitioning to this TRS structure positions us to participate more directly in the operating efficiencies and revenue gains at our hotels.

Our address is 148 Sheraton Drive, Box A, New Cumberland, Pennsylvania 17070. Our telephone number is (717) 770-2405.

As of December 31, 2003, we owned interests in the following 22 hotels:

Hotels	Number of Rooms	Hotels	Number of Rooms
Holiday Inn Express:		Holiday Inn Express and Suites:	
Hershey, PA	85	Harrisburg, PA	77
Duluth, GA	68	Mainstay Suites:	
Long Island City, NY	79	King of Prussia, PA	69
New Columbia, PA	81	Frederick, MD	72
Hilton Garden Inn:		Comfort Inn:	
Glastonbury, CT (1)	150	Harrisburg, PA	81
Edison, NJ	132	Sleep Inn:	
Hampton Inn:		King of Prussia, PA	87
Linden, NJ	149	Comfort Suites:	
Chelsea, NY (1)	144	Duluth, GA	85
Carlisle, PA	95	Holiday Inn Hotel and Conference Center:	
Danville, PA	72	Harrisburg, PA	196
Hershey, PA	110	Doubletree Club	
Newnan, GA	91	JFK Airport, NY	110
Peachtree, GA	61		
Selinsgrove, PA	75		
Total Rooms			<u>2,169</u>

(1) – Denotes properties owned in a joint venture.

Since our initial public offering in 1999, we have acquired, wholly or through joint ventures, a total of 22 hotels, including 13 hotels acquired from entities controlled by our officers or trustees. Of the 13 acquisitions from these entities, 12 were newly-constructed or newly-renovated by these entities prior to our acquisition. Since we do not develop properties, we take advantage of our relationships with these development entities to identify development and renovation projects that may be attractive to us. While these entities bear all the risks of development, we maintain an option to purchase the hotel upon completion. Historically we have purchased hotels from these entities subject to a re-pricing mechanism which adjusts the purchase price based on the operating performance of the hotel in the year or two subsequent to closing. While we intend to continue to acquire hotels from these entities if approved by our independent trustees, future acquisitions from these entities will not be subject to these re-pricing adjustments.

In addition to the direct acquisition of hotels, we may make investments in hotels through joint ventures with strategic partners or through equity contributions, sales and leasebacks, or secured loans. We seek to identify acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our extensive due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value.

Recent Acquisitions

Since December, 31, 2003, we have acquired interests in the following hotels:

- *Holiday Inn Express, Hartford, CT.* On January 14, 2004, we assumed a land lease on the 96 room Holiday Inn Express, Hartford, CT for approximately \$3 million and assumed the land lease for the underlying property.
- *Four Points by Sheraton Boston/Logan International Airport.* On March 11, 2004, we acquired a 55% joint venture interest in the 180-room Four Points by Sheraton Boston/Logan International Airport on for approximately \$3 million. The Four Points Sheraton Boston/Logan International Airport was substantially rebuilt in 2001 and is located in Revere, Mass., within five miles of Boston Logan Airport and downtown Boston.

Both of these hotels have been or will be leased to a TRS and managed by Hersha Hospitality Management, a Hersha-affiliated, regional hotel management company.

Joint Ventures

In April of 2003, we entered into a strategic alliance with CNL Hospitality Partners, L.P., a subsidiary of CNL Hospitality Properties, Inc. CNL is a public company which has been one of the most active investors in lodging properties over the past several years. The strategic alliance positions us as one of CNL's preferred partners for investing in mid-scale hotels. Our agreement with CNL provides that it will invest up to \$25 million in our operating partnership and up to \$40 million in a newly formed hotel acquisition joint venture. CNL has currently invested \$19 million in our operating partnership and \$8 million in the joint venture, which acquired its first hotel, the Hampton Inn Chelsea, New York, New York, on August 29, 2003.

In addition to our joint venture with CNL, in November of 2003, we acquired a 40% joint venture interest in PRA Glastonbury, LLC. ("PRA") which owns a newly constructed 150 room Hilton Garden Inn in Glastonbury, CT.

Financing

We may finance additional investments in hotels, in whole or in part, with undistributed cash, issuances of common shares, preferred stock or operating partnership units, cash received from the disposition of hotels or borrowings. Our debt policy is to limit consolidated indebtedness to less than 67% of the aggregate purchase prices paid for the hotels in which we invest. Our Board of Trustees, however, may change the debt policy without the approval of our shareholders. The aggregate purchase prices for our twenty two hotels, owned as of December 31, 2003, was approximately \$140.0 million, and our indebtedness at December 31, 2003 was approximately \$71.8 million, which represents approximately 51.3% of the aggregate purchase price for our hotels.

We maintain a credit line with Sovereign Bank for \$11.5 million. Outstanding borrowings under the line of credit bear interest at the bank's prime rate. The line of credit is collateralized by a first mortgage on one of our hotels. The interest rate on borrowings under the line of credit at December 31, 2003 was 4.00%. The line of credit expires on December 31, 2004. There were no outstanding principal balances on the line of credit at December 31, 2003.

Dispositions

Since our initial public offering in 1999, we have sold a total of eight hotels, including four hotels sold back to entities controlled by our officers or trustees at the same purchase price we acquired the hotels from those entities. All sales to these entities were in situations where we believed an independent buyer would demand seller financing, which we were not willing to provide. We do not intend to sell hotels to such entities in the future.

We will evaluate our hotels on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management's forecast and review of the cash flow potential for the hotel and re-deploy the proceeds into debt reduction or acquisitions of hotels. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management's forecast of the strength of the hotel's cash flows and its ability to remain accretive to our portfolio. Our decision to sell an asset is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by our Board of Trustees, including our independent trustees. A majority of the independent trustees must approve the terms of all asset sales.

Property Management

Our TRS's have engaged HHMLP as the property manager for fourteen of our hotels pursuant to substantially similar management agreements. Each management agreement provides for a five year term and is 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.

For its services, HHMLP receives a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of the gross revenues associated with that hotel for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the sixtieth day following the end of each fiscal year and is equal to an amount determined by our TRS and HHMLP prior to the commencement of each fiscal year and is generally based upon the financial performance of the hotel.

HHMLP must from time to time make expenditures for repairs and maintenance as are necessary to keep a hotel in good operating condition. Our TRS or we may elect to, from time to time at its or our expense, make alterations, additions, or improvements (including structural changes or repairs) in or to our hotels.

Under the management agreements, our TRSs retain the right to sell, lease, transfer or otherwise dispose of our hotels. HHMLP may not transfer or assign any of its rights and obligations under a management agreement without the prior written consent of our TRS. On the other hand, our TRSs may transfer or assign their rights and obligations under a management agreement without the consent of HHMLP. However, HHMLP will have the right to terminate the management agreement after receiving notice of such transfer or assignment.

As of March 1, 2004, eight of our hotels are leased to HHMLP. Each percentage lease with HHMLP has an initial non-cancelable term of five years. HHMLP has elected not to renew any of the leases upon expiration. Pursuant to the terms of the percentage leases, HHMLP is required to pay initial fixed rent, base rent or percentage rent and certain other additional charges and is entitled to all profits from the operations of the hotel after the payment of certain operating expenses.

The reason we do not operate our own hotels is that we are not permitted to do so by the REIT qualification rules. Furthermore, under the REIT qualification rules in effect prior to 2001, we were generally required to lease our hotels to a third party and as a result, we originally leased substantially all of our hotels to HHMLP. However, the REIT rules that prompted this structure were modified in 2001 and the new rules permit a 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. Accordingly, since the time of the rule modification we have leased six hotels, whose leases with a third party lessee expired, to a wholly-owned TRS which pays us qualifying rents. We intend to eventually lease all our hotels to a TRS. As of January 26, 2004 we leased six additional assets to our TRS and we will re-lease to our wholly-owned TRS the eight hotels currently leased to HHMLP. HHMLP has agreed to waive its rights to extend the lease terms of these eight hotels.

Distributions

We have made twenty consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders.

Our Board of Trustees will determine the amount of our future distributions and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on our lessees to generate sufficient cash flow from the operation of the hotels to meet their rent obligations under the percentage leases.

Operating Practices

HHMLP utilizes a centralized accounting and data processing system, which facilitates financial statement and budget preparation, payroll management, internal auditing and other support functions for the on-site hotel management team. HHMLP provides centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

We have entered into an Administrative Services Agreement with HHMLP for HHMLP to provide accounting and securities reporting services to us. The terms of the agreement provide for a fixed annual fee of \$80,000 with an additional fee of \$10,000 per property per year (pro-rated from the time of acquisition) for each hotel added to our portfolio. Each of the lessees has advised us that its relationship with its employees is good.

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.

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.

Competition

The mid-scale, limited service segment of the hotel business is highly competitive. Our hotels compete on the basis of location, room rates and quality, service levels, reputation, and reservation systems, among many other factors. There are many competitors in our market segments, and many of them have substantially greater marketing and financial resources than our operators or us. New hotels are always being constructed, and these additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms. The result in some cases may be lower revenue, which would result in lower cash available for distribution to shareholders.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours but have substantially greater financial resources or lower investment return requirements than we have. These entities generally may be able to accept higher levels of debt, or otherwise may tolerate more risk than we think is prudent for us. They may also have better relations with franchisors, sellers or lenders. This competition could limit the number of suitable investment opportunities offered to us. It may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms.

Employees

As of December 31, 2003, we had six employees who were principally engaged in managing the affairs of the company unrelated to property management. HHMLP had approximately 1,100 employees at that date. Our and HHMLP's relations with our respective employees are satisfactory.

Capital Improvements, Renovation and Refurbishment

We have established capital reserves for each of our hotels to maintain the hotels in a condition that complies with their respective franchise licenses among other requirements. In addition, we may upgrade the hotels in order to capitalize on opportunities to increase revenue, and as deemed necessary by our management to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenue under the percentage leases or is otherwise in the best interests of our shareholders.

Business Risks

The hotels are subject to all operating risks common to the hotel industry. These risks include, among other things, competition from other hotels, which can adversely affect occupancy and room rates; increases in operating costs due to inflation and other factors, which increases have not in recent years been, and may not necessarily in the future be, offset by increased room rates; significant dependence on business and commercial travelers and tourism; increases in energy costs and other expenses of travel; and adverse effects of general and local economic conditions. These factors could adversely affect a lessee's ability to make lease payments and, therefore, our ability to make expected distributions to shareholders. Further, decreases in room revenue at the hotels will result in decreased revenue to our partnership and the subsidiary partnerships, as applicable, under the percentage leases.

Franchise Agreements

All of our hotels operate under franchise licenses from national hotel franchisors, including Intercontinental Hotel Group, Hilton Hotels Corporation and Choice Hotels International. Holiday Inn Express and Holiday Inn are registered trademarks of Intercontinental Hotel Group; Hilton Garden Inn, Hampton Inn and Doubletree Club are registered trademarks of Hilton Hotels Corporation, and Comfort Inn, Comfort Suites, Mainstay Suites and Sleep Inn are registered trademarks of Choice Hotels International.

44 New England, our TRS, holds the franchise license for certain properties that it leases while the respective JV TRS' hold certain franchise licenses. HHMLP holds some of the franchise licenses for the hotels that it leases from us. We do not anticipate maintaining the franchise licenses for hotel properties managed by third party management companies. It is anticipated that franchise licenses for hotel properties managed by other lessees will be maintained by our TRS.

We anticipate that most of the additional hotels in which we invest will be operated under franchise licenses. We believe that the public's perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems.

Tax Status

We have elected to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code, commencing with our taxable year ending December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to Federal income tax on the portion of our income that is distributed to shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax (including any applicable alternative minimum tax) on our taxable

income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to Federal income and excise taxes on our undistributed income.

Although we do not intend to request a ruling from the Internal Revenue Service (the "Service") as to our REIT status, we have obtained the opinion of our legal counsel that we qualify as a REIT, which opinion is based on certain assumptions and representations and is not binding on the Service or any court. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on its income and properties.

Under the REIT Modernization Act ("RMA"), which became effective January 1, 2001, we may now own up to 100% of one or more taxable REIT subsidiaries ("TRS"). A TRS is a taxable corporation that may lease hotels under certain circumstances, provide services to us, and perform activities such as third party management, development, and other independent business activities. Overall, no more than 20% of the value of our consolidated assets may consist of securities of one or more TRSs. In addition, no more than 25% of our consolidated revenue for any year, excluding all TRS revenues, but including any dividends received from TRSs, may consist of dividends from one or more TRSs.

Under the RMA, a TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager who satisfies the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating "qualified lodging facilities" for any person unrelated to us and the TRS;
2. such manager does not own, directly or indirectly, more than 35% of our common shares;
3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our common shares; and
4. we do not directly or indirectly derive any income from such manager

The RMA limits the deductibility of interest paid or accrued by a TRS to us to assure that the TRS is subject to an appropriate level of corporate taxation. The RMA also imposes a 100% excise tax on transactions between a TRS and us or our tenants that are not on an arm's length basis.

Earnings and profits, which will determine the taxability of dividends to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives and methods used to compute depreciation. Of the total 2003, 2002 and 2001 distributions, 83.5%, 89.8% and 89.0%, respectively, is considered ordinary income while 16.5%, 10.2% and 11.0%, respectively, is considered a non-taxable return of capital.

Available Information

Our Internet website address is: www.hersha.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. The information of our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

Item 2. Properties

The following table sets forth certain information with respect to the hotels we owned as of December 31, 2003.

	Twelve Months Ended December 31, 2003						
	Year Opened	Number of Rooms	Room Revenue	Other Revenue(1)	Occupancy	Average Daily Rate	REVPAR(2)
Hotels							
Comfort Inn:							
Harrisburg, PA	1998	81	\$1,538,805	\$24,775	66.6%	\$80.14	\$53.34
Comfort Suites:							
Duluth, GA	1996	85	\$1,125,666	\$38,593	60.2%	\$60.27	\$36.28
Doubletree Club:							
Jamaica, NY	2002	110	\$2,891,053	\$499,146	72.4%	\$99.40	\$72.01
Hampton Inn:							
Peachtree City, GA.....	1994	61	\$1,071,804	\$23,346	68.4%	\$70.37	\$48.14
Newnan, GA	1996	91	\$1,392,403	\$30,073	63.7%	\$65.80	\$41.92
Selinsgrove, PA (3)	1996	75	\$1,830,868	\$26,451	72.5%	\$93.55	\$67.78
Carlisle, PA	1997	95	\$2,163,173	\$23,803	72.9%	\$83.80	\$61.10
Danville, PA	1998	72	\$1,448,379	\$27,144	67.6%	\$81.55	\$55.11
Hershey, PA	1999	110	\$2,911,057	\$61,259	56.7%	\$127.92	\$72.50
Linden, NJ (4)	2003	149	\$688,645	\$22,624	49.0%	\$102.60	\$50.24
Hilton Garden Inn:							
Edison, NJ (4).....	2003	132	\$701,033	\$240,951	55.1%	\$104.68	\$57.73
Holiday Inn Hotel and Conference Center:							
Harrisburg, PA	1970	196	\$3,285,380	\$2,298,141	65.6%	\$69.66	\$45.69
Holiday Inn Express:							
Duluth, GA	1996	68	\$1,006,661	\$30,842	60.5%	\$67.07	\$40.56
Hershey, PA	1997	85	\$2,017,802	\$27,246	70.5%	\$100.76	\$71.07
New Columbia, PA	1997	81	\$1,379,094	\$21,207	58.4%	\$80.81	\$47.23
Long Island City, NY	2001	79	\$2,057,964	\$34,430	72.4%	\$98.57	\$71.37
Holiday Inn Express and Suites:							
Harrisburg, PA	1997	77	\$1,524,057	\$17,347	68.2%	\$80.52	\$54.94
Mainstay Suites:							
Frederick, MD	2000	72	\$1,082,917	\$24,661	62.0%	\$65.82	\$40.80
King of Prussia, PA.....	2000	69	\$1,344,298	\$73,429	65.4%	\$80.98	\$53.00
Sleep Inn:							
King of Prussia, PA.....	2000	87	\$1,117,750	\$15,465	55.5%	\$68.68	\$38.13
Total.....		1,875	<u>\$32,578,809</u>	<u>\$3,560,933</u>			
Total Revenues.....			<u>\$36,139,742</u>				
Weighted average.....					63.5%	\$85.57	\$ 54.06

(1) Represents restaurant revenue, telephone revenue and other revenue.

(2) REVPAR is determined by dividing room revenue by available rooms for the applicable period.

(3) A portion of the land adjacent to this hotel, which is not currently used for hotel operations, is leased to an affiliate for \$1 per year for 99 years.

(4) We assumed operations of this hotel in October 2003.

The following table sets forth certain information with respect to the hotels we owned through joint ventures with third parties as of December 31, 2003.

	Twelve Months Ended December 31, 2003						
	Year Opened	Number of Rooms	Room Revenue	Other Revenue(1)	Occupancy	Average Daily Rate	REVPAR(2)
Hotels							
Hampton Inn:							
Chelsea, NY (3).....	2003	144	\$2,015,202	\$11,830	76.6%	\$143.91	\$110.19
Hilton Garden Inn:							
Glastonbury, CT (4)	2003	150	\$203,785	\$57,122	24.9%	\$111.42	\$27.73
Total.....		294	<u>\$2,218,987</u>	<u>\$68,952</u>			
Total Revenues.....			<u>\$2,287,939</u>				
Weighted average.....					50.2%	\$127.34	\$ 68.12

(1) Represents restaurant revenue, telephone revenue and other revenue.

(2) REVPAR is determined by dividing room revenue by available rooms for the applicable period.

(3) Hotel opened in August 2003. We own 33.3% of the joint venture. CNL Hospitality Partners, L.P. owns 66.7% of joint venture.

(4) Hotel opened in November 2003. We own 40% of the joint venture. Joseph Pacitti and PRA Glastonbury Management own 59% and 1% of the joint venture, respectively.

Taxable REIT Subsidiaries

In January 2003, the partnership formed a wholly owned taxable REIT subsidiary (TRS), 44 New England Management Company ("44 New England"), to lease certain of the company's hotels. As of January 26, 2004, 44 New England leased 10 of our hotels. As our eight current leases with HHMLP expire, new leases will be formed with 44 New England. HHMLP has agreed to waive its rights to extend the lease terms of these hotels. Additionally, any new acquisitions will be integrated into the TRS operating structure. The company entered into joint venture agreements with CNL Hospitality Partners, LP (CNL) and PRA Glastonbury, LLC in 2003 and established a TRS for each, Hersha CNL TRS Inc. and Hersha PRA TRS, Inc., respectively. Each joint venture TRS leases one property. We believe that transitioning to TRS structures positions us to participate more directly in the operating efficiencies and revenue gains at our hotels.

During the years ended December 31, 2003, 2002 and 2001, certain properties owned by us were under fixed lease agreements with HHMLP. The payments received from some of these fixed leases exceeded the payment that we estimate would have been received had the properties been leased to our TRS. Several of the properties still leased to HHMLP under fixed leases will undergo a repricing per our pre-existing repricing formula described under the heading "Certain Relationships and Related Transactions--Hotel Acquisition Repricing." In the event that the properties do not achieve forecasted results, the properties will be revalued such that a lower value will be paid for these assets to compensate for the potential decline in income.

Item 3. Legal Proceedings

We are not presently subject to any material pending legal proceedings. We are typically subject to routine actions and administrative proceedings, which we expect to be covered by liability insurance and which, in the aggregate, we do not expect to have a material adverse effect on our business or financial condition.

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

No matter was submitted to a vote of our security holders during the fourth quarter of 2002, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common shares began trading on the American Stock Exchange on January 20, 1999 under the symbol "HT." As of March 26, 2004, the last reported closing price per common share on the American Stock Exchange was \$10.74. The following table sets forth the high and low sales price per common share reported on the American Stock Exchange as traded and the dividends paid on the common shares for each of the quarters indicated.

	Price Range		Cash Dividend Per Share
	High	Low	Per Share
Year ended December 31, 2004			
First quarter (through March 24, 2004)	\$ 11.75	\$ 9.84	\$ 0.18*
Year ended December 31, 2003			
Fourth quarter	\$ 10.10	\$ 8.41	\$ 0.18
Third quarter	\$ 9.10	\$ 7.93	\$ 0.18
Second quarter	\$ 8.25	\$ 6.54	\$ 0.18
First quarter	\$ 7.30	\$ 6.40	\$ 0.18
Year ended December 31, 2002			
Fourth quarter	\$ 6.99	\$ 5.40	\$ 0.18
Third quarter	\$ 6.55	\$ 5.75	\$ 0.18
Second quarter	\$ 6.70	\$ 6.00	\$ 0.18
First quarter	\$ 6.70	\$ 5.51	\$ 0.18

* Payable on April 16, 2004, to Shareholders of record on March 31, 2004.

Distribution Information

Our Board of Trustees declared a cash distribution for the holders of the common shares and the operating partnership units for the period from January 1, 2004 to March 31, 2004 in the amount of \$0.18 per share and unit, payable on April 16, 2004, to holders of record on March 31, 2004. While it is the current policy of our Board to maintain our dividend at least this level, future distributions, if any, will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on our lessees to generate sufficient cash flow from the operation of the hotels to meet their rent obligations under the percentage leases.

Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

HERSHA HOSPITALITY TRUST SELECTED FINANCIAL DATA (In thousands, except per share data)

Operating Data	2003	2002	2001	2000	1999 ⁽¹⁾
Revenue:					
Percentage Lease Revenues - HHMLP ⁽²⁾	\$ 12,910	\$ 11,433	\$ 9,558	\$ 9,723	\$ 7,264
Percentage Lease Revenues - Other ⁽³⁾	960	2,801	2,801	1,850	-
Hotel Operating Revenues	4,731	-	-	-	-
Interest	86	7	32	50	78
Interest Related Party	715	207	154	1	28
Other Revenue	8	-	-	-	-
Income (Loss) from Equity Method Investees	(24)	-	-	-	-
Total Revenue	<u>19,386</u>	<u>14,448</u>	<u>12,545</u>	<u>11,624</u>	<u>7,370</u>
Expenses:					
Interest expense	4,894	4,766	4,697	4,142	1,428
Interest expense - Related Party	60	60	72	-	-
Hotel Operating Expenses	3,323	-	-	-	-
Land Lease - Related Party	-	-	13	15	20
Land Lease	50	-	-	-	-
Real Estate and Personal Property					
Taxes and Property Insurance	1,354	1,021	812	632	450
General and Administrative	691	567	534	578	363
Prepayment Penalties	116	-	-	107	-
Gain on Sale of Assets	-	-	(598)	-	-
Compensation Expense related to Option Redemption	1,307	-	-	-	-
Depreciation and Amortization	4,790	3,994	3,897	3,507	2,064
Total Expenses	<u>16,585</u>	<u>10,408</u>	<u>9,427</u>	<u>8,981</u>	<u>4,325</u>
Income Before Minority Interest and					
Discontinued Operations	2,801	4,040	3,118	2,643	3,045
Distributions to Preferred Unitholders	1,195	-	-	-	-
Income Allocated to Minority Interest	821	3,238	2,342	1,908	1,707
Income Applicable to Common Shareholders before Discontinued Operations	785	802	776	735	1,338
Discontinued Operations:					
Gain on Sale of Discontinued Operations	-	449	-	-	-
Income from Discontinued Operations	-	41	58	112	-
Net income	<u>\$ 785</u>	<u>\$ 1,292</u>	<u>\$ 834</u>	<u>\$ 847</u>	<u>\$ 1,338</u>
Basic Earnings Per Common Share ⁽⁴⁾	\$ 0.17	\$ 0.51	\$ 0.37	\$ 0.37	\$ 0.59
Diluted Earning Per Common Share	\$ 0.17	\$ -	\$ -	\$ 0.37	\$ 0.48
Dividends declared per Common Share	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.72	\$ 0.67

Balance Sheet Data

Net investment in hotel properties	\$ 121,076	\$ 93,814	\$ 88,100	\$ 87,671	\$ 51,908
Minority interest in Partnership	\$ 38,971	\$ 20,258	\$ 20,436	\$ 17,679	\$ 18,980
Shareholder's equity	\$ 71,460	\$ 11,378	\$ 10,210	\$ 11,014	\$ 11,805
Total assets	\$ 196,568	\$ 101,516	\$ 96,017	\$ 94,531	\$ 56,382
Total debt	\$ 71,837	\$ 65,341	\$ 61,535	\$ 61,450	\$ 24,754

Other Data

Adjusted Funds from Operations ⁽⁵⁾	\$ 9,151	\$ 8,293	\$ 7,054	\$ 6,754	\$ 5,109
Net cash provided by operating activities	\$ 5,193	\$ 8,177	\$ 6,828	\$ 5,032	\$ 3,075
Net cash provided by (used in) investing activities	\$ (58,370)	\$ (345)	\$ 5,513	\$ (14,895)	\$ (9,149)
Net cash provided by (used in) financing activities	\$ 93,744	\$ (7,859)	\$ (12,174)	\$ 9,739	\$ 6,198
Weighted average shares outstanding					
Basic	4,614,316	2,519,820	2,275,000	2,275,000	2,275,000
Diluted	11,137,894	7,619,542	7,296,596	6,715,996	6,326,690

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- (1) We commenced operations on January 26, 1999.
 - (2) Represents initial fixed rent plus aggregate percentage rent paid by HHMLP to the Partnership pursuant to percentage leases, which payments are calculated by applying the rent provisions in the respective percentage leases to the historical room revenues.
 - (3) Represents initial fixed rent paid by the lessee to the Partnership pursuant to percentage leases, which payments are calculated by applying the rent provisions in the respective percentage leases to the historical room revenues.
 - (4) Represents basic earnings per share computed in accordance with FAS No. 128.
 - (5) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Funds From Operations" for an explanation of FFO, why we believe Adjusted FFO is a meaningful measure of our operating performance and a reconciliation of Adjusted FFO to net income calculated in accordance with GAAP.

Item 7. 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", "anticipate", "intends", "plans" and "estimates" and variations of such words and similar words also identify forward-looking statements. 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.

General

As of December 31, 2003, we owned 22 hotels in the eastern United States. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels. As of January 26, 2004, eight of our hotels were leased to an eligible independent contractor, HHMLP, as required by the REIT qualification rules in effect prior to 2001. Those rules were recently modified, allowing 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. Accordingly, we have leased ten of our hotels to a wholly-owned TRS, which will pay qualifying rent, and the TRS has in turn entered into management contracts with HHMLP with respect to those hotels. We intend to eventually lease all our hotels to a TRS, whether upon the acquisition of new hotels or upon expiration of the leases for the eight hotels currently leased to HHMLP. We also own two hotels through our joint ventures, and those hotels are leased to TRSs that are wholly owned by those joint ventures. The joint ventures' hotels are managed by HHMLP.

As more of our hotels are leased to our TRS, we will participate more directly in the operating performance of our hotels. Rather than receiving base and percentage lease payments from HHMLP, which funded its own hotel operating expenses, our TRS will directly receive all revenue from, and be required to fund all expenses relating to, hotel operations. Our TRS will also be subject to income tax on its earnings.

Our current revenue is derived from lease payments from HHMLP, lease payments from our TRS and distributions to us from our TRS and from our joint ventures.

Comparison of year ended December 31, 2003 to year ended December 31, 2002

Hersha Hospitality Trust

Revenue

Our total revenues for the twelve-month period ended December 31, 2003 consisted substantially of percentage lease revenue recognized pursuant to percentage leases with HHMLP and hotel operating revenues for hotels leased to our wholly owned TRS, 44 New England. Our revenue was approximately \$19,386,000, an increase of 34.2% compared to revenue of \$14,448,000 for the year ended December 31, 2002. The increase in revenue is primarily attributable to the direct recording of hotel operating revenues for hotels leased to our TRS. Additionally, the company acquired a joint venture interest in the Hampton Inn, Chelsea, NY in August, 2003, the Hampton Inn, Linden, NJ in October, 2003, the Hilton Garden Inn, Edison, NJ in October, 2003 and a joint venture interest in the Hilton Garden Inn, Glastonbury, CT in November, 2003 and recorded revenue for these hotels from the date of acquisition.

Expenses

Total expenses increased 59.4% to approximately \$16,585,000 from \$10,408,000 in 2002. The increase is primarily a result of the direct recognition of hotel operating expenses for hotels leased to our TRS, increased property taxes, insurance, depreciation and amortization, and non recurring expenses related to the expensing of options granted in prior periods and prepayment penalties on certain debt instruments.

Net Income

Net income for the period was approximately \$785,000, compared to 2002 net income of \$1,292,000. Net income decreased from the prior year due to an increase in property taxes, insurance, depreciation and amortization, distributions to preferred unitholders (CNL), and non recurring expenses related to the expensing of options granted in prior periods. In December 2004, we negotiated a buyout of all of the outstanding options related to the HHMLP SAR Plan for approximately \$1,028 and recorded this amount as compensation expense during the year. We have also recorded compensation expense of \$279 related to 75,714 options that had vested as of December 31, 2003 and were exercised during January 2004. We also recorded approximately \$116 of non recurring expenses related to prepayment penalties on the early extinguishment of debt with the proceeds of our October equity offering.

Liquidity and Capital Resources

Our principal source of liquidity is rent payments from the Lessees under the Percentage Leases and revenue from the Lessees operating under Taxable REIT Subsidiaries. We are dependent on the Lessees to make such rent payments and earn revenue to provide cash for debt service, distributions, capital expenditures at its hotels, and working capital.

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 our net cash provided by operations will be adequate to fund operating requirements, debt service and our 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.

In October, 2003, we completed an equity offering of 9,775,000 common shares. Net proceeds from the offering were \$77,262,000 after deducting underwriting discounts, commissions, and offering expenses paid by us. Net proceeds were used to reduce debt; fund the redemption of limited partnership units; pay dividends and operating expenses; and fund acquisitions. Due to this offering, we had an increase in our cash and cash equivalents from \$140,000 at December 31, 2002 to \$40,707,000 at December 31, 2003.

Additional proceeds from our October equity offering have been used since the end of 2003. We redeemed 1,300,000 limited partnership units for a total of \$10.4 million in cash as of October 21, 2003. Of this \$10.4 million, we paid approximately \$1.45 million to the limited partners in 2003. The limited partners, at their discretion, had not elected to receive \$8.95 million of proceeds from us as of December 31, 2003 and we have established a liability for this amount as of December 31, 2003. The limited partners requested receipt of this \$8.95 million as of January 4, 2004. Notwithstanding this delayed receipt of the redemption proceeds, the units were retired effective October 21, 2003. In addition to the redemption of the limited partnership units, as mentioned above, since December 31, 2003, we have invested approximately \$6.0 million in the acquisition of the Holiday Inn Express, Hartford, and our joint venture acquisition of the Sheraton Four Points, Revere. We expect to invest an additional \$15.6 million in hotel acquisitions that we expect to close in the first quarter of 2003.

We currently maintain an \$11.5 million line of credit with Sovereign Bank. We may use the line of credit to fund future acquisitions and for working capital. Outstanding borrowings under the line of credit bear interest at the bank's prime

rate and are collateralized by certain of our properties. In the future, we may seek to increase the amount of the line of credit, negotiate additional credit facilities or issue corporate debt instruments. Any debt incurred or issued by us may be secured or unsecured, long-term or short-term, fixed or variable interest rate and may be subject to such other terms as we deem prudent. As of December 31, 2003, we had a zero balance on our line of credit and the interest rate on short-term borrowings was 4.13%.

We have a debt policy that limits our consolidated indebtedness to less than 67% of the aggregate purchase prices for the hotels in which we have invested and our current level is approximately 51.3%. However, our organizational documents do not limit the amount of indebtedness that we may incur and our Board of Trustees may modify our debt policy at any time without shareholder approval. We intend to repay indebtedness incurred under the line of credit from time to time, for acquisitions or otherwise, out of cash flow and from the proceeds of issuances of additional common shares and other securities.

We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. Our bylaws require the approval of a majority of our Board of Trustees, including a majority of the independent trustees, to acquire any additional hotel in which one of our 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, the proceeds from additional issuances of common shares, issuances of operating partnership units or other securities or borrowings. Because of the level of our indebtedness, the success of our acquisition strategy will depend primarily on our ability to access additional capital through issuances of equity securities. We currently have no agreement or understanding to invest in any hotel and there can be no assurance that we will make any investments in any other hotels that meet our investment criteria.

Pursuant to our leases, we are required to make available to the lessees 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 believe that amounts required to be set aside in our leases will be sufficient to meet required expenditures for furniture, fixtures and equipment during the term of the leases. 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.

Funds From Operations

The National Association of Real Estate Investment Trusts (NAREIT) developed Funds from Operations (“FFO”) as a relative non-GAAP financial measure of performance and liquidity of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined under the definition adopted by NAREIT is net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring or sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We also adjust FFO for preferred stock distributions to present FFO applicable to the common shares. In addition, we have adjusted FFO to exclude non-recurring prepayment penalties and a non-recurring compensation expense in 2003 related to redemption of outstanding stock options (which are described above). Due to the nature of those non-recurring items, we believe that excluding them from the Adjusted FFO calculation presents a more transparent measure of our underlying operations. Neither FFO nor Adjusted FFO represents cash flows from operating activities in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of our performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO and Adjusted FFO a meaningful, additional measure of operating performance because it reflects the funds generated from our operations, 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. Comparison of our presentation of FFO or Adjusted FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the calculations used by such REITs.

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

	Year Ended December 31,				
	2003	2002	2001	2000	1999
FFO Reconciliation					
	(dollars in thousands)				
Net Income	\$ 785	\$ 1,292	\$ 834	\$ 847	\$ 1,338
Less: Gain on Sale of Assets	—	(449)	(598)	—	—
Add:					
Income Allocated to Minority Interest	821	3,238	2,342	1,908	1,707
Distributions to Preferred Unitholders	1,195	—	—	—	—
Depreciation and Amortization	4,790	4,212	4,476	3,892	2,064
Adjustments for Unconsolidated Joint Ventures	<u>137</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
FFO Applicable to Common Shares	\$ 7,728	\$ 8,293	\$ 7,054	\$ 6,647	\$ 5,109
Non Recurring: Prepayment Penalties	116	—	—	107	—
Non Recurring: Compensation Expense Related to Option Redemption	<u>1,307</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Adjusted FFO Applicable to Common Shares	<u>\$ 9,151</u>	<u>\$ 8,293</u>	<u>\$ 7,054</u>	<u>\$ 6,754</u>	<u>\$ 5,109</u>

Adjusted FFO was \$9,151 for the year ended December 31, 2003, which was an increase of approximately \$858 or 10.4% over Adjusted FFO in the comparable period in 2002, which was \$8,293. The increase in Adjusted FFO for the year ended December 31, 2003 was primarily a result of increased percentage lease revenues from HHMLP, increased interest revenue from development line funding and lower borrowing costs. Adjusted FFO was partially offset due to the recognition of hotel operating expenses in excess of income from hotel operations. These income and expense items were recognized during the quarter due to the TRS structure implemented to lease the hotels previously leased to Noble.

Adjusted FFO was \$8,293 for the year ended December 31, 2002, which was an increase of approximately \$1,239 or 17.6% over Adjusted FFO in the comparable period in 2001, which was \$7,054. The increase in Adjusted FFO during the year ended December 31, 2002 was primarily a result of higher percentage lease revenues at several of our properties in addition to lower overall borrowing costs on our floating rate debt.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, all estimates are evaluated by us, including those related to carrying value of investments in hotel properties. All estimates are based upon historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition. Percentage lease income is recognized when earned from the lessees under the agreements from the date of acquisition of each hotel property. Lease income is recognized under fixed rent agreements ratably over the lease term. All leases between us and the lessees are operating leases.

We directly recognize revenue and expense for all hotels leased through 44 New England as “Hotel Operating Revenue” and “Hotel Operating Expense” when earned.

Income is recognized quarterly for hotels owned through a joint venture TRS when net cash flow distributions are made as “Income (Loss) from Equity Method Investees.”

Allowance for Doubtful Accounts. We have not recorded an allowance for doubtful accounts. Substantially all of our receivables at December 31, 2003 and 2002 were comprised of rent due from our lessees under the percentage leases (“rent”), which were fully paid in January 2004 and 2003, respectively. Historically, we have not experienced any losses on our lessees’ receivables. However, the lessees rely primarily on cash flow from their operation of the hotels to pay rent, and collection of future receivables from the lessees, therefore, cannot be assured.

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 an 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.

We would record an impairment charge if we believe an investment in hotel property has been impaired such that future undiscounted cash flows would not recover the book basis of the investment in the hotel property. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment’s carrying value, thereby possibly requiring an impairment charge in the future. We have reviewed each of our hotel properties at June 30, 2003 for impairment and, based on our estimate of each hotel’s future undiscounted cash flows, determined that no impairment existed at any of our hotels.

REIT Qualification Tests

We are subject to numerous operational and organizational requirements to maintain our REIT status. Based on tests performed by management for the years ended December 31, 1999 through December 31, 2003, we believe that we satisfied the requirements needed to maintain our REIT status. However, we are subject to audit and if the Internal Revenue Service determined that we failed one or more of these tests, we could lose our REIT status. If we did not qualify as a REIT, our income would become subject to federal and state income taxes, which would be substantial, and the resulting adverse effects on our results of operations, liquidity and amounts distributable to shareholders would be material.

Equity Offering

In October, 2003, we completed an equity offering of 9,775,000 common shares. Net proceeds from the offering were \$77.3 million after deducting underwriting discounts, commissions, and offering expenses paid by us. Net proceeds were used to reduce debt; fund the redemption of limited partnership units; pay dividends and operating expenses; and fund acquisitions.

Distributions/Dividends

We have paid regular distributions on our common shares, and each of the 2003 and 2002 quarterly distributions was \$0.18 per share. In addition, the operating partnership has paid regular distributions to the holders of units of limited partnership interest in the partnership in an amount of \$0.18 per unit. There currently are no accruals for distributions not yet paid to the unitholders.

Related Party Transactions

We have entered into a number of transactions and arrangements that involve related parties. For a description of the transactions and arrangements, please see Notes 4, 5 and 6 to the financial statements, and the information contained under "Certain Relationships and Related Transactions."

Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2003.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Long-term Debt	\$2,209	\$1,401	\$1,800	\$1,942	\$2,096	\$62,389
Land Lease	\$200	\$200	\$200	\$200	\$200	\$6,142

Inflation

Operators of hotels in general possess the ability to adjust room rates. 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is to changes in interest rates on our variable rate Line of Credit and other floating rate debt. At December 31, 2003, we did not maintain any indebtedness under the Line of Credit. The total floating rate mortgages payable of \$16,366 had a current weighted average interest rate of 5.01%.

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 no derivative financial instruments. We do not enter into derivative or interest rate transactions for speculative purposes.

Approximately 76.9% of our outstanding mortgages payable are subject to fixed rates while approximately 23.1% of our outstanding mortgages payable are subject to floating rates. 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 December 31, 2003, the following table presents principal repayments and related weighted average interest rates by expected maturity dates (in thousands):

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Fixed Rate Debt	717	875	1,239	1,343	1,457	48,839
Average Interest Rate	8.92%	8.64%	8.10%	8.11%	8.13%	7.78%
Floating Rate Debt	493	525	561	599	639	13,550
Average Interest Rate	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%

The table incorporates only those exposures that existed as of December 31, 2003 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.

Item 8. Financial Statements and Supplementary Data

HERSHA HOSPITALITY TRUST

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for year then ended. Our audit also included the financial statement schedule included on pages 57 and 58. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule referred to above, when considered in relationship to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.



REZNICK FEDDER & SILVERMAN

Baltimore, Maryland
*March 5, 2004, except for the third paragraph
of Note 14 as to which the date is March 11, 2004*

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 2002, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

MOORE STEPHENS, P.C.
Certified Public Accountants.

New York, New York
February 28, 2003

Part I. Financial Information

Item 1. Financial Statements

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

	December 31, 2003	December 31, 2002
Assets:		
Cash and cash equivalents	\$ 40,707	\$ 140
Investment in Hotel Properties, net of Accumulated Depreciation	121,076	93,814
Notes Receivable	15,200	200
Escrow Deposits	2,160	1,749
Accounts Receivable	223	-
Lease Payments Receivable - Related Party	2,590	2,562
Lease Payments Receivable - Other	-	233
Intangibles, net of Accumulated Amortization of \$540 and \$430	1,322	1,165
Due from Related Party	5,768	1,130
Investment in Joint Ventures	6,576	-
Other Assets	946	523
Total Assets	\$ 196,568	\$ 101,516
Liabilities and Shareholders' Equity:		
Mortgages Payable	\$ 70,837	\$ 61,538
Notes Payable	1,000	-
Line of Credit	-	3,803
Cash Payable - Common Partnership Unit Redemption	8,951	-
Deposits Payable	-	1,000
Dividends and Distributions Payable	3,407	1,382
Due to Related Party	419	1,303
Accounts Payable and Accrued Expenses	1,523	854
Total Liabilities	86,137	69,880
COMMITMENTS AND CONTINGENCIES	-	-
Shareholders' Equity:		
Preferred Shares - Series A, \$.01 Par Value, 350,000 Shares Authorized, None Issued and Outstanding	-	-
Common Shares - Priority Class A, \$.01 Par Value, 50,000,000 Shares Authorized, 12,355,075 and 2,576,863 Shares Issued and Outstanding at December 31, 2003 and December 31, 2002, Respectively (Aggregate Liquidation Preference \$74,130 and \$15,457, respectively)	124	26
Common Shares - Class B, \$.01 Par Value, 50,000,000 Shares Authorized, None Issued and Outstanding	-	-
Additional Paid-in Capital	76,217	13,679
Additional Paid-in Capital - Stock Options	279	-
Distributions in Excess of Net Earnings	(5,160)	(2,327)
	71,460	11,378
Minority Interest:		
Common Units	21,891	20,258
Series A Preferred Units	17,080	-
	38,971	20,258
Total Shareholders' Equity	110,431	31,636
Total Liabilities and Shareholders' Equity	\$ 196,568	\$ 101,516

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS
ENDED DECEMBER 31, 2003, 2002 AND 2001
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenue:			
Percentage Lease Revenues - HHMLP	\$ 12,910	\$ 11,433	\$ 9,558
Percentage Lease Revenues - Other	960	2,801	2,801
Hotel Operating Revenues	4,731	-	-
Interest	86	7	32
Interest - Related Party	715	207	154
Other Revenue	8	-	-
Income (Loss) from Equity Method Investees	(24)	-	-
Total Revenue	<u>19,386</u>	<u>14,448</u>	<u>12,545</u>
Expenses:			
Interest expense	4,894	4,766	4,697
Interest expense - related party	60	60	72
Hotel Operating Expenses	3,323	-	-
Land Lease - Related Party	-	-	13
Land Lease	50	-	-
Real Estate and Personal Property Taxes and Insurance	1,354	1,021	812
General and Administrative	691	567	534
Prepayment Penalties - Debt	116	-	-
Gain on Sale of Assets	-	-	(598)
Compensation Expense related to Option Redemption	1,307	-	-
Depreciation and Amortization	4,790	3,994	3,897
Total Expenses	<u>16,585</u>	<u>10,408</u>	<u>9,427</u>
Income Before Distribution to Preferred Unitholders, Minority Interest and Discontinued Operations	2,801	4,040	3,118
Distributions to Preferred Unitholders	1,195	-	-
Income Allocated to Minority Interest	821	3,238	2,342
Income applicable to Common Shareholders before Discontinued Operations	785	802	776
Discontinued Operations:			
Gain on Disposition of Hotel Properties	-	449	-
Income from Discontinued Operations	-	41	58
Net income	<u>\$ 785</u>	<u>\$ 1,292</u>	<u>\$ 834</u>
<u>Earnings Per Share Data:</u>			
Basic Earnings Per Common Share - before discontinued operations	\$ 0.17	\$ 0.32	\$ 0.34
Discontinued operations	\$ -	\$ 0.19	\$ 0.03
Basic Earnings Per Common Share	\$ 0.17	\$ 0.51	\$ 0.37
Diluted Earnings Per Common Share	\$ 0.17	\$ -	\$ -

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
[IN THOUSANDS, EXCEPT SHARES]

	Priority Class A Common Shares		Class B Common Shares		Additional Paid-In Capital	Additional Paid-In Capital Stock Options	Distributions in Excess of Net Earnings	Total
	Shares	Dollars	Shares	Dollars				
Balance at December 31, 2000	2,275,000	\$ 23	-	-	\$ 11,968	-	\$ (977)	\$ 11,014
Dividends declared	-	-	-	-	-	-	(1,638)	(1,638)
Net Income	-	-	-	-	-	-	834	834
Balance at December 31, 2001	2,275,000	23	-	-	11,968	-	(1,781)	10,210
Common Stock Issuance	300,000	3	-	-	1,800	-	-	1,803
Issuance Costs	-	-	-	-	(89)	-	-	(89)
Dividend Reinvestment Plan	1,863	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-	(1,838)	(1,838)
Net Income	-	-	-	-	-	-	1,292	1,292
Balance at December 31, 2002	2,576,863	26	-	-	13,679	-	(2,327)	11,378
Common Stock Issuance	9,775,000	98	-	-	82,990	-	-	83,088
Issuance Costs	-	-	-	-	(5,826)	-	-	(5,826)
Dividend Reinvestment Plan	3,212	-	-	-	24	-	-	24
Compensation - Vesting of Options	-	-	-	-	-	279	-	279
Reallocation of minority interest due to equity issuance	-	-	-	-	(14,650)	-	-	(14,650)
Dividends declared	-	-	-	-	-	-	(3,618)	(3,618)
Net Income	-	-	-	-	-	-	785	785
Balance at December 31, 2003	<u>12,355,075</u>	<u>\$ 124</u>	<u>-</u>	<u>-</u>	<u>\$ 76,217</u>	<u>\$ 279</u>	<u>\$ (5,160)</u>	<u>\$ 71,460</u>

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
DECEMBER 31, 2003, 2002 AND 2001 (Continued)
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating Activities:			
Net Income Allocated to Common Shareholders	\$ 785	\$ 1,292	\$ 834
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation	4,681	4,089	4,202
Amortization	109	123	274
Income Allocated to Minority Interest	821	3,238	2,342
Loss from Investment in Joint Ventures	24	-	-
Compensation - Vesting of Options	279	-	-
(Gain) Loss on Disposal of Real Estate	-	(449)	(598)
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts Receivable	(223)	-	-
Escrow and Lease Deposits	(411)	(102)	(469)
Lease Payments Receivable - Related Party	(28)	(419)	501
Lease Payments Receivable - Other	233	-	-
Other Assets	(423)	(195)	(92)
Due from Related Party	62	(46)	122
Increase (Decrease):			
Deposits Payable	(1,000)	-	-
Due to Related Party	(884)	210	(179)
Accounts Payable and Accrued Expenses	669	436	(109)
Preferred Distributions Payable	499	-	-
Total Adjustments	<u>4,408</u>	<u>6,885</u>	<u>5,994</u>
Net Cash provided by Operating Activities	<u>5,193</u>	<u>8,177</u>	<u>6,828</u>
Investing Activities:			
Purchase of Hotel Property Assets	(31,943)	(5,142)	(5,017)
Investment in Notes Receivable Joint Venture	(15,000)	(200)	-
Purchase of Intangible Assets	-	-	(69)
Franchise Fees Paid	(127)	-	-
Purchase of Joint Venture Interests	(6,600)	-	-
Sale of Hotel Property Assets	-	5,997	12,599
Development Loans to Related Parties	(4,700)	(1,000)	(2,000)
Net Cash provided by (used in) Investing Activities	<u>(58,370)</u>	<u>(345)</u>	<u>5,513</u>
Financing Activities:			
Proceeds from Borrowings Under Line of Credit	19,411	12,077	10,766
Repayment of Borrowings Under Line of Credit	(23,214)	(15,332)	(15,108)
Principal Repayment of Mortgages Payable	(19,608)	(3,857)	(2,729)
Principal Addition to Mortgages Payable	28,907	2,985	-
Proceeds from Notes Payable	1,000	-	-
Financing Fees Paid	(139)	-	-
Redemption of Common Partnership Units	(1,449)	-	-
Repayment of Related Party Loans	-	-	30
Cash received from Stock Sales	77,262	1,711	-
Sale of Series A Preferred Units	17,080	-	-
Common Shares Dividends Paid	(1,834)	(1,774)	(1,638)
Limited Partnership Unit Distribution Paid	(3,672)	(3,669)	(3,495)
Net Cash provided by (used in) Financing Activities	<u>93,744</u>	<u>(7,859)</u>	<u>(12,174)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	40,567	(27)	167
Cash and Cash Equivalents - Beginning of Period	<u>140</u>	<u>167</u>	<u>-</u>
Cash and Cash Equivalents - End of Period	<u>\$ 40,707</u>	<u>\$ 140</u>	<u>\$ 167</u>

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

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust (the “Company”) was formed in May 1998 as a self-administered, Maryland real estate investment trust (“REIT”) for Federal income tax purposes.

The Company owns a controlling general partnership interest in Hersha Hospitality Limited Partnership (the “Partnership”), which owns a 99% limited partnership interest in various subsidiary partnerships. Hersha Hospitality, LLC (“HHLIC”), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HHLIC.

On January 16, 2003, the Partnership formed a wholly owned taxable REIT subsidiary, 44 New England Management Company (“44 New England”), to lease certain of the Company’s hotels.

On April 21, 2003, May 21, 2003 and August 29, 2003, CNL Hospitality Partnership, LP (“CNL”) purchased \$10,000, \$5,000 and \$4,027, respectively, of convertible preferred units of limited partnership interest in the Partnership (the “Series A Preferred Units”). Net of offering expenses, the Partnership received proceeds of \$17,080.

HHLIC and CNL also agreed to form a joint venture investment partnership, HT/CNL Metro Hotels, LP (“HT/CNL”), to acquire hotel real estate utilizing up to an additional \$40,000 of joint venture funding from CNL. We have a one third ownership interest in this joint venture while CNL maintains the remaining two thirds interests.

On October 21, 2003, we completed a public offering of 9,775,000 class A common shares at \$8.50 per share. Proceeds to the Company, net of underwriting discounts and commissions, structuring fees and expenses, were approximately \$77,262. Immediately upon closing of the offering, the Company contributed all of the net proceeds to the Partnership and after such contributions owns an 65.1% interest. Of the net offering proceeds to the Company, \$10,400 was utilized to fund limited partner redemptions (Note 10) and \$24,000 was used to repay indebtedness. The remaining net proceeds will be used principally to fund future acquisitions and for general corporate purposes.

As of December 31, 2003, the Company, through the Partnership and subsidiary partnerships, owned 20 limited and full service hotels and a joint venture interest in 2 properties. The Company leased 14 of the hotel facilities to Hersha Hospitality Management, LP (“HHMLP”), a Pennsylvania limited partnership and six of the hotel facilities to 44 New England. The Hampton Inn – Chelsea, owned in a joint venture with CNL is leased to Hersha/CNL TRS Inc. and the Hilton Garden Inn - Glastonbury, owned in a joint venture is leased to Hersha PRA TRS, Inc. HHMLP serves as the manager for both of the joint venture assets. HHMLP is owned in part by three of the Company’s executive officers, two of its trustees and other third party investors. HHMLP, 44 New England and the JV TRS Lessees operate and/or lease the hotel properties pursuant to separate percentage lease agreements (the “Percentage Leases”) 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.

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include all of our accounts as well as accounts of the Partnership, subsidiary Partnerships and our wholly owned TRS Lessee. All significant inter-company amounts have been eliminated.

Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Control is demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the limited partners and the inability of the limited partners to replace the general partner. The minority interest balance in the accompanying balance sheets represents the limited partners' interest in the net assets of the Partnership. Net operating results of the Partnership are allocated after preferred distributions (Note 10) based on their respective partners' ownership interests. Our ownership interest in the Partnership as of December 31, 2003, 2002 and 2001 was 65.1%, 33.6% and 33.6%, respectively.

Investments in partnerships and joint ventures represent noncontrolling ownership interests in properties ("Joint Venture Properties"). These investments are accounted for using the equity method of accounting. These investments are recorded initially at cost and subsequently adjusted for net equity in income (loss), which is allocated in accordance with the provisions of the applicable partnership or joint venture agreements, and cash contributions and distributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Hotel Properties

Investment in hotel properties is stated at cost. Depreciation for financial reporting purposes is principally based upon the straight-line method.

The estimated lives used to depreciate the Hotel properties are as follows:

Building and Improvements	15 to 40 Years
Furniture and Fixtures	5 to 7 Years

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Notes Receivable

The Company has invested in notes receivable in connection with hotel property transactions. Interest income is recognized on the notes receivable based upon the terms of the related notes. The ultimate repayment of the notes is subject to a number of variables, including the performance and value of the underlying real property. The carrying amount of the notes receivable approximates its fair value in consideration of interest rates, market conditions and other qualitative factors.

Intangible Assets and Goodwill

Intangible assets consist of loan acquisition fees and franchise fees and are carried at cost net of accumulated amortization. Amortization of loan acquisition fees is computed using the straight-line method over the term of the related debt. Amortization of franchise fees is computed using the straight-line method over the term of the related agreement.

Goodwill resulted from the acquisition of the Holiday Inn Hotel and Conference Center, Harrisburg, Pennsylvania. We have not recognized amortization expense on goodwill subsequent to December 31, 2001. We test goodwill for impairment at least annually and have not recognized any impairment during the three years ended December 31, 2003.

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Percentage lease income is recognized when earned from the Lessees, under the agreements, from the date of acquisition of each hotel property. 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."

We directly recognize revenue and expense for all hotels leased through 44 New England as "Hotel Operating Revenue" and "Hotel Operating Expense" when earned and incurred.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred and totaled \$143 for the year ended December 31, 2003, related to the hotels operated by the TRS and consolidated in these financial statements. In connection with our franchise agreements, a portion of the franchise fees paid is for marketing services.

Earnings Per Common Share

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

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 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.

Income Taxes

The Company qualifies and intends to continue to qualify as a REIT under applicable provisions of the Internal Revenue Code, as amended. In general, under such provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income will not be subject to Federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for Federal income tax purposes.

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income taxes relate primarily to the TRS Lessee and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS Lessee and their respective tax bases and for their operating loss and tax credit carry forwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

Under the REIT Modernization Act (“RMA”), which became effective January 1, 2001, the Company is permitted to lease hotels to a wholly owned taxable REIT subsidiary (“TRS”) and may continue to qualify as a REIT provided the TRS enters into management agreements with an “eligible independent contractor” who will manage the hotels leased by the TRS. The Company formed the TRS Lessee and, effective April 20, 2003, the TRS Lessee leased two hotel properties with an additional two properties becoming effective as of May 20, 2003. The TRS is subject to taxation as a C-Corporation. The TRS Lessee had an operating loss for financial reporting purposes for the period ended December 31, 2003. Although the TRS Lessee is expected to operate at a profit for Federal income tax purposes in future periods, the value of the deferred tax asset is not able to be quantified with certainty. Therefore, no deferred tax assets have been recorded.

Distributions

We intend to pay distributions which, at a minimum, will be sufficient for us to maintain our REIT status.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk include cash and cash equivalents, rent receivable and note receivable arising from our normal business activities. We place our cash and cash equivalents with high credit quality financial institutions. We do not require collateral to support our financial instruments. We perform periodic evaluations of the relative credit standing of these financial institutions and limit the amount of credit exposure with any one institution. At December 31, 2003, we maintained funds at financial institutions that exceeded federally insured amounts.

Rental income is earned from one related party lessee and two joint venture lessees. Therefore, the collection of rent receivable and rent income is reliant on the continued financial health of these Lessees.

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

At December 31, 2003 and 2002, financial instruments include cash and cash equivalents, lease payments receivable, notes receivable, accounts payable, accrued expenses, loans to and from related parties, notes payable, a line of credit and mortgages payable. The fair values of cash and cash equivalents, lease payments receivable, note receivable and accounts payable and accrued expenses approximate carrying value because of the short-term nature of these instruments. Loans with related parties carry interest at rates that approximate our borrowing cost. The fair value of mortgages payable and the line of credit approximates carrying value since the interest rates approximate the interest rates currently offered for similar debt with similar maturities.

Stock Based Compensation

We account for employee stock-based compensation under the intrinsic value based method as prescribed by Accounting Principles Board ["APB"] Opinion No. 25. We apply the provisions of SFAS No. 123, "Accounting for Stock Based Compensation," to non-employee stock-based compensation and the pro forma disclosure provisions of that statement to employee stock-based compensation.

Reclassifications

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

NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES

Hotel properties consist of the following at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Land	\$ 11,710	\$ 10,500
Buildings and improvements	105,615	81,160
Furniture, fixtures and equipment	<u>21,797</u>	<u>15,519</u>
	139,122	107,179
Less accumulated depreciation	<u>18,046</u>	<u>13,365</u>
	<u>\$ 121,076</u>	<u>\$ 93,814</u>

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

NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

Depreciation expense was \$4,681, \$4,089 and \$4,202 for the years ended December 31, 2003, 2002 and 2001, respectively. The twenty hotels owned at December 31, 2003 consist of eighteen premium limited service hotels and two full service hotel properties.

In 2003, 2002 and 2001, we acquired and sold the following hotels for the approximate amounts indicated.

2003	No. of Rooms	Purchase Price	Sale Price
Hampton Inn, Linden, NJ	148	\$ 15,250	\$ -
Hilton Garden Inn, Edison, NJ	132	14,750	-
Total	280	\$ 30,000	\$ -
2002			
Mainstay Suites, Frederick, MD	72	\$ 5,500	\$ -
Sleep Inn, Corapolis, PA	(143)	-	(5,500)
Clarion Suites, Philadelphia, PA	(96)	-	(6,300)
Doubletree Club, Jamaica, NY	110	11,500	-
Total	(57)	\$ 17,000	\$ (11,800)
2001			
Mainstay Suite/Sleep Inn Kings of Prussia, PA	156	\$ 9,445	\$ -
Holiday Inn Express, LI City, NY	79	8,500	-
Best Western, Indiana, PA	(96)	-	(2,200)
Comfort Inn, McHenry, MD	(77)	-	(1,800)
Comfort Inn, Denver, PA	(45)	-	(2,100)
Comfort Inn, JFK, NY	(60)	-	(7,000)
Holiday Inn Milesburg, PA	(118)	-	(4,700)
Comfort Inn, Harrisburg, PA	(117)	-	(3,400)
Total	(278)	\$ 17,945	\$ (21,200)

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

NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

On January 1, 2001, we issued an additional 531,559 units of limited partnership interest with an aggregate value of \$3,189, in connection with the repricing of the Holiday Inn Express, Hershey, Hampton Inn, Carlisle, Holiday Inn Express, New Columbia and the Comfort Inn, Harrisburg.

On April 1, 2001, we sold the Best Western, Indiana for \$2,200 to the Hersha Affiliates. In conjunction with this transaction we received cash proceeds of \$400 and have 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 the Hersha Affiliates. We purchased these assets for \$9,445 plus settlement costs and leased them to Hersha Hospitality Management, LP. 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 from Hersha Affiliates. We purchased this asset for \$8,500 plus settlement costs of approximately \$100 and leased it to Hersha Hospitality Management, LP. In conjunction with this transaction, we assumed the mortgage indebtedness of approximately \$5,445, assumed \$1,000 of related party debt, issued 76,555 of additional units for \$459 and paid cash of approximately \$1,600.

On November 1, 2001, we sold the Comfort Inn, McHenry, MD to the Hersha 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 of approximately \$300.

On November 1, 2001, we sold the Comfort Inn, Riverfront, Harrisburg, PA to the Hersha Affiliates for \$3,400 net of selling costs, including the assumption of approximately \$2,500 in indebtedness and approximately \$900 in cash.

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

NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

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.

For the year ended December 31, 2001, we recorded a gain of approximately \$125, \$145, \$170 and \$266 on the sale of the Best Western, Indiana, Comfort Inn, McHenry, Comfort Inn, Riverfront and the Holiday Inn, Milesburg, respectively. We recorded a loss of approximately \$108 on the sale of the Comfort Inn, Denver. The net amount of these gains and losses of \$598 is included in the consolidated statement of operations and the consolidated statement of cash flows for the year ended December 31, 2001, under the caption "gain on disposition of hotel property." The use of fair value as the appropriate accounting treatment was determined with reference to APB 29 and related accounting guidance.

On January 1, 2002, we issued an additional 333,541 units of limited partnership interest with an aggregate value of \$2,001, 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 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 \$3,100, 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 Hersha 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 on October 1, 2000 for \$5,500. This transaction has been accounted for as of January 1, 2002.

On September 26, 2002, we sold the Clarion Suites, Philadelphia, PA to a third party for \$6,300 less transfer costs that are estimated at \$93. In order to complete the sale of this hotel, the Company provided \$200 of seller financing that is due and payable on July 31, 2004. This financing was completed at an interest rate of 10%. The remaining proceeds from the sale were utilized to pay off \$5,997 of the Company's line of credit balance.

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

NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

On October 1, 2002, we purchased the Doubletree Club hotel at the JFK International Airport, Jamaica, NY from a third party. We purchased this asset for \$11,500 and leased it to Hersha Hospitality Management, LP. In conjunction with this transaction, we assumed the mortgage and lease indebtedness of approximately \$8,705, assumed \$1,000 of related party debt, and paid cash of \$1,795.

On October 1, 2003, we completed the acquisition of the 132 room Hilton Garden Inn, Edison, New Jersey and the 148 room Hampton Inn, Linden, New Jersey from third parties. We purchased these assets as a portfolio for an aggregate price of \$30,000 plus settlement costs of approximately \$263 and leased them to 44 New England Management Company, our wholly owned taxable REIT subsidiary. In conjunction with this transaction, we assumed mortgage indebtedness of approximately \$23,000, including \$1,000 of Seller Financing, and paid cash of approximately \$7,263.

The above acquisitions were accounted for as purchases, and the results of such acquisitions are included in the Company's consolidated statements of operations from the dates of acquisition. No goodwill arose in the transactions.

The following summarizes the number of hotels owned excluding joint venture acquisitions for the periods presented:

	<u>2003</u>	<u>2002</u>	<u>2001(a)</u>
Hotels owned at beginning of years	18	18	21
Acquisitions	2	2	3
Sales of hotels	<u>(0)</u>	<u>(2)</u>	<u>(6)</u>
Hotels owned at end of years	<u>20</u>	<u>18</u>	<u>18</u>

(a) - The Sleep Inn and Mainstay Suites in King of Prussia, PA consist of two separate hotels yet are accounted for as one purchase due to the fact that the hotels share a common lobby and guest area and a common deed.

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

NOTE 3 - NOTES RECEIVABLE

Joint Venture

On November 11, 2003 we provided financing to HT/CNL in the amount of \$15,000. The terms of the note call for interest only payments at 3.5% per annum through maturity on November 10, 2004 when the outstanding balance and any accrued interest are due. The note is secured by the hotel property. For the year ended December 31, 2003, we earned interest income of \$79.

Seller Financing

On September 26, 2000, in connection with the sale of the Clarion Suites, Philadelphia, PA, we provided financing in the amount of \$200. The terms of the note call for accrued interest at 10% per annum through maturity on December 31, 2003, when the outstanding balance and accrued interest are due. The note is unsecured. During 2003, we extended the due date of the note through July 31, 2004. We have not recorded interest income on the note since inception due to its contingent nature.

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

NOTE 4 - INVESTMENT IN JOINT VENTURES

On August 29, 2003, HT/CNL Metro Hotels, LP purchased the Hampton Inn, Manhattan (Chelsea), New York. We own a one third equity interest in this joint venture partnership while CNL Hospitality Properties Trust owns the remaining equity interests. HT/CNL purchased this asset for \$28,000 plus settlement costs of approximately \$480 and leased it to Hersha CNL TRS, Inc., a taxable REIT subsidiary wholly owned by the HT/CNL. In conjunction with this transaction, HT/CNL executed mortgage indebtedness of approximately \$15,400 payable to the Partnership and paid cash of approximately \$14,080.

On November 13, 2003, we purchased a 40% joint venture interest in PRA Glastonbury, LLC. The only asset owned by PRA Glastonbury LLC is the Hilton Garden Inn, Glastonbury, CT. We purchased our joint venture interest in this asset for \$2,680 including settlement costs of approximately \$250 and leased it to Hersha PRA TRS, Inc., a taxable REIT subsidiary wholly owned by PRA Glastonbury, LLC. In conjunction with this transaction, PRA Glastonbury, LLC assumed mortgage indebtedness of approximately \$9,900.

As of December 31, 2003 investment in joint ventures consists of the following:

	<u>Percent Owned</u>	<u>Amount</u>
HT/CNL Metro Hotels, LP	33.33%	\$ 4,098
PRA Glastonbury, LLC	40.00%	<u>2,478</u>
		<u>\$ 6,576</u>

The following schedule provides selected combined financial information for the Company's unconsolidated joint ventures as of and for the year ended December 31, 2003:

	<u>2003</u>
Balance Sheet	
Assets	
Investment in hotel property, net	\$ 44,459
Other assets	<u>1,335</u>
Total assets	<u>\$ 45,794</u>
Liabilities and Equity	
Mortgages and notes payable	\$ 11,158
Note payable - Hersha Hospitality Trust, Inc.	15,000
Other liabilities	941
Equity	
Hersha Hospitality Trust	6,576
Other	<u>12,119</u>
Total liabilities and equity	<u>\$ 45,794</u>

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

NOTE 4 - INVESTMENT IN JOINT VENTURES (Continued)

Statement of Operations	
Room revenue	\$ 2,219
Other revenue	69
Operating expenses	(1,637)
Interest expense	(272)
Depreciation, amortization and other	<u>(403)</u>
Net income (loss)	<u>\$ (24)</u>

NOTE 5 - DEBT

Mortgages

The total mortgages payable balance at December 31, 2003 and December 31, 2002 was \$70,837 and \$61,538, respectively, and consisted of mortgages with fixed and variable interest rates ranging from 4.0% to 9.43%. The maturities for the outstanding mortgages ranged from May 2007 to December 2012. Aggregate interest expense incurred under the mortgages payable totaled \$4,828, \$4,622 and \$4,357 during 2003, 2002 and 2001, respectively. The mortgages are secured by various hotel properties with a combined net book value of \$121,076 and \$93,814 as of December 31, 2003 and 2002, respectively.

Revolving Line of Credit

The Company has a revolving line of credit from Sovereign Bank (the "Line of Credit") in the maximum amount of \$11,500. Outstanding borrowings under the Line of Credit bear interest at the bank's prime rate and the Line of Credit is collateralized by the Holiday Inn Express and Suites, Harrisburg. The interest rate on borrowings under the Line of Credit at December 31, 2003 and 2002 was 4.00% and 4.25%, respectively. The Line of Credit expires in December 2004. The outstanding principal balance on the Line of Credit was \$-0- at December 31, 2003 and approximately 3,803 at December 31, 2002. The weighted average interest rate on short-term borrowings for 2003, 2002, 2001 was 4.13%, 4.73%, and 7.1%, respectively. Interest expense incurred on borrowings under the Line of Credit totaled \$66, \$144 and \$340 during 2003, 2002 and 2001, respectively.

Note Payable

The Company received seller financing of \$1,000 from Inn America at Aviation Plaza, L.L.C. (the "Inn America note") related to the purchase of our Hampton Inn - Linden, NJ and Hilton Garden Inn - Edison, NJ. The principal amount of this note is due on December 31, 2004 and there is no interest expense related to this note.

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

NOTE 5 - DEBT (Continued)

Aggregate annual principal payments for the Company's mortgages payable and notes payable for the five years following December 31, 2003 and thereafter are as follows:

December 31, 2004	\$	2,209
2005		1,401
2006		1,800
2007		1,942
2008		2,096
Thereafter		<u>62,389</u>
	\$	<u>71,837</u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

We are the sole general partner in the Partnership, which is indirectly the sole general partner of the subsidiary partnerships. In the opinion of management, we do not anticipate any losses as a result of our obligations as general partner.

Percentage Leases

Fourteen of our hotels are leased to HHMLP pursuant to percentage leases. Each percentage lease with HHMLP has an initial non-cancelable term of five years. All, but not less than all, of these leases 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 leases for an additional five-year term. HHMLP has agreed not to exercise its option to extend the current lease term with respect to any of the 14 hotels it currently leases. The percentage leases are subject to early termination upon the occurrence of defaults thereunder and certain other events described therein. Pursuant to the terms of the percentage leases, HHMLP is required to pay 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.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (Continued)

The Company had previously entered into leases with Noble Investment Group Ltd. (“Noble”), an independent third party management company, to lease and manage four hotels in the metropolitan Atlanta market. Noble elected not to renew these leases upon expiration of the current terms. The leases for the Hampton Inn Newman, GA and Hampton Inn Peachtree City, GA expired on April 20, 2003 and the leases for the Comfort Suites Duluth, GA and Holiday Inn Express Duluth, GA expired on May 20, 2003.

On the respective lease termination dates, the Company leased the four properties to 44 New England and engaged HHMLP to operate the hotels under management contracts. Therefore, the consolidated financial statements as of December 31, 2003 include the operating results of these four hotels under the TRS structure. Previously, revenues on the consolidated financial statements were derived primarily from lease payments which were made out of the net operating income of the properties pursuant to the Percentage Leases. Under the TRS structure, total revenues from the hotel properties and the related operating expenses are also being reported in the consolidated statements of operations.

We have annual lease commitments from HHMLP through November 1, 2007. Minimum annual rental revenue under these non-cancelable operating leases is as follows:

December 31, 2004	\$	5,593
2005		4,889
2006		3,074
2007		<u>623</u>
	\$	<u>14,179</u>

For the year ended December 31, 2003, we earned fixed rents of \$4,889 and earned percentage rents of \$8,021.
For the year ended December 31, 2002, we earned fixed rents of \$6,510 and earned percentage rents of \$8,252.
For the year ended December 31, 2001, we earned fixed rents of \$7,203 and earned percentage rents of \$6,698.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (Continued)

Management Agreements

Beginning in 2003, 44 New England, our TRS, engaged HHMLP as the property manager for our hotels pursuant to substantially similar management agreements. Each management agreement provides for a five year term and is 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.

As of December 31, 2003, HHMLP manages the six hotels leased to our TRS and consolidated in these financial statements. For its services, HHMLP receives a base management fee, and if a hotel meets and exceeds certain thresholds, an additional 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 sixtieth day following the end of each fiscal year and is equal to an amount determined by our TRS and HHMLP prior to the commencement of each fiscal year beginning in 2004, generally based upon the financial performance of the hotel. For the year ended December 31, 2003, management fees incurred totaled \$142 and \$82 remains payable to HHMLP as of December 31, 2003.

Administrative Services Agreement

We have executed an administrative services agreement with HHMLP to provide accounting and securities reporting services for the Company. The terms of the agreement provide for us to pay HHMLP an annual fee of \$10 per property (prorated from the time of acquisition) for each hotel in our portfolio. For the years ending December 31, 2003, 2002 and 2001, \$178, \$175 and \$134, respectively, have been charged to operations.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (Continued)

Franchise Agreements

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 based upon percentages of gross room revenue. These fees are paid by the lessees.

Acquisitions from Affiliates

We have acquired 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, 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.

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.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (Continued)

Five hotel acquisitions since January 1, 2001 -- the Doubletree, Jamaica, New York (JFK Airport), the Mainstay Suites, Frederick, Maryland, the Holiday Inn Express, Long Island City, New York, the Mainstay Suites and Sleep Inn Hotel, King of Prussia, Pennsylvania -- are subject to future re-pricing (Note 2). We originally purchased these hotels with anticipated repricing dates from December 31, 2002 to December 31, 2004. Due to the current operating environment, the ramp up and stabilization for these newly-built properties is expected to take longer than initially projected. As a result, effective January 1, 2003, we entered into an agreement with the sellers of these five hotels to extend the repricing periods for these hotels. The revised repricing dates range from June 1, 2006 to October 1, 2007. At the same time, we amended the percentage leases with HHMLP for these hotels to extend the initial fixed rent period to coincide with the extension period of the repricing and to delay the transition to percentage rent. In addition, we have the right to sell each of these properties back to the entities that initially sold the hotels to us at the end of the applicable repricing period if adequate stabilization has not occurred during the repricing period for a price not less than the purchase price of the asset.

In the future, we do not intend to use any re-pricing methodology in acquisitions from entities controlled by our officers and trustees.

We have entered into an option agreement with the Hersha Affiliates such that we obtain a first right of refusal to purchase any hotel owned or developed in the future by these individuals or entities regardless of proximity to our hotels. 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. Of the 22 hotel properties purchase by us since our initial public offering, 14 were acquired from affiliates, 13 of which were newly-constructed or substantially renovated.

Land Lease

During 2001, we terminated the lease on the parcel of real estate from the Hersha Affiliates with an aggregate annual rental of \$13 for the year ended December 31, 2001.

During 2003, in conjunction with the acquisition 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. For the year ended December 31, 2003, we incurred \$50 in lease expense under the agreement.

Future minimum lease payments under the agreement are as follows:

December 31, 2004	\$	200
2005		200
2006		200
2007		200
2008		200
Thereafter		<u>6,142</u>
	\$	<u><u>7,142</u></u>

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (Continued)

Legal Fees

We paid Mr. Jay Shah, son of Mr. Hasu P. Shah, certain legal fees aggregating \$212, \$60 and \$43 for the years ended December 31, 2003, 2002 and 2001, of which \$60, \$28 and \$10 was capitalized as settlement costs, respectively.

Hotel Supplies

For the year ended December 31, 2003, we incurred \$73 for hotel supplies from Hersha Hotel Supply, of which \$20 is included in accounts payable at December 31, 2003. These expenses relate to the hotels operated by the TRS and consolidated in these financial statements.

Advances to/from Affiliates

We have approved the lending of up to \$10,000 to entities in which our executive officers and trustees own an interest to construct hotels and related improvements on specific hotel projects at interest rates ranging from 10.0% to 12.0%. As of December 31, 2003 and December 31, 2002, amounts due from these entities totaled \$5,768 and \$1,130, respectively. Interest income from these advances was \$636, \$207 and \$154, respectively for the years ended December 31, 2003, 2002 and 2001, respectively.

Amounts due to related parties as of December 31, 2003 and 2002, totaled \$419 and \$1,303, respectively. The balance due at December 31, 2003 consists of \$128 payable to HHMLP for administrative and management fees and \$313 payable to HHMLP for FF&E reserves. At December 31, 2002 our outstanding balance was primarily related to \$1,000 borrowed from Shreenathji Enterprises, Ltd. ("SEL"), an affiliated company. The remainder of the balance of \$303 consisted primarily of outstanding payments related to property acquisitions and dispositions between the related parties and interest. We incurred interest expense of approximately \$60, \$60 and \$72 related to these borrowings from SEL for the years ended December 31, 2003, 2002 and 2001, respectively. We borrow from SEL at a fixed rate of 6.0% per annum.

NOTE 7 - STOCK OPTION PLANS

Prior to the initial public offering, we adopted the Option Plan and the Trustee's Plan. The Option Plan authorized the issuance of options to purchase up to 650,000 Class B Common Shares and subordinated units and the Trustee's Plan authorized the issuance of options to purchase up to 200,000 Class B Common Shares for our Independent Trustee's. The options granted under the Option Plan and Trustee Plan were exercisable only if (i) we obtained a per share closing price on the Common Shares of \$9.00 or higher for 20 consecutive trading days and (ii) the closing price per Common Share for the prior trading day was \$9.00 or higher. In addition, no option granted under the either Plan may be exercised more than five years after the date of grant.

In January 1999, we issued options to several of our Independent Trustee's to purchase 34,000 Class B Common Shares under the Trustee's Plan and also issued options to purchase 500,000 Class B common shares and units under the Option Plan, with an exercise price of \$6.00, subject to the price restrictions mentioned above. Of the 500,000 options issued, 433,992 were issued to two of our Trustees for the express purpose of facilitating the HHMLP Share Appreciation Rights Plan (the "HHMLP SAR Plan") while 66,008 were issued to certain management personnel. Participants in the HHMLP SAR Plan are not our employees. We therefore accounted for the option issuance within the scope of SFAS 123. No compensation cost was recorded on the grant date of the options based on the provisions of that fair value based method. All of these options vested on December 11, 2003 based upon the price of our stock achieving the above mentioned prices.

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

NOTE 7 - STOCK OPTION PLANS (Continued)

In December 2003, we have negotiated a buyout of all of the outstanding options related to the HHMLP SAR Plan for \$1,028 and recorded this amount as compensation expense during the year. We have also recorded compensation expense of \$279 related to 75,714 options that had vested as of December 31, 2003 and were exercised during January 2004. Due to the fact that the Option Plan and Trustee's Plan expired on January 26, 2004, there is no future exposure related to options that had vested and were unexercised as of January 26, 2004 related to the Option Plan or the Trustee's Plan.

NOTE 8 - DISCONTINUED OPERATIONS

During 2002, we adopted the provisions of FASB No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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 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. This transaction has been accounted for as of January 1, 2002. We did not recognize any gain or loss on the sale of this asset.

On September 26, 2002, we sold the Clarion Suites, Philadelphia, PA to a third party for \$6,300 less transfer costs that are estimated at \$103. In order to complete the sale of this hotel, the Company is currently carrying \$200 of seller financing that is due and payable on October 1, 2003. The note has been extended through July 31, 2004. This financing was completed at an interest rate of 10%. The remaining proceeds from the sale were utilized to payoff \$5,997 of the Company's line of credit balance. We recognized a gain of \$469 in the third quarter of 2002 on the sale of the property.

The results of the operations from these hotels are classified as discontinued operations in the accompanying consolidated statements of operations for the years ended December 31, 2002 and 2001. We did not record any asset sales in 2003 and correspondingly there were no discontinued operations reported in 2003.

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

NOTE 8 - DISCONTINUED OPERATIONS (Continued)

The following table sets forth the components of discontinued operations for the years ended December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Percentage lease revenue	\$ 528	\$ 1,542
Less:		
Interest expense	178	653
Property taxes and insurance	83	232
General and administrative	8	20
Depreciation and amortization	<u>218</u>	<u>579</u>
Income from discontinuing operations	<u>\$ 41</u>	<u>\$ 58</u>

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

NOTE 9 - EARNINGS PER SHARE

The following 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;

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Numerator:			
Income Before Distribution to Preferred Unitholders, Minority Interest and Discontinued Operations	\$ 2,801	\$ 4,040	\$ 3,118
Distributions to Preferred Unitholders	1,195	-	-
Minority Interest	<u>821</u>	<u>3,238</u>	<u>2,342</u>
Income Applicable to Common Shareholders Before Discontinued Operations	785	802	776
Discontinued Operations	<u>-</u>	<u>490</u>	<u>58</u>
Numerator for Basic Earnings Per Share - Income available to Common Shareholders	785	1,292	834
Effect of Dilutive Securities:			
Minority Interest	<u>821</u>	<u>3,238</u>	<u>2,342</u>
Available to Common Shareholders - After Assumed Conversion	<u>\$ 1,606</u>	<u>\$ 4,530</u>	<u>\$ 3,176</u>
Denominator:			
Denominator for basic earnings per share - weighted average shares	4,614,316	2,519,820	2,275,000
Effect of Dilutive Securities:			
Stock Options	57,194	-	-
Minority Interest - Common Partnership Units	<u>4,829,038</u>	<u>5,099,722</u>	<u>5,021,596</u>
Dilutive Potential Common Shares	<u>4,886,232</u>	<u>5,099,722</u>	<u>5,021,596</u>
Denominator for diluted earnings per share - weighted average shares and assumed conversion	<u>9,500,548</u>	<u>7,619,542</u>	<u>7,296,596</u>
Basic Earnings Per Share - Before Discontinued Operations	\$ 0.17	\$ 0.32	\$ 0.34
Discontinued Operations	\$ -	\$ 0.19	\$ 0.03
Basic Earnings Per Share	\$ 0.17	\$ 0.51	\$ 0.37
Diluted Earnings Per Share	\$ 0.17	\$ 0.59	\$ 0.44

Our earnings per share calculation presents only basic earnings per share in cases where the inclusion of the Common Partnership Units and Series A Preferred Units are deemed to be anti-dilutive to earnings per share.

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

NOTE 9 - EARNINGS PER SHARE (Continued)

Options to purchase 534,000 shares of Class B common shares for the years ending December 31, 2002 and 2001, respectively, were outstanding but were not included in the computation of diluted earnings per share because the options' for conditions exercise were greater than the average market price of the common shares, and the options, therefore, were not exercisable.

NOTE 10 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP

As of December 31, 2003, the Priority Class A Common Shares had priority as to the payment of dividends until dividends equal \$0.18 per share on a quarterly basis (\$.72 per year) and participated equally in additional dividends after the Class B Common Shares received \$.18 per share in each quarterly period. The Priority Class A Common Shares carried a liquidation preference of \$6.00 per share plus unpaid dividends and vote with the Class B Common Shares on a one vote per share basis. The priority period of the Class A Shares commenced on the date of the closing of the initial public offering and ended on January 26, 2004.

There have never been any Class B Common Shares outstanding since our initial public offering on January 26, 1999. The conversion features of the Class B Common Shares into Priority Class A Common Shares are exactly the same as the conversion features of the Hersha Hospitality Limited Partnership (HHLP) Units into Priority Class A Common Shares. The Limited Partnership Units and Class B Common Shares are convertible into Priority Class A Common Shares as of January 26, 2004.

The Company's common shares are duly authorized, fully paid and non-assessable. Common shareholders are entitled to receive dividends if and when authorized and declared by the Board of Trustees of the Company out of assets legally available and to share ratably in the assets of the Company legally available for distribution to its shareholders in the event of its liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities of the Company.

Upon liquidation of the Partnership after the Priority Period, after payment of, or adequate provision for, debts and obligations of the Partnership, including any partner loans, any remaining assets of the Partnership will be distributed to us and the Limited Partners with positive capital accounts in accordance with their respective positive capital account balances.

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

NOTE 10 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP (Continued)

Preferred Shares

The Declaration of Trust authorizes our Board of Trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any series from time to time in one or more series, as authorized by the Board of Trustees. Prior to issuance of shares of each series, the Board of Trustees is required by Maryland REIT Law and our Declaration of Trust to set for each such series, subject to the provisions of our Declaration of Trust regarding the restriction on transfer of shares of beneficial interest, the terms, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our Board of Trustees could authorize the issuance of preferred shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control in us that might involve a premium price for holders of common shares or otherwise be in their best interest.

Preferred Units of Limited Partnership Interests

During 2003, CNL purchased a total of 190,266 of convertible preferred limited partnership units (the "Series A Convertible Preferred Units") at a per unit price of \$100.00. The Series A Preferred Units have priority over all Common Shares and Partnership Units, as to the payment of dividends at a rate of 10.5% per annum of the original issue price. In addition, the Series A Preferred Units have a liquidation preference of \$100 per unit plus accrued and unpaid distributions.

The Series A Preferred Units are redeemable at the option of the Company at a redemption price equal to the original issue price, plus all accrued but unpaid distributions, plus a premium starting at 10.5% of the original issue price and declining to zero on a straight-line basis through the tenth year anniversary of the original issuance. The Series A Preferred Units are exchangeable at any time, at the option of the holder, for Series A Preferred Shares of Beneficial Interest in the Company on a one for one basis, or for Common Partnership Units of the Partnership or for Class A Common Shares of Beneficial Interest in the Company at an exchange price of \$6.7555 per share, which is the volume weighted average closing price of the Company's Class A Common Shares on the American Stock Exchange for the twenty days immediately preceding the initial closing. Any Series A Preferred Shares of the Company issued upon exchange of the Series A Preferred Units will have terms substantially similar to the Series A Preferred Units and will be convertible into Class A Common Shares at a conversion price of \$6.7555 per share.

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

NOTE 10 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP (Continued)

In connection with the issuance of the Series A Preferred Units, we granted CNL a limited waiver from the share ownership limit in our Amended and Restated Declaration of Trust, allowing CNL to own 100% of the outstanding Series A Preferred Shares and up to 60% of the outstanding Class A Common Shares on a fully diluted basis, subject to CNL's compliance with certain representations and warranties. In addition, we have entered into a Standstill Agreement with CNL pursuant to which CNL has agreed, among other things, not to acquire any additional securities of our Company, participate in any solicitation of proxies, call shareholder meetings, or seek representation on our Board of Trustees.

The Standstill Agreement further provides that CNL will be entitled to vote only the securities it owns in our Company which represent 40% or less of our total outstanding voting securities at the time of such vote or consent. Any additional voting securities owned by CNL will be voted pro rata according to the votes of the shareholders unaffiliated with CNL. The Standstill Agreement expires on its sixth anniversary, or earlier if, among other things, the Company fails to pay the required distributions or dividends on the Series A Preferred Units or Series A Preferred Shares, or if the Company fails to maintain its status as a REIT.

Common Partnership Units

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 1,275,663 units of limited partnership interest in 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. On October 21, 2003, we redeemed 1,300,000 limited partnership units at a price of \$8.00 per unit, or \$10,400 in the aggregate. The redemption price was funded with the proceeds of our public equity offering in October 2003. As of December 31, 2003 we had a payable of \$8,951 related to the redemption of a portion of these limited partnership units. The total number of units of limited partnership interest outstanding as of December 31, 2003, 2002 and 2001 was 3,799,723, 5,099,723 and 5,093,220, respectively.

Pursuant to the Partnership Agreement, the Limited Partners will receive the Redemption Rights, which will enable them to cause the Partnership to redeem their interests in the Partnership in exchange for cash or, at the option of the Company, Class B Common Shares on a one-for-one basis. In the event that the Class B Common Shares are converted into Priority Common Shares prior to redemption of the Subordinated Units, such outstanding Subordinated Units will be redeemable for Priority Common Shares. The holders of the Priority Common Shares and the Class B Common Shares have identical voting rights and will vote together as a single class.

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

NOTE 10 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP (Continued)

At December 31, 2003 and 2002, the aggregate number of common shares issuable to the limited partners upon exercise of the redemption rights is \$3,799,723 and \$5,099,723, 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.

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

Interest paid in 2003, 2002 and 2001 totaled \$4,927, \$5,364 and \$4,445, respectively. The following non-cash investing and financing activities occurred during 2003, 2002 and 2001:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Partnership units issued in connection with repricing hotels (Note 10)	\$ -	\$ 2,001	\$ 3,189
Net Partnership units issued (redeemed) in connection with hotel property transactions (Note 10)	\$ -	\$ (2,000)	\$ (330)
Net debt assumed (transferred) in hotel property transactions	\$ -	\$ 8,305	\$ 5,753
Net related party debt assumed in hotel property transactions		\$ 1,800	\$ 2,000
Redemption of minority interest units payable	\$ 8,951	\$ -	\$ -
Adjustment to minority interest as result of common stock issuance	\$ 14,650	\$ -	\$ -
Common shares issued as part of the Dividend Reinvestment Plan	\$ 24	\$ -	\$ -
Dividends and distributions payable	\$ 3,407	\$ 1,382	\$ 1,325

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

NOTE 12 - RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for certain transactions arising on or after June 30, 2003. SFAS No. 149 will have no impact on the Company.

The FASB has issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which is effective for interim financial periods beginning after June 15, 2003. Based upon the provisions of SFAS No. 150 we evaluated our Convertible Series A Preferred Units, Common Partnership Units and determined that they qualify as equity instruments.

FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34," was issued in November 2002. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has made the disclosures required by FIN 45.

FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51," as revised in December 2003. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. It applies for all variable interest entities in the first reporting period beginning after March 15, 2004, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company will continue to monitor and evaluate the impact of FIN 46 on our financial statements as we purchase interests in joint ventures.

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

NOTE 13 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter			
	1st	2nd	3rd	4th
Fiscal 2003				
Total Revenues	\$ 3,278	\$ 5,004	\$ 5,447	\$ 5,657
Income Before Distributions to Preferred Unitholders, Minority Interest and Discontinued Operations	\$ 418	\$ 1,392	\$ 2,156	\$ (1,165)
Net Income Allocated to Common Shareholders	\$ 304	\$ 34	\$ 292	\$ 155
Basic Earnings Per Common Share and Units	\$ 0.12	\$ 0.01	\$ 0.11	\$ (0.07)
Fiscal 2002				
Total Revenues	\$ 2,971	\$ 4,039	\$ 4,505	\$ 2,933
Income Before Distributions to Preferred Unitholders, Minority Interest and Discontinued Operations	\$ 314	\$ 1,272	\$ 1,957	\$ 497
Net Income Allocated to Common Shareholders	\$ 310	\$ 308	\$ 297	\$ 377
Basic Earnings Per Common Share and Units	\$ 0.04	\$ 0.12	\$ 0.12	\$ 0.23
Fiscal 2001				
Total Revenues	\$ 2,792	\$ 3,424	\$ 3,809	\$ 2,520
Income Before Distributions to Preferred Unitholders, Minority Interest and Discontinued Operations	\$ 92	\$ 775	\$ 1,280	\$ 971
Net Income Allocated to Common Shareholders	\$ 116	\$ 245	\$ 234	\$ 239
Basic Earnings Per Common Share and Units	\$ 0.02	\$ 0.11	\$ 0.10	\$ 0.14

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

NOTE 14 - SUBSEQUENT EVENTS

On December 4, 2003 we declared a \$0.18 per Class A common share dividend and a distribution of \$0.18 per limited partnership unit that was paid on January 16, 2004.

On January 14, 2004, we acquired the 96 room Holiday Inn Express, Hartford, CT for \$3,000 and assumed the hotel's underlying ground lease.

On March 11, 2004, we acquired a 55% joint venture interest in the 180-room Four Points by Sheraton Boston/Logan International Airport hotel for approximately \$3,000.

Both of these hotels have been leased to a TRS and managed by HHMLP.

On January 26, 2004, the HHMLP leases for the following hotels expired, and each of these hotels was re-leased to 44 New England (our TRS) on the same date:

Comfort Inn, Harrisburg, PA
Holiday Inn, Harrisburg, PA
Holiday Inn Express, Hershey, PA
Holiday Inn Express, New Columbia, PA
Hampton Inn, Selinsgrove, PA
Hampton Inn, Carlisle, PA

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2003
[IN THOUSANDS]

Description	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Amounts at which Carried at Close of a Period		Total	Accumulated Depreciation Buildings and Improvements	Net Book Value Land Buildings and Improvements	Date of Acquisition	Life Upon Which Latest Income Statement is Computed
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements					
Holiday Inn, Harrisburg, PA	\$ 3,299	\$ 412	\$ 1,234	\$ -	\$ 2,796	\$ 412	\$ 4,030	\$ 4,442	\$ 1,175	\$ 3,267	12/15/94	15 to 40
Holiday Inn Express, New Columbia, PA	1,747	94	2,510	66	665	160	3,175	3,335	473	2,862	12/01/97	15 to 40
Holiday Inn Express, Hershey, PA	4,561	426	2,645	410	3,080	836	5,725	6,561	789	5,772	10/01/97	15 to 40
Doubletree Club Jamaica, NY	8,277	1,550	8,793	-	-	1,550	8,793	10,343	275	10,068	11/01/02	15 to 40
HIEXP & Suites, Harrisburg, PA	-	213	1,934	81	967	294	2,901	3,195	344	2,851	03/06/98	15 to 40
Comfort Inn, Harrisburg, PA	2,329	-	2,720	214	1,080	214	3,800	4,014	497	3,517	05/15/98	15 to 40
Hampton Inn, Selinsgrove, PA	3,202	157	2,511	93	2,217	250	4,728	4,978	792	4,186	09/12/96	15 to 40
Hampton Inn, Carlisle, PA	3,833	300	3,109	200	2,072	500	5,181	5,681	746	4,935	06/01/97	15 to 40
Hampton Inn, Danville, PA	2,426	300	2,787	99	1,001	399	3,788	4,187	431	3,756	08/28/97	15 to 40
Hampton Inn, Hershey, PA	-	807	5,714	4	136	811	5,850	6,661	621	6,040	01/01/00	15 to 40
Hampton Inn, Newnan, GA	3,197	712	5,504	-	91	712	5,595	6,307	519	5,788	04/20/00	15 to 40
Hampton Inn, Peachtree City, GA	2,121	394	3,054	-	8	394	3,062	3,456	286	3,170	04/20/00	15 to 40
Comfort Suites, Duluth, GA	3,146	432	4,343	-	11	432	4,354	4,786	395	4,391	05/19/00	15 to 40
Holiday Inn Express, Duluth, GA	2,610	470	2,912	-	36	470	2,948	3,418	271	3,147	05/19/00	15 to 40
Mainstay Suites Frederick, MD	2,894	262	1,049	171	2,891	433	3,940	4,373	193	4,180	01/01/02	15 to 40
Sleep/Mainstay KOP, PA	-	1,133	7,294	-	25	1,133	7,319	8,452	466	7,986	06/01/01	15 to 40
Holiday Inn Express, LI City, NY	5,195	1,500	6,300	-	6	1,500	6,306	7,806	341	7,465	11/01/03	15 to 40
Hampton Inn, Linden, NJ	12,000	1,210	11,961	-	-	1,210	11,961	13,171	75	13,096	10/01/03	15 to 40
Hilton Garden Inn, Edison, NJ	10,000	-	12,159	-	-	-	12,159	12,159	76	12,083	10/01/03	15 to 40
	<u>\$ 70,837</u>	<u>\$ 10,372</u>	<u>\$ 88,533</u>	<u>\$ 1,338</u>	<u>\$ 17,082</u>	<u>\$ 11,710</u>	<u>\$ 105,615</u>	<u>\$ 117,325</u>	<u>\$ 8,765</u>	<u>\$ 108,560</u>		

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2003
[IN THOUSANDS]

2003

Reconciliation of Real Estate:

Balance at Beginning of Year	\$	91,160
Additions During Year		26,165
Deletions During Year		
Balance at End of Year	\$	<u>117,325</u>

Reconciliation of Accumulated Depreciation:

Balance at Beginning of Year	\$	6,312
Depreciation for the Year		2,453
Accumulated Depreciation on Deletions		
Balance at End of Year	\$	<u>8,765</u>

The aggregate cost of land, buildings and improvements for Federal income tax purposes is approximately \$89,852.

Depreciation is computed based upon the following useful lives:

Buildings and Improvements 15 to 40 years

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HERSHA HOSPITALITY TRUST 2003

**CORPORATE
INFORMATION**

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Fax: (717) 774-7383

**INDEPENDENT
AUDITORS**

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Certified Public Accountants
Two Hopkins Plaza, Suite 2100
Baltimore, MD 21202
(410) 783-4900

**REGISTRAR AND STOCK
TRANSFER AGENT**

Wachovia Securities
1525 West W.T. Harris
Boulevard, 3C3
Charlotte, NC 28288-1179
Telephone: (800) 829-8432

LEGAL COUNSEL

Hunton & Williams
Riverfront Plaza
951 East Byrd Street
Richmond, Virginia 23219

**COMMON STOCK
INFORMATION**

The Common Stock
of Hersha Hospitality
Trust is traded on the
American Stock
Exchange under the
symbol "HT"



HERSHA HOSPITALITY TRUST

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