

HERSHA HOSPITALITY TRUST
Form 10-K/A
March 31, 2006

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

FORM 10-K /A
Amendment No. 1

(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, 2005

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

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(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant, as of June 30, 2005, was approximately \$194.3 million.

As of March 15, 2006, the number of Class A Common Shares of Beneficial Interest outstanding was 20,379,463.

Documents Incorporated By Reference: None.

HERSHA HOSPITALITY TRUST**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) amends and restates the Annual Report on Form 10-K of Hersha Hospitality Trust (the “Company”), as filed by the Company on March 22, 2006 (the “Original Form 10-K”), and is being filed solely for the purposes of (1) including the information required by Part III of the Annual Report on Form 10-K, pursuant to General Instruction G(3); (2) replacing the Report of Independent Registered Public Accounting Firm of KPMG LLP regarding our audited financial statements; and (3) replacing the Report of Independent Registered Public Accounting Firm of KPMG LLP regarding Management’s Report on Internal Control Over Financial Reporting to make certain technical corrections thereto.

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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 in this report including, but not limited to those discussed in the sections entitled “Risk Factors,” “Growth Strategy” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” 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.

PART II**Item 8. Financial Statements and Supplementary Data****Hersha Hospitality Trust**

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees of

Hersha Hospitality Trust:

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. 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 and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements for 2005 and 2004 taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of FASB Interpretation No. 46 (R) Consolidation of Variable Interest Entities effective March 31, 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hersha Hospitality Trust and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2006, expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Harrisburg, Pennsylvania

March 17, 2006

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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 sheet of Hersha Hospitality Trust and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of Public Company Accounting Oversight Board (United States). 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.

REZNICK GROUP, P.C.

Baltimore, Maryland
March 5, 2004, *except for the effect
on 2003 amounts as described in
Note 12 as to which the date is
March 21, 2006*

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Part I. Financial Information

Item 1. Financial Statements

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	December 31, 2005	December 31, 2004
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	\$ 317,980	\$ 163,923
Investment in Joint Ventures	55,981	9,069
Development Loans Receivable from Related Parties	32,470	36,550
Cash and cash equivalents	8,780	20,614
Escrow Deposits	7,329	2,046
Notes Receivable	1,886	103
Hotel Accounts Receivable	2,211	1,776
Deferred Costs, net of Accumulated Amortization of \$1,437 and \$795	4,131	1,474
Due from Related Parties	2,779	4,482
Interest Rate Derivative	23	----
Intangible Assets, net of Accumulated Amortization of \$478 and \$368	4,681	640
Other Assets	13,697	1,586
Hotel Assets Held for Sale	3,407	18,758
Total Assets	\$ 455,355	\$ 261,021
Liabilities and Shareholders' Equity:		
Line of Credit	\$ ----	\$ 1,027
Mortgages and Notes Payable	256,146	97,761
Capital Lease Payable	----	447
Accounts Payable and Accrued Expenses	6,969	5,400
Advance Deposits	130	108
Dividends and Distributions Payable	5,151	4,164
Due to Related Parties	4,655	129
Interest Rate Derivative	----	306
Debt and Capital Lease Payable Related to Hotel Assets Held for Sale	375	13,058
Total Liabilities	273,426	122,400

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

COMMITMENTS AND CONTINGENCIES	December 31, 2005	December 31, 2004
Minority Interest:		
Common Units	\$ 15,147	\$ 16,779
Interest in Consolidated Joint Ventures	2,079	2,050
Total Minority Interest	17,226	18,829
Shareholders' Equity:		
Preferred Shares - 8% Series A, \$.01 Par Value, 10,000,000 Shares Authorized, 2,400,000 and -0- Shares Issued and Outstanding at December 31, 2005 and December 31, 2004, Respectively (Aggregate Liquidation Preference \$60,000 and \$-0- at December 31, 2005 and December 31, 2004, respectively)	24	-
Common Shares - Class A, \$.01 Par Value, 50,000,000 Shares Authorized, 20,302,752 and 20,289,983 Shares Issued and Outstanding at December 31, 2005 and December 31, 2004, Respectively	203	203
Common Shares - Class B, \$.01 Par Value, 50,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Income	327	33
Additional Paid-in Capital	193,228	135,363
Distributions in Excess of Net Earnings	(29,079)	(15,807)
Total Shareholders' Equity	164,703	119,792
Total Liabilities and Shareholders' Equity	\$ 455,355	\$ 261,021

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	2005	2004	2003
Revenue:			
Percentage Lease Revenues - HHMLP	\$ -	\$ 1,192	\$ 10,144
Percentage Lease Revenues - Other	-	-	960
Hotel Operating Revenues	80,899	47,339	4,731
Total Revenue	80,899	48,531	15,835
Expenses:			
Hotel Operating Expenses	49,783	30,335	3,323
Land Lease	433	504	50
Real Estate and Personal Property Taxes and Property Insurance	4,346	3,104	1,309
General and Administrative	4,992	3,190	671
Prepayment Penalties - Debt	-	-	116
Compensation Expense related to Option Redemption	-	-	1,307
Unrecognized (Gain) loss on Derivatives	(13)	62	-
Depreciation and Amortization	10,600	6,930	4,136
Total Operating Expenses	70,141	44,125	10,912
Operating Income	10,758	4,406	4,923
Interest Income	359	241	86
Interest Income - Secured Loans Related Party	4,046	1,498	715
Interest Income - Secured Loans	137	693	-
Other Revenue	520	176	8
Interest Expense	14,094	6,167	4,250
Interest Expense - Related Party	-	-	60
Income before income from Unconsolidated Joint Venture Investments, Distributions to Preferred Unitholders, Minority Interests and Discontinued Operations	1,726	847	1,422
Income (loss) from Unconsolidated Joint Venture Investments	457	481	(24)
Income before Distribution to Preferred Unitholders, Minority Interests and Discontinued Operations	2,183	1,328	1,398
Distributions to Preferred Unitholders	-	499	1,195
Income Allocated to Minority Interest in Continuing Operations	-	105	104
Income from Continuing Operations	2,183	724	99

Discontinued Operations (Note 12):

Gain on Disposition of Hotel Properties	1,161	-	-
(Loss) Income from Discontinued Operations - operations	(47)	1,325	686
Income from discontinued operations	1,114	1,325	686
Net Income	3,297	2,049	785
Preferred Distributions	1,920	-	-
Net Income applicable to Common Shareholders	\$ 1,377	\$ 2,049	\$ 785

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	2005	2004	2003
<u>Basic and diluted earnings per share</u>			
Income from continuing operations applicable to commonshareholders	\$ 0.01	\$ 0.04	\$ 0.02
Discontinued operations	\$ 0.06	\$ 0.09	\$ 0.15
Net Income applicable to common shareholders	\$ 0.07	\$ 0.13	\$ 0.17
<u>Weighted Average Common Shares Outstanding</u>			
Basic	20,293,554	16,391,805	4,614,316
Diluted	20,335,181	16,391,805	4,614,316

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
[IN THOUSANDS, EXCEPT SHARES]

	Class A		Class B Common		Series A		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Distributions in Excess of Net Earnings	Total
	Common Shares	Shares Dollars	Shares	Dollars	Preferred Shares	Dollars		Income	Earnings		
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	0	-	-	-	-	-	(5,826)	-	-	-	(5,826)
Dividend											
Reinvestment Plan	3,212	-	-	-	-	-	24	-	-	-	24
Stock based compensation expense	-	-	-	-	-	-	279	-	-	-	279
Reallocation of minority interest due to equity issuance	-	-	-	-	-	-	(14,650)	-	-	-	(14,650)
Dividends declared (\$0.72 per share)	-	-	-	-	-	-	-	-	(3,618)	-	(3,618)
Net Income	-	-	-	-	-	-	-	-	785	-	785
Balance at December 31, 2003	12,355,075	124	-	-	-	-	76,496	-	(5,160)	-	71,460
Common Stock											
Issuance	3,900,000	39	-	-	-	-	36,504	-	-	-	36,543
Unit Conversion	4,032,460	40	-	-	-	-	24,820	-	-	-	24,860
Issuance Costs	-	-	-	-	-	-	(324)	-	-	-	(324)
Dividend											
Reinvestment Plan	2,448	-	-	-	-	-	22	-	-	-	22
Reallocation of minority interest due to equity issuance	-	-	-	-	-	-	(2,155)	-	-	-	(2,155)
Dividends declared (\$0.72 per share)	-	-	-	-	-	-	-	-	(12,696)	-	(12,696)
Comprehensive Income:											
Change in fair value of hedge instruments	-	-	-	-	-	-	-	33	-	-	33
Net Income	-	-	-	-	-	-	-	-	2,049	-	2,049
Total Comprehensive	-	-	-	-	-	-	-	-	-	-	2,082

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Income										
Balance at										
December 31, 2004	20,289,983	203					135,363	33	(15,807)	119,792
Unit Conversion	8,155	-	-	-	-	-	46	-	-	46
Common Stock										
Issuance Costs	-	-	-	-	-	-	(30)	-	-	(30)
Dividend										
Reinvestment Plan	2,519	-	-	-	-	-	24	-	-	24
Preferred Stock										
Issuance	-	-	-	-	2,400,000	24	58,086	-	-	58,110
Preferred Stock										
Issuance Costs	-	-	-	-	-	-	(360)	-	-	(360)
Dividends declared:										
Common Stock										
(\$0.72 per share)	-	-	-	-	-	-	-	-	(14,649)	(14,649)
Preferred Stock										
(\$0.89 per share)	-	-	-	-	-	-	-	-	(1,920)	(1,920)
2004 Equity										
Incentive Plan										
Awards	2,095	-	-	-	-	-	99	-	-	99
Comprehensive										
Income:										
Change in fair value										
of hedge instruments	-	-	-	-	-	-	-	294	-	294
Net Income	-	-	-	-	-	-	-	-	3,297	3,297
Total										
Comprehensive										
Income	-	-	-	-	-	-	-	-	-	3,591
Balance at										
December 31, 2005	20,302,752	\$ 203	-	\$ -	2,400,000	\$ 24	\$ 193,228	\$ 327	\$ (29,079)	\$ 164,703

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	2005	2004	2003
Operating activities:			
Net Income	\$ 3,297	\$ 2,049	\$ 785
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on disposition of hotel assets	(1,323)	-	-
Depreciation	10,696	6,959	4,681
Amortization	672	241	109
Income allocated to minority interests	154	348	821
Equity in income (loss) of unconsolidated joint ventures	(457)	(481)	24
Distributions from unconsolidated joint ventures	1,249	-	-
Gain recognized on change in fair value of derivative instrument	(13)	-	-
Stock based compensation expense	99	-	279
Change in assets and liabilities:			
(Increase) decrease in:			
Hotel accounts receivable	(435)	(1,553)	(223)
Escrow and lease deposits	(1,074)	113	(411)
Lease payments receivable - related party	-	2,590	(28)
Lease payments receivable - other	-	-	233
Other assets	(1,923)	(894)	(423)
Due from related party	(1,431)	(811)	62
Increase (decrease) in:			
Deposits Payable	-	-	(1,000)
Advance deposits	22	108	-
Due to related party	4,419	(290)	(884)
Preferred distributions payable	-	-	499
Accounts payable and accrued expenses	1,461	3,769	669
Net cash provided by operating activities	15,413	12,148	5,193
Investing activities:			
Purchase of hotel property assets	(135,059)	(51,516)	(31,943)
Capital expenditures	(2,958)	(2,494)	-
Proceeds from disposition of hotel assets held for sale	6,288	-	-
Deposits on hotel acquisitions	(8,250)	-	-
Investment in common stock of Trust entities	(1,548)	-	-
Purchase of franchise fees	(302)	-	(127)
Investments in notes receivable	(1,166)	(13,939)	(15,000)
Repayment of notes receivable	83	15,133	-
Repayment of development loans to related parties	30,725	-	-
Investment in development loans to related parties	(31,345)	(20,550)	(4,700)

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Advances and capital contributions to unconsolidated joint ventures	(47,704)	(5,012)	(6,600)
Net used in investing activities	(191,236)	(78,378)	(58,370)

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	2005	2004	2003
Financing activities:			
Proceeds from borrowings under line of credit	171,111	45,365	19,411
Repayment of borrowings under line of credit	(172,138)	(44,338)	(23,214)
Principal repayment of mortgages and notes payable	(6,189)	(7,283)	(19,608)
Proceeds from mortgages and notes payable	133,692	37,375	29,907
Cash paid for interest rate cap	(23)	-	-
Cash paid for deferred financing costs	(2,460)	(325)	(139)
Cash received from sale of common stock, net	(30)	38,279	77,262
Cash received from sale of preferred stock, net	57,750	-	-
Cash received from sale of Series A Preferred Units	-	-	17,080
Redemption of common partnership units	-	(8,951)	(1,449)
Preferred distributions paid on Series A Preferred Units	-	(499)	-
Distributions to consolidated joint venture interest	198	-	-
Contributions from consolidated joint venture interest	(317)	-	-
Dividends paid on common shares	(14,599)	(11,267)	(1,834)
Dividends paid on preferred shares	(947)	-	-
Distributions paid on common partnership units	(2,059)	(2,219)	(3,672)
Net cash provided by financing activities	163,989	46,137	93,744
Net (decrease) increase in cash and cash equivalents	(11,834)	(20,093)	40,567
Cash and cash equivalents - beginning of year	20,614	40,707	140
Cash and cash equivalents - end of year	\$ 8,780	\$ 20,614	\$ 40,707

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

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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust (“we” or 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 (“HLLC”), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HLLC.

On January 16, 2003, the Partnership formed a wholly owned taxable REIT subsidiary, 44 New England Management Company (“44 New England” or “TRS Lessee”), 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 \$17,023. On April 16, 2004, CNL exercised its conversion right and redeemed all of its convertible preferred units in exchange for 2,816,460 shares of common stock.

On October 21, 2003, we completed a public offering of 9,775,000 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 the offering, the Company contributed all of the net proceeds of the offering to the Partnership. Of the net offering proceeds, approximately \$10,400 was used to fund limited partner redemptions and approximately \$24,000 was used to repay indebtedness. The remaining net proceeds were used principally to fund acquisitions and for general corporate purposes.

On September 24, 2004, we completed a public offering of 3,500,000 common shares at \$9.37 per share. On September 30, 2004, the underwriter exercised its over-allotment option on these shares, and we issued an additional 400,000 common shares at \$9.37 per share. Proceeds to the Company, net of underwriting discounts and commissions and expenses, were approximately \$36,317. Immediately upon closing the offering, the Company contributed all of the net proceeds of the offering to the Partnership in exchange for additional Partnership interests. Of the net offering proceeds, approximately \$5,000 was used to repay indebtedness. The remaining net proceeds have been principally allocated to fund secured development loans, acquisitions and for general corporate purposes.

On August 5, 2005, the Company completed a public offering of 2,400,000 of its 8.00% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share. Net proceeds of the offering, less expenses and underwriters commissions, were approximately \$57,750. Proceeds from the offering were used to finance the acquisition of the Company’s interests in Mystic Partners, LLC and SB Partners, LLC. The remaining net proceeds have been principally allocated to fund secured development loans and for general corporate purposes.

As of December 31, 2005, the Company, through the Partnership and subsidiary partnerships, owned thirty-one limited and full service hotels. All of the owned hotel facilities are leased to the Company's taxable REIT subsidiary ("TRS"), 44 New England. Prior to April 1, 2004, eight owned hotels were leased to Hersha Hospitality Management, LP ("HHMLP"), a Pennsylvania limited partnership. As of April 1, 2004, the Company terminated these eight leases with HHMLP and leased the hotels to 44 New England.

In addition to the wholly owned hotel properties, as of December 31, 2005, the Company owned joint venture interests in sixteen properties. The properties owned by the joint ventures are leased to a TRS owned by the joint venture or to an entity owned by the joint venture partners and 44 New England. The following table lists the properties owned by these joint ventures:

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

Joint Venture	Ownership	Property	Location	Lessee
Inn America Hospitality at Ewing, LLC	50.0%	Courtyard	Ewing/Princeton, NJ	Hersha Inn America TRS Inc.
HT CNL Metro Hotels, LP	33.3%	Hampton Inn	Chelsea/Manhattan, NY	Hersha/CNL TRS Inc
PRA Glastonbury, LLC	40.0%	Hilton Garden Inn	Glastonbury, CT	Hersha PRA TRS, Inc
Mystic Partners, LLC	66.7%	Marriott	Mystic, CT	Mystic Partners Leaseco, LLC
	44.0%	Hilton	Hartford, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Norwich, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Warwick, RI	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Danbury, CT	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Mystic, CT	Mystic Partners Leaseco, LLC
	44.7%	Residence Inn	Southington, CT	Mystic Partners Leaseco, LLC
	66.7%	Springhill Suites	Waterford, CT	Mystic Partners Leaseco, LLC
Hiren Boston, LLC	50.0%	Courtyard	South Boston, MA	South Bay Boston, LLC
SB Partners, LLC	50.0%	Holiday Inn Express	South Boston, MA	South Bay Sandeep, LLC
Logan Hospitality Associates, LLC	55.0%	Four Points - Sheraton	Revere/Boston, MA	Revere Hotel Group, LLC
LTD Associates One, LLC	75.0%	Springhill Suites	Williamsburg, VA	HT LTD Williamsburg One LLC
LTD Associates Two, LLC	75.0%	Residence Inn	Williamsburg, VA	HT LTD Williamsburg Two LLC

Hersha Inn America TRS Inc; Hersha/CNL TRS Inc.; Hersha PRA TRS, Inc; South Bay Sandeep, LLC; and Revere Hotel Group, LLC, are each a TRS wholly-owned by their respective joint ventures. Mystic Partners, LLC owns an

interest in eight hotel properties. Each of the eight properties owned by Mystic Partners, LLC is leased to a separate entity that is consolidated in Mystic Partners Leaseco, LLC which is owned by 44 New England and the Company's joint venture partner in Mystic Partners, LLC. South Bay Boston, LLC; HT LTD Williamsburg LLC; and HT LTD Williamsburg Two LTD LLC lease properties from each respective joint venture and are owned by 44 New England and the Company's joint venture partner in each venture.

44 New England and the joint venture TRS lessees lease the hotel properties pursuant to separate percentage lease agreements (the "Percentage Leases") that provide for percentage rents based on the revenues of the hotels. HHMLP serves as the manager for all of the owned assets and joint venture assets, except for the properties owned by Mystic Partners, LLC; Hiren Boston, LLC; SB Partners, LLC; LTD Associates One, LLC; and LTD Associates Two, LLC. These properties are managed by parties related to our partners in those joint ventures. HHMLP is owned in part by four of the Company's executive officers, two of its trustees and other third party investors.

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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. Properties owned in joint ventures are also consolidated if the determination is made that we are the primary beneficiary in a variable interest entity or we maintain control of the asset through our voting interest in the entity. 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 Financial Accounting Standards Board issued FASB Interpretation No. 46, ("FIN 46") "Consolidation of Variable Interest Entities (VIE's), an interpretation of Accounting Research Bulletin No. 51 (ARB No. 51)," in January 2003 and a further interpretation of FIN 46 in December 2003 ("FIN 46-R" and FIN 46, collectively "FIN 46"). FIN 46 addresses how a business enterprise should evaluate whether it has a controlling financial interest in any variable interest entity ("VIE") through means other than voting rights, and accordingly, should include the VIE in its consolidated financial statements. We have adopted FIN 46 effective as of March 31, 2004.

Our investments and contractual relationships with the following entities have been evaluated to determine whether they meet the guidelines of consolidation in accordance with FIN 46: HHMLP; Logan Hospitality Associates, LLC; HT CNL Metro Hotels, LP; PRA Glastonbury, LLC; Inn America Hospitality at Ewing, LLC; Mystic Partners, LLC; Mystic Partners Leaseco, LLC; Hiren Boston, LLC; South Bay Boston, LLC, SB Partners, LLC; LTD Associates One, LLC; HT LTD Williamsburg LLC; LTD Associates Two, LLC; HT LTD Williamsburg Two LLC; Hersha Statutory Trust I; Hersha Statutory Trust II; HPS Seaport LLC & BCM, LLC; 44 Fifth Avenue, LLC; 5444 Associates, LP; Metro Ten Hotels, LLC; and PRA Suites at Glastonbury, LLC.

Our examination consisted of reviewing the sufficiency of equity at risk, controlling financial interests, voting rights, and the obligation to absorb expected losses and expected gains, including residual returns. Based on our examination, each of the following entities were determined to be a VIE, except Mystic Partners, LLC; Mystic Partners Leaseco, LLC; South Bay Boston, LLC; HT LTD Williamsburg LLC; HT LTD Williamsburg Two LTD LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II.

We have terminated all of the existing leases with HHMLP, effective April 1, 2004. Due to the termination of the leases and the funding of sufficient equity by the partners of HHMLP, we have determined that HHMLP is a voting interest entity and we have no ownership interest in that entity. Therefore we have not consolidated the financial statements of HHMLP with ours effective as of April 1, 2004.

We have consolidated the operations of the Logan Hospitality Associates, LLC; LTD Associates One, LLC; and LTD Associates Two, LLC joint ventures because each entity is a voting interest entity and the Company owns a majority voting interest in the venture.

Our investments in HT/CNL Metro Hotels, LP; PRA Glastonbury, LLC; Inn America Hospitality at Ewing, LLC; Hiren Boston, LLC; and SB Partners, LLC represent non-controlling ownership interests in the ventures. All of these entities are voting interest entities. 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.

We hold an investment in development loan receivables with HPS Seaport LLC & BCM, LLC; 44 Fifth Avenue, LLC; 5444 Associates, LP; Metro Ten Hotels, LLC; and PRA Suites at Glastonbury, LLC. We have determined that each borrower has sufficient equity at risk, a controlling financial interest and an obligation to absorb expected losses and expected gains, including residual returns of the entity. These entities are voting interest entities and because we have no voting interest they are not consolidated.

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

Mystic Partners, LLC is a VIE entity, however because we are not the primary beneficiary it is not consolidated by the Company. Also, Mystic Partners Leaseco, LLC; South Bay Boston, LLC; HT LTD Williamsburg LLC; and HT LTD Williamsburg Two LTD LLC lease hotel properties from our joint venture interests and are variable interest entities. These entities are consolidated by the lessors, the primary beneficiaries of each entity.

During the second quarter of 2005, we formed Hersha Statutory Trust I and Hersha Statutory Trust II, Delaware statutory trusts (collectively, the "Hersha Statutory Trusts"), to collectively issue \$50,000 of trust preferred securities in private placements. We acquired, for \$1,548, residual interests (common securities) in the Hersha Statutory Trusts. Preferred equity securities of \$25,000 issued by Hersha Statutory Trust I will mature on June 30, 2035, and the remaining \$25,000 preferred equity securities issued by Hersha Statutory Trust II will mature on July 30, 2035, at par. The preferred equity securities issued by Hersha Statutory Trust I and Hersha Statutory Trust II may be redeemed by the trusts beginning on June 30, 2010 and July 30, 2010, respectively. The holders of both the preferred equity and common securities will receive quarterly distributions from the Hersha Statutory Trusts, at a fixed rate of 7.34% per annum through June 30, 2010 for Hersha Statutory Trust I and 7.173% per annum through July 30, 2010 for Hersha Statutory Trust II. Subsequent to June 30, 2010, for Hersha Statutory Trust I and July 30, 2010 for Hersha Statutory Trust II, holders of the trusts preferred equity and common securities will receive quarterly distributions at a variable rate of LIBOR plus 3.0% per annum. The Hersha Statutory Trusts used the proceeds from the issuance of the preferred and common securities to acquire \$51,548 of junior subordinated notes from HHLP pursuant to indenture agreements. The note acquired by Hersha Statutory Trust I will mature on June 30, 2035, but may be redeemed at our option, in whole or in part, beginning on June 30, 2010 in accordance with the provisions of the indenture agreement. The note acquired by Hersha Statutory Trust II will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, beginning on July 30, 2010 in accordance with the provisions of the indenture agreement. The note acquired by Hersha Statutory Trust I bears interest at a fixed rate of 7.34% per annum through June 30, 2010 and the note acquired by Hersha Statutory Trust II bears interest at a fixed rate of 7.173% per annum through July 30, 2010. Subsequent to June 30, 2010 for Hersha Statutory Trust I and July 30, 2010 for Hersha Statutory Trust II, holders the notes bear interest at a variable rate of LIBOR plus 3.0% per annum.

The Hersha Statutory Trusts are VIEs under FIN 46, because the equity holders at risk hold no substantial decision-making rights. Because HHLP is not the primary beneficiary in the Hersha Statutory Trusts, the accounts of the trusts are not consolidated with and into HHLP. HHLP's investment in the Hersha Statutory Trusts is accounted for using the equity method of accounting and is presented on our consolidated balance sheet in other assets.

The proceeds received by HHLP in exchange for the notes were used to fund acquisitions of hotel properties, pay down outstanding borrowings under our revolving credit facility and for general corporate purposes. The notes are presented on our consolidated balance sheet in Mortgages and Notes Payable.

We will continue to evaluate each of our investments and contractual relationships to determine if consolidation is required based upon the provisions of FIN 46.

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.

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

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

Revenue Recognition

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.

Stock Compensation

We apply Statement of Financial Accounting Standards No. 123R, “Share-Based Payments” (SFAS 123R) where by we measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Earnings Per Common Share

We compute earnings per share in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 128, “Earnings Per Share.”

Minority Interest

Minority Interest in the Partnership represents the limited partner’s proportionate share of the equity of the Partnership. Income (Loss) is allocated to minority interest in accordance with the weighted average percentage ownership of the Partnership during the period. At the end of each reporting period the appropriate adjustments to the income (loss) are made based upon the weighted average percentage ownership of the Partnership during the period. Our ownership interest in the Partnership as of December 31, 2005, 2004 and 2003 was 87.8%, 87.7% and 65.1%, respectively.

We also maintain minority interests for the equity interest owned by third parties in Logan Hospitality Associates, LLC; LTD Associates One, LLC; and LTD Associates Two, LLC. Third parties own a 45% interest in Logan Hospitality Associates, LLC and a 25% interest in each of LTD Associates One LLC and LTD Associates Two, LLC. We allocate these joint venture’s income (loss) to the minority interest in consolidated joint venture account based upon the ownership of the entities.

Impairment of Long-Lived Assets

We review the carrying value of each hotel property in accordance with 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.

Investment in Unconsolidated Joint Ventures

The equity method of accounting is used for joint ventures in which we have the ability to exercise significant influence. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee.

Income Taxes

The Company qualifies as a REIT under applicable provisions of the Internal Revenue Code, as amended, and intends to continue to qualify as a REIT. 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.

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. There were no income taxes recorded in the Statement of Operations.

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

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 in 2003. The TRS Lessee currently leases 31 properties from the Partnership. The TRS Lessee 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, 2005. 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 as we have not concluded that it is more likely than not that these deferred tax assets will be realizable.

Cash Equivalents

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

Escrow Deposits

We are obligated to maintain reserve funds for items such as capital expenditures at hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment), property taxes and insurance pursuant to mortgage agreements with participating lenders.

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.

Development Loan Receivables and Notes Receivable

The Company has invested in development loan receivables and notes receivable in connection with hotel property transactions. Interest income is recognized on the notes receivable when earned based upon the terms of the related notes. Fees and costs incurred are amortized over the term 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.

Deferred Costs and Intangibles

Deferred Costs consist of loan acquisition fees. Intangibles consist of franchise fees, goodwill and an intangible asset

related to the acquisition of leases at rates below market value. Deferred costs and intangibles 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 and the lease related intangible asset is computed using the straight-line method over the term of the related agreement.

Goodwill of \$412, net of accumulated amortization of \$353, 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, 2005.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred and totaled \$1,459, \$1,034 and \$143 for the years ended December 31, 2005, 2004 and December 31, 2003, respectively, related to the hotels consolidated in these financial statements. In connection with our franchise agreements, a portion of the franchise fees paid is for marketing services.

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

Distributions

We intend to pay distributions that, 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 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, 2005, we maintained funds at financial institutions that exceeded federally insured amounts.

Fair Value of Financial Instruments

At December 31, 2005 and 2004, financial instruments include cash and cash equivalents, development loans 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, development loans receivable, notes receivable and accounts payable and accrued expenses approximate carrying value because of the short-term nature of these instruments. The carrying value of loans with related parties approximates fair value. The carrying value of the mortgages payable and the line of credit approximates fair value since the interest rates approximate the interest rates currently offered for similar debt with similar maturities.

Derivatives

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps limit the Company's exposure to increasing interest payments when interest rates increase. During 2005 and 2004, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As of December 31, 2005 and 2004, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations.

The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

Reclassification

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

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NOTE 2 - INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consist of the following at December 31, 2005 and 2004:

	2005	2004
Land	\$ 32,430	\$ 13,865
Buildings and improvements	283,791	146,910
Furniture, fixtures and equipment	43,528	30,131
	359,749	190,906
Less accumulated depreciation	(41,769)	(26,983)
	\$ 317,980	\$ 163,923

Depreciation expense was \$10,540, \$7,356 and \$4,681 for the years ended December 31, 2005, 2004 and 2003, respectively.

No hotels were sold in 2004 and 2003. In 2005, we sold the following hotels for the approximate amounts indicated.

	No. of Rooms	Sales Price
Doubletree Club, JFK International Airport, NY	110	\$ 11,500
Holiday Inn Express, Long Island City, NY	79	\$ 9,000
		\$ 20,500

The following summarizes the number of hotels owned excluding those owned in joint ventures for the periods presented:

	2005	2004	2003
Hotels owned at beginning of year	25	20	18
Acquisitions	8	5	2
Hotels Sold	2	-	-
Hotels owned at end of year	31	25	20

During the years ended December 31, 2005, 2004 and 2003, we acquired the following hotel properties, including closing costs:

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NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

Hotel	Location	Rooms	Acquisition Date	Land	Buildings Improvements and	Furniture Fixtures and Equipment	Franchise Fees and Loan Costs	Leasehold Intangible	Total	
									Purchase Price	Assumed Debt
Fairfield Inn	Laurel, MD	109	1/31/05	\$ 927	\$ 6,120	\$ 344	\$ 44	-	\$ 7,435	-
Hampton Inn	New York, NY	136	4/1/05	5,472	23,497	2,364	547	-	31,880	16,500
McIntosh Portfolio Courtyard by Marriott	Brookline, MA	480	May and June 2005	8,171	40,046	1,572	776	-	50,565	-
2005 TOTAL		913		\$ 14,570	\$ 117,077	\$ 8,040	\$ 1,626	\$ 3,570	\$ 144,883	\$ 16,500
Holiday Inn Express Residence Inn Comfort Inn Residence Inn	Hartford, CT Framingham, MA Frederick, MD Greenbelt, MD	96 125 73 120	1/14/04 3/26/04 5/27/04 7/16/04	\$ N/A 1,325 450 2,615	\$ 2,565 12,705 4,329 14,792	\$ 960 1,875 584 2,040	\$ 12 50 50 50	- - - -	\$ 3,537 15,955 5,413 19,497	\$ 500 - 3,715 -
Hilton Garden Inn	Gettysburg, PA	88	7/23/04	745	6,111	805	60	-	7,721	5,450
2004 TOTAL		502		\$ 5,135	\$ 40,502	\$ 6,264	\$ 222	-	\$ 52,123	\$ 9,665
Hampton Inn Hilton Garden Inn	Linden, NJ Edison, NJ	149 132	10/1/03 10/1/03	1,211 -	11,961 12,159	2,200 2,600	75 65	- -	15,447 14,824	- -
2003 TOTAL		281		\$ 1,211	\$ 24,120	\$ 4,800	\$ 140	-	\$ 30,271	-

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. A \$10,500 note receivable with the sellers was applied for the purchase of the Hampton Inn, New York, NY.

On February 23, 2004, we purchased a 55% joint venture interest in Logan Hospitality Associates, LLC, the owner of the Sheraton Four Point, Revere, MA. We have determined that we have a majority voting interest in this joint venture and that it qualifies for consolidation as it is a voting interest entity.

On November 22, 2005, we purchased a 75% joint venture interest in LTD Associates One, LLC (LTD One) and LTD Associates Two, LLC (LTD Two), the owners of the Springhill Suites and Residence Inn, Williamsburg, VA, respectively. We have determined that we have a majority voting interest in these joint ventures and that they qualify for consolidation as they are voting interest entities.

The consolidated assets of these properties included in our balance sheet as of December 31, 2005 and 2004 are as follows:

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NOTE 2 - INVESTMENTS IN HOTEL PROPERTIES (Continued)

Hotel	Location	Rooms	Acquisition Date	Land	Buildings and Improvements	Fixtures and Equipment	Fees and Loan Costs	Total Assets	Assumed Debt
Springhill Suites (LTD One)	Williamsburg, VA	120	11/22/2005	\$ 1,430	\$ 10,293	\$ 2,676	\$ 182	\$ 14,581	\$ 5,797
Residence Inn (LTD Two)	Williamsburg, VA	108	11/22/2005	1,911	11,624	2,200	239	15,974	8,514
2005 Total Consolidated Joint Ventures		228		\$ 3,341	\$ 21,917	\$ 4,876	\$ 421	\$ 30,555	\$ 14,311
Sheraton Four Points	Revere, MA	180	2/23/2004	\$ 70	\$ 14,996	\$ 2,153	\$ 111	\$ 17,330	\$ 8,802
2004 Total Consolidated Joint Ventures		180		\$ 70	\$ 14,996	\$ 2,153	\$ 111	\$ 17,330	\$ 8,802

Pro Forma Operating Results (Unaudited)

The following condensed pro forma financial information is presented as if the acquisitions of the Residence Inn, Greenbelt, MD; the Fairfield Inn, Laurel, MD; the McIntosh Portfolio; the Courtyard by Marriott, Brookline, MA; LTD One and LTD Two had been consummated as of January 1, 2004. All of the other acquisitions listed above were either purchased without any operating history or did not have a full year's operating history in 2005 or 2004. The condensed pro forma information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated at the beginning of the respective periods presented, nor does it purport to represent the results of operations for future periods.

For the year ended**December 31,**

	2005	2004
Pro Forma Total Revenues	\$ 93,586	\$ 79,533
Pro Forma Net Income	\$ 1,674	\$ (981)
Pro Forma Net Income per Common Share - Basic	\$.08	\$ (.06)

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Pro Forma Net Income per Common Share - Diluted	\$.08	\$	(.08)
Weighted Average Common Shares Outstanding:				
Basic		20,293,554		16,391,805
Diluted		20,335,181		16,391,805

Assets Held for Sale consisted of the following at December 31, 2005 and December 31, 2004:

		December 31, 2005		December 31, 2004
Land	\$	-----	\$	3,050
Buildings and improvements		2,644		15,110
Furniture, fixtures and equipment		1,119		2,036
		3,763		20,196
Less Accumulated Depreciation		(356)		(1,438)
	\$	3,407	\$	18,758

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NOTE 3 - NOTES RECEIVABLE

On September 26, 2002, in connection with the sale of the Clarion Suites, Philadelphia, PA, we provided financing in the amount of \$200, of which \$25 and \$103 was outstanding as of December 31, 2005 and 2004. The terms of the note called for accrued interest at 10% per annum through maturity on December 31, 2003, when the outstanding balance and accrued interest were due. The note is unsecured. During 2004, we extended the due date of the note through June 30, 2005. The note modification also increased our interest rate to 12% from July 1, 2004 until maturity. We had not been accruing interest in prior periods due to the uncertainty of collection of this interest. Based upon current interest and principal payments made during 2004 and our ongoing negotiations, we have determined that the interest and principal is fully collectible. We have recognized accrued interest income from September 2002 until December 31, 2003 during the year ended December 31, 2004. This note has been extended to mature on June 30, 2006 with all other terms remaining unchanged. For the years ended December 31, 2005 and December 31, 2004, we recorded interest income of \$6 and \$44 which is included in "Other Revenue" on the statement of operations.

On May 13, 2005, in connection with the sale of the Doubletree Club, Jamaica, NY, we provided financing in the amount of \$1,700 to the buyer. The note receivable bears interest at a rate of 12% per annum and is due on April 30, 2006. Interest payments are due quarterly with repayment of the principal due upon maturity. The balance as of December 31, 2005 was \$1,861. For the year ended December 31, 2005, we recorded interest income of \$137, which is included in "Interest Income-Secured Loans" on the statement of operations.

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NOTE 4 - INVESTMENT IN JOINT VENTURES

On August 29, 2003, HT/CNL Metro Hotels, LP purchased the Hampton Inn, (Manhattan) Chelsea, NY. We own a one-third equity interest in this joint venture partnership while CNL Hospitality Partners LP owns the remaining equity interests. HT/CNL Metro Hotels purchased this asset for \$28,000 plus settlement costs of approximately \$480 and leased it to Hersha CNL TRS, Inc., a TRS wholly owned by HT/CNL Metro Hotels. In conjunction with this transaction, HT/CNL Metro Hotels executed mortgage indebtedness of approximately \$15,400 payable to the Partnership and paid cash of approximately \$14,080. HT/CNL Metro Hotels repaid the entire amount of the indebtedness to the Partnership in July 2004.

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 the hotel assets to Hersha PRA TRS, Inc., a TRS wholly owned by PRA Glastonbury, LLC. In conjunction with this transaction, PRA Glastonbury, LLC assumed mortgage indebtedness of approximately \$9,900.

On July 1, 2004, we purchased a 50% joint venture interest in Inn America Hospitality at Ewing, LLC. The only asset owned by this entity is the Courtyard by Marriott, Ewing-Hopewell, NJ. We purchased our joint venture interest in this asset for \$1,025 including closing costs of approximately \$55 and leased the hotel assets to Hersha Inn America TRS, Inc., a TRS wholly-owned by Inn America Hospitality at Ewing, LLC.

On July 1, 2005, we acquired a 49.9% interest in Hiren Boston. LLC (“Hiren”), the owner of a 164 room Courtyard by Marriott in South Boston, Massachusetts, for approximately \$5,031, including settlement costs of approximately \$331. This hotel is leased to South Bay Boston, LLC, a joint venture owned by 44 New England and our joint venture partner, and managed by an affiliate of our joint venture partner. Our joint venture partner and the manager of the property are unaffiliated with the Company. The Hiren joint venture agreement provides for a 10% preferred return during the first two years of the venture based on the equity interest in Hiren. Cash distributions will be made from cash available for distribution, first, to us to provide a 10% annual non-compounded return on our capital contributions and then to our joint venture partner to provide a 10% annual non-compounded return of their contributions. The 10% returns are not cumulative. Any remaining cash available for distribution will be distributed 50% to us. Subsequent to this initial two year period, cash distributions will be made 50% to us and 50% to our joint venture partners in Hiren. In accordance with AICPA Statement of Position 78-9 “Accounting for Investments in Real Estate Ventures” (SOP 78-9), Hiren will allocate income to HHLP and our joint venture partner consistent with the allocation of cash distributions and liquidating distributions.

On October 7, 2005, we acquired a 49.9% interest in SB Partners, LLC (“SB Partners”), the owner of a 118 room Holiday Inn Express in South Boston, Massachusetts, for approximately \$2,250. This hotel will be leased to South Bay Sandeep, LLC, a TRS wholly owned by SB Partners, and managed by an affiliate of our joint venture partner. Our joint venture partner and the manager of the property are owned by certain members that have an interest in Hiren and are unaffiliated with the Company. The SB Partners joint venture agreement provides for a 10% preferred return during the first two years of the venture based on the equity interest in SB Partners. Cash distributions

will be made from cash available for distribution, first, to us to provide a 10% annual non-compounded return on our capital contributions and then to our joint venture partner to provide a 10% annual non-compounded return of their contributions. The 10% returns are not cumulative. Any remaining cash available for distribution will be distributed 50% to us. Subsequent to this initial two year period, cash distributions will be made 50% to us and 50% to our joint venture partners in SB Partners. In accordance with SOP 78-9, SB Partners allocates income to us and our joint venture partner consistent with the allocation of cash distributions and liquidating distributions.

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NOTE 4 - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

We entered into a joint venture with Waterford Hospitality and Mystic Hotel Investors, LLC (“MHI,” and together with Waterford, the “Waterford Parties”), pursuant to which the parties agreed to establish Mystic Partners, LLC (“Mystic”). The Waterford Parties agreed to contribute to Mystic Partners its membership interests (the “Membership Interests”) in a portfolio of nine entities, each of which was either wholly-owned or majority-owned by the Waterford Parties (the “Owners”). These entities own nine Marriott- or Hilton-branded hotels in Connecticut and Rhode Island with an aggregate fair value of approximately \$250,000. Hersha agreed to contribute to Mystic Partners approximately \$52,000 in cash, subject to adjustment, in exchange for a 66.7% preferred equity interest in the seven stabilized hotel properties in the portfolio and a 50% preferred equity interest in the two newly-developed hotel properties in the portfolio, subject to minority interest participations in certain hotels. The Mystic Partners joint venture agreement provides for an 8.5% preferred return based on our preferred equity interest in the stabilized and newly-developed hotel properties. Cash distributions will be made from cash available for distribution, first, to us to provide an 8.5% annual non-compounded return on our unreturned capital contributions and then to the Waterford Parties to provide an 8.5% annual non-compounded return of their unreturned contributions. The 8.5% returns are not cumulative. Any remaining cash available for distribution will be distributed to us 56.7%, with respect to the net cash flow from the stabilized properties, and 35%, with respect to the net cash flow from the newly-developed properties. In accordance with SOP 78-9, Mystic Partners will allocate income to us and the Waterford Parties consistent with the allocation of cash distributions and liquidating distributions.

On August 9, 2005, the Company and the Waterford Parties completed the formation of Mystic, and the joint venture acquired the first six stabilized hotels. The Company contributed an aggregate of \$32,011 to Mystic Partners and the Waterford Parties contributed its Membership Interests in the Owners of the six hotels. Mystic issued membership interests to us equivalent to a 66.7 % interest in the six hotels and issued membership interests to the Waterford Parties equivalent to a 33.3 % interest in the six hotels, subject to a minority partner that owns 33% of the interests in Southington Suites, LLC, the Owner of Southington Residence Inn. Aggregate debt secured by the six hotels of approximately \$66,500 was assumed or incurred. The debt secured by Mystic Marriott Hotel and Spa assumed by the joint venture matures in 2010 and accrues interest at the rate of 6.98 % per annum, and the debt secured by the remainder of the five properties matures in 2015 and accrues interest at the rate of 5.56 %.

On September 15, 2005, the Company contributed \$7,139 to Mystic, in connection with the acquisition of the seventh stabilized property by Mystic. The Waterford Parties contributed their Membership Interests in the Owner of the hotel. In connection with this closing, Mystic issued membership interests to us equivalent to a 66.7% interest in the Owner and issued membership interests to the Waterford Partners equivalent to a 33.3% interest in the Owner. Debt of \$8,200 secured by the property was assumed.

On September 18, 2005, Mystic closed on approximately \$9,000 of mezzanine financing related to the Mystic Marriott Hotel & Spa, one of the six hotels acquired by the joint venture in the first closing. Net proceeds of the mezzanine financing were distributed to the Company and the Waterford Parties according to their ownership interests.

On October 6, 2005, the Company contributed \$6,765 to Mystic, in connection with Mystic's acquisition of the first newly-developed property. The Waterford Parties contributed its Membership Interests in the Owner of the Hartford Hilton. The acquisition included the hotel, improvements, certain personal property and pre-paid air rights leases relating to airspace situated on Chapel, Church and Trumbull streets in Hartford, Connecticut. The air leases do not contain options or rights of extensions, renewals or the option to purchase and expire at various times through June 14, 2023 and March 12, 2072. In connection with this third closing, Mystic issued membership interests to HHLP equivalent to a 44.0% interest in the Owner of the property and issued membership interests to the Waterford Partners equivalent to a 44.0% interest in Owner of the property. A minority partner owns approximately 12.0% of the interests in Owner of the property. In connection with the closing, The Owner incurred approximately \$22,000 of aggregate debt secured by the property, which matures in 2009 and accrues interest at a daily floating rate of one-month LIBOR plus 2.75%.

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NOTE 4 - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

The eight hotels acquired by Mystic through December 31, 2005 are:

Hotel Name	Location	Date Acquired	Owner	Hersha Ownership	Number of Rooms
Mystic Marriott Hotel & Spa	Mystic, CT	August 9, 2005	Exit 88 Hotel, LLC	66.7%	285
Danbury Residence Inn	Danbury, CT	August 9, 2005	Danbury Suites, LLC	66.7%	78
Southington Residence Inn	Southington, CT	August 9, 2005	Southington Suites, LLC and 790 West Street, LLC	44.7%	94
Norwich Courtyard by Marriott and Rosemont Suites	Norwich, CT	August 9, 2005	Norwich Hotel, LLC	66.7%	144
Warwick Courtyard by Marriott	Warwick, RI	August 9, 2005	Warwick Lodgings, LLC	66.7%	92
Waterford SpringHill Suites	Waterford, CT	August 9, 2005	Waterford Suites, LLC	66.7%	80
Mystic Residence Inn	Mystic, CT	September 15, 2005	Whitehall Mansion Partners, LLC	66.7%	133
Hartford Hilton	Hartford, CT	October 6, 2005	315 Trumbull Street, LLC	44.0%	393

Each of the Mystic Partners hotel properties is under an Asset Management Agreement with 44 New England to provide asset management services. Fees for these services are paid monthly to 44 New England in the amount 1% of operating revenues, except for the Hartford Hilton which is 0.25% of operating revenues. Each property owned by the joint venture is managed by Waterford Hotel Group, Inc., an affiliate of Waterford. The property manager will receive a base fee of 3% or 4% of gross revenues of the property, depending on the property, and an incentive fee of 10% of net operating income less debt service after each of HHLP and the Waterford Parties receive a 12.0% annual non-compounded return on its unreturned capital contributions.

On February 8, 2006, the Mystic Partners agreed to adjust each party's equity ownership interest in each of the Hartford Hilton and the Hartford Marriott as follows:

	Hersha	Waterford
Hartford Hilton	10%	90%

Hartford	15%	85%
Marriott		

Additionally, the amendment provides us with the option to purchase up to a 50.0% equity ownership interest in Mystic Partners' equity interest in the Hartford Hilton and the Hartford Marriott, respectively, at a price determined in accordance with Amendment. Also, the Company entered into an agreement whereby we and MHI jointly and severally guarantee the performance of the terms of a loan to Adriaen's Landing Hotel, LLC, owner of the Hartford Marriott, in the amount of \$50,000, and 315 Trumbull Street Associates, LLC, in the amount of \$27,000 if at any time during the term of the note and during such time as the net worth of Mystic falls below the amount of the guarantee.

On February 8, 2006, Mystic closed on the acquisition of the 409 room Hartford Marriott in Hartford, Connecticut, the final hotel in the Waterford portfolio to be acquired by Mystic. The acquisition included the hotel, improvements, certain personal property and a pre-paid airspace sublease relating to airspace comprising a portion of the Hartford Convention Center. The Company contributed approximately \$6,700 to Mystic, and the Waterford Parties contributed its Membership Interests in the Owner of the Hartford Marriott. In connection with this closing, Mystic issued membership interests to HHLP equivalent to a 15.0% interest in Mystic Partners' interest in Adriaen's Landing Hotel, LLC. In connection with the closing, Adriaen's Landing Hotel, LLC incurred approximately \$45,000 of aggregate debt secured by the Hartford Marriott. This debt matures in 2010 and accrues interest at one-month LIBOR plus 2.9%.

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NOTE 4 - INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)

We account for our investment in the above mentioned unconsolidated joint ventures using the equity method of accounting.

As of December 31, 2005 and December 31, 2004 our investment in unconsolidated joint ventures consists of the following:

	Percent Owned	12/31/2005	12/31/2004
HT/CNL Metro Hotels, LP	33.33%	4,487	\$ 4,727
HT/PRA Glastonbury, LLC	40.00%	2,379	2,697
Inn American Hospitality at Ewing, LLC	50.00%	1,456	1,645
Hiren Boston, LLC	49.90%	5,034	-
SB Partners	50%	2,232	-
Mystic Partners, LLC	66.70%	40,393	-
		\$ 55,981	\$ 9,069

The following tables set forth the total assets, liabilities, equity and components of net income, including the Company's share, related to the unconsolidated joint ventures discussed above as of December 31, 2005, and 2004 and for the years ended December 31, 2005, 2004 and 2003.

Balance Sheet

	December 31, 2005	December 31, 2004
Assets		
Investment in hotel property, net	\$ 182,708	\$ 59,890
Other assets	22,708	4,043
Total Assets	\$ 205,416	\$ 63,933
Liabilities and Equity		
Mortgages and notes payable	\$ 166,564	\$ 39,520
Capital Leases	357	522
Other liabilities	8,055	1,500
Equity:		
Hersha Hospitality Trust	56,291	9,069
Other Interests in Joint Ventures	(25,817)	13,322
Total Liabilities and Equity	\$ 205,416	\$ 63,933

Statement of Operations

	Year Ended		
	12/31/2005	12/31/2004	12/31/2003
Room revenue	\$ 33,493	\$ 12,966	\$ 2,219
Other revenue	8,679	1,120	69
Operating expenses	(28,017)	(7,752)	(1,637)
Interest expense	(5,467)	(1,733)	(272)
Land Lease Expense	(159)	-	-
Property taxes	(2,781)	(930)	-
Income taxes	71	(181)	-
Depreciation, amortization and other	(6,335)	(2,164)	(403)
Net (loss) income	\$ (516)	\$ 1,326	\$ (24)

Equity income (loss) recognized during the twelve months ended December 31, 2005, 2004, and 2003 for our Equity Investments in Unconsolidated Joint Ventures:

	Twelve Months Ended		
	12/31/2005	12/31/2004	12/31/2003
HT/CNL	\$ 506	\$ 309	71
HT/PRA Glastonbury	75	112	(95)
Inn American Hospitality at Ewing, LLC	(79)	60	-
Hiren Boston, LLC	(80)	-	-
S B Partners, LLC	(26)	-	-
Mystic Partners, LLC	61	-	-
Total equity in income (loss)	\$ 457	\$ 481	\$ (24)

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NOTE 5 - DEBTMortgages and Notes Payable

The total mortgages payable balance at December 31, 2005, and December 31, 2004, was \$256,146 and \$110,819, respectively, and consisted of mortgages with fixed and variable interest rates ranging from 4.0% to 9.43%. We had mortgages on our held for sale properties of \$ -0- and \$13,058 as of December 31, 2005 and December 31, 2004, respectively, which is classified in Debt and Capital Lease Payable Related to Hotel Assets Held for Sale on the consolidated balance sheets. The maturities for the outstanding mortgages ranged from August 2007, to January 2032. Aggregate interest expense incurred under the mortgages payable totaled \$10,936, \$6,780 and \$4,894 during 2005, 2004 and 2003, respectively. The mortgages are secured by first deeds of trust various hotel properties with a combined net book value of \$297,138 and \$164,517 as of December 31, 2005, and 2004, respectively.

Aggregate annual principal payments for the Company's mortgages payable for the five years following December 31, 2005 and thereafter are as follows:

2006	\$	2,740
2007		5,674
2008		54,282
2009		36,153
2010		25,720
Thereafter		131,577
	\$	256,146

In the second quarter of 2005, HHLP issued two junior subordinated notes payable in the aggregate amount of \$51,548 to the Hersha Statutory Trusts pursuant to indenture agreements. The \$25,774 note issued to Hersha Statutory Trust I will mature on June 30, 2035, but may be redeemed at HHLP's option, in whole or in part, beginning on June 30, 2010 in accordance with the provisions of the indenture agreement. The \$25,774 note issued to Hersha Statutory Trust II will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, beginning on July 30, 2010 in accordance with the provisions of the indenture agreement. The note issued to Hersha Statutory Trust I bears interest at a fixed rate of 7.34% per annum through June 30, 2010, and the note issued to Hersha Statutory Trust II bears interest at a fixed rate of 7.173% per annum through July 30, 2010. Subsequent to June 30, 2010 for notes issued to Hersha Statutory Trust I and July 30, 2010 for notes issued to Hersha Statutory Trust II, holders the notes bear interest at a variable rate of LIBOR plus 3.0% pre annum. Interest expense in amount of \$2,313 was recorded during the year ended December 31, 2005.

Revolving Line of Credit

The Company had a revolving line of credit from Sovereign Bank (the "Line of Credit") in the maximum amount of \$35,000. 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, PA and the Mainstay Suites and Sleep Inn, King

of Prussia, PA. On August 31, 2004, the Company extended the term of the Line of Credit from its scheduled expiration in December 2004 to its current expiration in August 31, 2007. The Company maintained a Line of Credit balance of \$-0- at December 31, 2005, and \$1,027 at December 31, 2004. The Company recorded interest expense of \$186, \$163, and \$66 for the years ended December 31, 2005, 2004, and 2003, respectively. The weighted average interest rate on our Line of Credit during the years ended December 31, 2005 and 2004 was approximately 6.10% and 4.30%.

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NOTE 5 - DEBT (Continued)

Unsecured Line of Credit

As of March 24, 2005, we have obtained an unsecured revolving line of credit from Commerce Bank (the "Unsecured Line of Credit") in the maximum amount of \$5,000. Outstanding borrowings under the Unsecured Line of Credit bear interest at the bank's prime rate (which at December 31, 2005, was 7.25%). The Unsecured Line of Credit is scheduled to expire on March 24, 2007. The Company had no outstanding borrowings under the Unsecured Line of Credit at December 31, 2005.

New Line of Credit

On January 17, 2006, we entered into a revolving credit loan and security agreement with Commerce Bank, N.A. with a maximum amount of \$60,000. Outstanding borrowings under the line of credit bear interest at the Company's option of either the bank's prime rate of interest minus .50% or LIBOR available for the periods of 1, 2, 3, or 6 months plus 2.25%. The line of credit is collateralized by a first lien-security interest in all existing and futurer assets of HHLP, and title-insured, first-lien mortgages on the Holiday Inn Express, Harrisburg, PA, the Mainstay Suites and Sleep Inn, King of Prussia, PA, the Fairfield Inn, Laurel, MD, and a hotel property to be determined, and collateral assignment of all hotel management contracts from which HHLP or its affiliates derive revenues. The line of credit expires on December 31, 2008 and replaces the Sovereign Bank Line of Credit. This revolving credit loan replaced both the Sovereign \$35,000 line of credit and the \$5,000 unsecured line of credit described above.

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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. The Company does not anticipate any losses as a result of our obligations as general partner.

Percentage Leases

In June 2004, we entered into an agreement effective April 1, 2004, with HHMLP to terminate the eight remaining leases for the following properties:

Holiday Inn Express, Long Island City, NY
Doubletree Club, Jamaica, JFK Airport - NY
Mainstay Suites, Frederick, MD
Hampton Inn & Suites, Hershey, PA
Hampton Inn, Danville, PA
Holiday Inn Express & Suites, Harrisburg, PA
Sleep Inn and Mainstay Suites, King of Prussia, PA

All of these properties have entered into leases with 44 New England (our TRS) effective as of April 1, 2004, and will continue to be managed by HHMLP. As part of the lease termination, the original sellers of the properties, HHLP and HHMLP have agreed to waive any and all purchase price adjustment in the original purchase agreements for each of the properties. There is no potential liability for any future repricings with any of our owned properties as of December 31, 2005. We entered into management agreements with HHMLP for each of these hotels, but did not pay any consideration in connection with the lease terminations.

We did not earn any fixed or percentage rents for the year ended December 31, 2005. For the year ended December 31, 2004, we earned fixed rents of \$1,222 and earned percentage rents of \$662. For the year ended December 31, 2003, we earned fixed rents of \$4,889 and earned percentage rents of \$8,021.

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, Georgia market. Noble elected not to renew these leases upon expiration of the initial terms of the leases. 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.

The consolidated financial statements include the operating results of these four hotels under the TRS structure from the termination dates. Previously, revenues in 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 reported in the

consolidated statements of operations.

Management Agreements

Beginning in April 2003, 44 New England, our TRS, engaged HHMLP as the property manager for hotels it leased from us pursuant to 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.

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

As of December 31, 2005, HHMLP managed all 31 hotels leased to our TRS, and we consolidated the financial statements of these 31 hotels in these financial statements. HHMLP also managed one consolidated joint venture hotel property and three unconsolidated joint venture hotel properties in which we maintain an investment. For its services, HHMLP receives a base management fee, and if a hotel exceeds certain thresholds, an 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 ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotel. There were no incentive management fees for the years ended December 31, 2005, 2004 and 2003. For the years ended December 31, 2005, 2004 and 2003, management fees incurred totaled \$2,887, \$1,454 and \$142, respectively, and are recorded as Hotel Operating Expenses. In addition the Company incurred \$104 for the early termination of management contracts related to the sale of two hotels in the second quarter in 2005. These fees are included in discontinued operations.

Administrative Services Agreement

Prior to July 1, 2005, under the terms of an administrative service agreement, HHMLP provided accounting and securities reporting services for the Company. The terms of the agreement provided for us to pay HHMLP an annual fee of \$10 per property (prorated from the time of acquisition) for each hotel in our portfolio. On July 1, 2005, the administrative service fee was replaced by monthly accounting and information technology fees for each of our wholly owned hotels. Monthly fees for accounting services are \$2 per property and monthly information technology fees are \$0.5 per property. For the years ended December 31, 2005, 2004 and 2003, the Company incurred administrative services fees of \$140, \$253 and \$178, respectively. For the year ended December 31, 2005, the Company incurred accounting fees of \$386 and information technology fees of \$95. Administrative services fees, accounting fees, and information technology fees are included in General and Administrative expenses.

Franchise Agreements

The hotel properties are operated under franchise agreements assumed by the hotel property lessee. The franchise agreements have 10 to 20 year terms but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The franchise agreements require annual payments for franchise royalties, reservation, and advertising services, and such payments are based upon percentages of gross room revenue. These payments are paid by the lessees and charged to expenses as incurred. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Acquisitions from Affiliates

We have acquired from entities owned or controlled by certain of our executive officers and our related party 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 previously utilized, a “re-pricing” methodology that, in effect, adjusted the initial purchase price for the hotel, one or two years after we initially purchased the hotel, based on the actual operating performance of the hotel during the twelve months prior to the repricing. As part of our lease termination agreement with HHMLP, the original sellers of all of these properties, HHMLP and the Company have waived their respective rights to any and all purchase price adjustments for all properties. 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 each of our officers and trustees such that we obtain a first right of refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of our Company. Since our initial public offering in 1999, we have acquired, wholly or through joint ventures, a total of 49 hotels, including 16 hotels acquired from entities controlled by our officers or trustees. Of the 16 acquisitions from these entities, 15 were newly-constructed or newly-renovated by these entities prior to our acquisition. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are negotiated with the Acquisition Committee. In addition, we have hired an independent accounting firm to provide our Board of Trustees with an “Agreed Upon Procedures” report for all acquisitions and dispositions to related parties.

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

For the years ended December 31, 2005, 2004 and 2003, we incurred expenses of \$969, \$804 and \$73, respectively, for hotel supplies from Hersha Hotel Supply, an unconsolidated related party, which are expenses included in Hotel Operating Expenses. Approximately \$52 and \$4 is included in accounts payable at December 31, 2005 and 2004.

Due From Related Parties

The Due from Related Party balance as of December 31, 2005 and December 31, 2004 was approximately \$2,779 and \$4,482, respectively. The majority of the balance as of December 31, 2005 was accrued interest due on our development loans, and the remaining due from related party balance are receivables owed from our unconsolidated joint ventures. As of December 31, 2004, we also maintained interest bearing deposits of \$3,500 related to a letters of intent for the acquisition of the Hampton Inn Herald Square, which we purchased on April 1, 2005.

Due to Related Parties

The due to related party balance as of December 31, 2005, and 2004, totaled \$4,655 and \$129, respectively. The due to related party balances at December 31, 2005 and 2004 consists of monies payable to HHMLP for administrative, management, and benefit related fees.

Land Leases

During 2003, in conjunction with the acquisition of the Hilton Garden Inn, Edison, NJ, we assumed a land lease from a third party with an original term of 75 years. Monthly payments as determined by the lease agreement are due through the expiration in August 2074. The land lease for the Hilton Garden Inn, Edison, NJ provides rent increases at scheduled intervals. We record rent expense on a straight-line basis over the life of the lease from the beginning of the lease term. For the years ended December 31, 2005, 2004 and 2003, we incurred \$433, \$504, and \$50 respectively, in lease expense under the agreement.

Future minimum lease payments (without reflecting future applicable Consumer Price Index increases) under this agreement is as follows:

	Hilton Garden Edison, NJ
2006	\$ 200
2007	200
2008	200

2009	200
2010	200
Thereafter	29,722
	\$ 30,722

On January 6, 2005, we purchased land in Carlisle, PA for \$700 plus closing costs from a related party entity and leased the land to 44 Carlisle Associates, L.P., a related party. In July 2005, 44 Carlisle Associates, L.P. exercised their option to purchase the land from us. The purchase price consisted of \$700 for the land plus all fees and expenses.

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

On February 18, 2005, we purchased land at the Bradley International Airport, Windsor Locks, CT for \$1,000 plus closing costs and leased the land to 44 Windsor Locks Associates, LLC, a related party. In addition to the purchase price, the terms of the lease required 44 Windsor Locks Associates, LLC to post a \$350 deposit. In July 2005, 44 Windsor Locks Associates, LLC exercised their option to purchase the land from us. The purchase price consisted of \$1,000 for the land plus all fees and expenses, and the \$350 deposit was returned.

Litigation

We are not presently subject to any material litigation nor, to our knowledge, is any other litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or business or financial condition.

Legal Fees

We have paid to the law firm of Shah & Byler, LLP and its predecessor, Shah Ray & Byler, LLP, whose former senior partner, Jay H. Shah is now our Chief Executive Officer and is the son of Hasu P. Shah, legal fees aggregating \$806, \$679 and \$212 during 2005, 2004 and 2003, respectively. Mr. Shah had resigned from the law firm and relinquished all ownership and control of the firm as of September 2003. Mr. Shah will continue as counsel to the law firm and may receive compensation from the firm for prior client origination. We intend to continue to use the services of Shah & Byler, LLP. Approximately \$101 and \$15 is included in accounts payable at December 31, 2005 and 2004, respectively. In addition, we have paid Shah & Byler, LLP approximately \$73, \$59, and \$ -0- in office rent expenses for the years ended December 31, 2005, 2004, and 2003, respectively, for the use of our corporate office space.

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NOTE 7 - DEVELOPMENT LOANS RECEIVABLE

We have approved mortgage lending to entities in which our executive officers and affiliated trustees own an interest to enable such entities to construct hotels and conduct related improvements on specific hotel projects at interest rates ranging from 9.0% to 10.0% ("Development Line Funding"). As of December 31, 2005 and 2004, we had Development Loans Receivable from Related Parties of \$32,470 and \$36,550, respectively. The December 31, 2005 and 2004 balances include a development loan to Metro Ten Hotels, LLC in the amounts of \$850 and \$13,800, respectively. During 2005, Hasu P. Shah, our Chief Executive Officer, purchased a 50% interest in Metro Ten Hotels, LLC, and as a result, this loan is classified in Development Loans Receivable from Related Parties as of December 31, 2005 and 2004. Interest income from these advances included in "Interest - Secured Loans Related Party," was \$3,581, \$1,498 and \$715 for the years ended December 31, 2005, 2004, and 2003.

As of December 31, 2005, our development loans to related parties consist of the following:

Hotel Property	Borrower	Principal Outstanding 12/31/2005	Interest Rate	Interest Income Earned as of 12/31/2005	Interest Due and Accrued as of 12/31/2005	Maturity Date
Boutique Hotel - 35th Street, New York, NY	44 Fifth Avenue, LLC	\$ 9,100 *	9%	\$ 599	\$ 181	August 31, 2006
Hampton Inn - Seaport, New York, NY	HPS Seaport, LLC and BCM, LLC	13,000	10%	908	734	March 31, 2006
Boutique Hotel - Tribeca, New York, NY	5444 Associates, LP	9,500 *	10%	570	381	August 31, 2006
Hilton Garden Inn - JFK Airport, NY	Metro Ten Hotels, LLC	850 *	10%	1,258	239	December 31, 2005
Homewood Suites, Glatonbury, CT	PRA Suites at Glatonbury,	20	10%	246	-	April 5, 2006

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\$ 32,470 \$ 3,581 \$ 1,535

* As of March 16, 2006, loans receivable from the 5444 Associates, LP and Metro Ten Hotels, LLC were paid in full. 44 Fifth Avenue, LLC paid \$9,000 as of March 16, 2005, resulting in an outstanding balance of \$100.

As of December 31, 2004 our development loans to related parties consisted of the following:

Hotel Property	Borrower	Principal Outstanding 12/31/2004	Interest Rate	Interest Income Earned as of 12/31/2004	Interest Due and Accrued as of 12/31/2004	Maturity Date
Hampton Inn - Herald Square, NYC	Brisam Hotel, LLC	\$ 2,700	12%	\$ 327	\$ 87	June 30, 2005
Hampton Inn - Seaport, NYC	HPS Seaport, LLC and BCM, LLC	4,400	10%	379	111	November 1, 2005
Boutique Hotel - Tribeca, NYC	5444 Associates, LP	4,100	10%	117	103	November 18, 2005
Boutique Hotel - 35th Street, NYC	44 Fifth Avenue, LLC	7,000	8%	87	87	May 3, 2005
Holiday Inn Express - Lancaster, PA	HBK Hospitality Associates, LP	4,550	8%	61	61	May 1, 2005 (*)
Hilton Garden Inn - JFK Airport, NY	Metro Ten Hotels, LLC	13,800	10%	721	102	December 31, 2005
		\$ 36,550		\$ 1,692	\$ 551	

(*) - Loan has been paid off as of March 4, 2005

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NOTE 8 - DERIVATIVE INSTRUMENTS

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates.

On July 1, 2005, the Company acquired an interest rate cap with a notional amount of \$34,230 to hedge against the variability in cash flows on a variable interest rate debt instrument. The principal of the variable interest rate debt being hedged equals the notional amount of the interest rate cap. The interest rate cap effectively fixes interest payments when LIBOR exceeds 5.0%. The interest rate cap matures on January 11, 2007.

During 2005, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

As of December 31, 2005, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

At December 31, 2005, the fair value of the interest rate cap was \$23 and is included in assets and the fair value of the interest rate swap was \$.07 and also is included in assets. At December 31, 2004, the fair value of the interest rate swap was \$306 and is included in liabilities. The change in net unrealized gains/losses of \$327 and \$33 for the years ended December 31, 2005 and 2004, respectively, for derivatives designated as cash flow hedges is separately disclosed on our Balance Sheet as Accumulated Other Comprehensive Income. Hedge ineffectiveness of \$13 and \$62 on cash flow hedges was recognized in unrealized gain/loss on derivatives during 2005 and 2004, respectively.

Amounts reported in Accumulated Other Comprehensive Income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of \$119 of net unrealized gains/losses from Accumulated Other Comprehensive Income to interest expense during 2005. During 2006, the Company estimates that an additional \$22 will be reclassified.

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NOTE 9 - SHARE-BASED PAYMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R") which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"). SFAS No. 123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB Opinion No. 25") and its related implementation guidance. SFAS No. 123R requires companies to record compensation expense for share-based payments to employees, including grants of employee stock options and stock awards, at fair value. Effective April 1, 2005, the Company has adopted SFAS 123R. No stock-based payments were outstanding at the time SFAS 123R was adopted. In 2004, the Company established the Hersha Hospitality Trust 2004 Equity Incentive Plan which provides for the grant of stock options, stock appreciation rights, stock awards, performance shares and incentive awards. The maximum number of shares of common stock that can be issued under this plan is 1.5 million shares. No share-based payments were granted under this plan during the year ended December 31, 2004.

On June 1, 2005, the Compensation Committee of the Board of Directors granted 71,000 restricted share awards to executives. The restricted share awards vest 25% each year over four years and compensation expense is recognized ratably over the four year vesting period based on the fair value of the shares on the date of grant. The fair value of the restricted share awards on the grant date was \$9.60 per share. Compensation expense of \$99 was incurred during the year ended December 31, 2005 related to the restricted share awards and is recorded in general and administrative expense on the statement of operations. Unearned compensation as of December 31, 2005 was \$582.

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NOTE 10 - 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:

The Common Partnership Units (which may be converted to common shares of beneficial interest) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the income attributed to the Common Partnership Units would also be added back to net income. The computation of basic and diluted earnings per common share is presented below:

	2005		2004		2003
Numerator:					
Income from Continuing Operations	\$ 2,183	\$	724	\$	99
Distributions to 8.0% Series A Preferred Shareholders	(1,920)		-		-
Income from continuing operations applicable to common shareholders	263		724		99
Discontinued operations	1,114		1,325		686
Net Income applicable to common shareholders	\$ 1,377	\$	2,049	\$	785
Denominator:					
Weighted average number of common shares - basic	20,293,554		16,391,805		4,614,316
Effect of Dilutive Securities:					
Stock Awards	41,627		-		-
Weighted average number of common shares - diluted	20,335,181		16,391,805		4,614,316
Basic and diluted earnings per share					
Income from continuing operations applicable to common shareholders	\$ 0.01	\$	0.04	\$	0.02
Discontinued operations	0.06		0.09		0.15
Net Income applicable to common shareholders	\$ 0.07	\$	0.13	\$	0.17

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

Interest paid in 2005, 2004 and 2003 totaled \$10,550, \$6,706 and \$4,927, respectively. The following non-cash investing and financing activities occurred during 2005, 2004 and 2003:

	2005		2004		2003
Common shares issued as part of the Dividend Reinvestment Plan	\$ 24	\$	22	\$	24
Issuance of Stock Awards	\$ 682	\$	-	\$	-
Compensation Expense from vesting of Stock Awards	\$ 99	\$	-	\$	-
Conversion of Common LP Units to Class A Common Shares	\$ 46	\$	5,514	\$	-
Conversion of Series A Preferred Units to common stock	\$ -	\$	17,080	\$	-
Adjustment to minority interest as result of redemption of Common LP Units, Series A Preferred Units and common stock issuance	\$ -	\$	2,155	\$	14,650
Redemption of minority interest units payable	\$ -	\$	-	\$	8,951
Net debt assumed in hotel property transactions	\$ 30,810	\$	9,665	\$	-
Other Comprehensive Income	\$ 327	\$	33	\$	-

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NOTE 12 - DISCONTINUED OPERATIONS

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002 which requires, among other things, that the operating results of certain real estate assets which have been sold subsequent to January 1, 2002, or otherwise qualify as held for disposition (as defined by SFAS No. 144), be included in discontinued operations in the statements of operations for all periods presented.

On May 13, 2005, we completed the disposition of the Doubletree Club, Jamaica, NY and the Holiday Inn Express, Long Island City, NY in a sale of the land, improvements and certain personal property to unaffiliated buyers for \$20,500, plus transaction costs. Assets sold had a net book value of \$18,806 and were classified as assets held for sale on the balance sheet. Debt related to assets held for sale of \$12,952 was assumed by the buyers. A note receivable for \$1,700 was received as part of the proceeds from the sale of the Doubletree Club. The notes receivable bears interest at a rate of 12% per annum and is due on April 30, 2006. Interest payments are due quarterly with repayment of the principal due upon maturity. Gain on the sale of the two properties was \$1,323, of which \$162 was allocated to minority interest in HHLP.

In September of 2005, our Board of Trustees authorized management of the Company to sell the Holiday Inn Express, Hartford, CT and this asset is classified as "held for sale" on the Company's Consolidated Balance Sheet as of December 31, 2005. The operating results for this hotel have been reclassified to discontinued operations in the statements of operations for the years ended December 31, 2005 and 2004. The hotel was acquired by the Company in January 2004.

As of December 31, 2005, Debt and Capital Lease Payable related to the assets Held for Sale was \$375 and consisted of capital lease obligations for the Holiday Inn Express, Hartford, CT. This capital lease obligation is from a third party assumed during the acquisition of the Holiday Inn Express, Hartford, CT. The six year lease is secured by furniture, fixtures and equipment and the hotel property and is amortized over a six year period from the acquisition at a fixed rate of 8.3%.

Aggregate annual payments for the Company's capital leases payable for the five years following December 31, 2005 and thereafter are as follows:

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NOTE 12 - DISCONTINUED OPERATIONS (continued)

	HIEXP Hartford, CT
2006	\$ 105
2007	105
2008	105
2009	105
2010	26
Thereafter	0
Total Payments	446
Less: amount representing interest (at an interest rate of 8.3%)	(71)
Obligation under capital lease	\$ 375

In addition, during 2004, in conjunction with the acquisition of the Holiday Inn Express, Hartford, CT we assumed a land lease from a third party with an original term of 99 years. Monthly payments as determined by the lease agreement are due through the expiration in September 2101. For the years ended December 31, 2005 and 2004, we incurred \$300 and \$275 in lease expense under this agreement, which have been reclassified to discontinued operations in the statement of operations.

Future minimum lease payments (without reflecting future applicable Consumer Price Index increases) under this agreement is as follows:

	HIEXP Hartford, CT
2006	\$ 300
2007	300
2008	300
2009	300
2010	300
Thereafter	27,225
	\$ 28,725

The balance as of December 31, 2004 was \$13,058 related to mortgage debt obligations for the Doubletree Club, Jamaica, NY and the Holiday Inn Express, Long Island City, NY.

We allocate interest and capital lease expense to discontinued operations for debt that is to be assumed or that is

required to be repaid as a result of the disposal transaction. We allocated \$323, \$676 and \$644 of interest and capital lease expense to discontinued operations for the years ended December 31, 2005, 2004 and 2003, respectively.

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NOTE 12 - DISCONTINUED OPERATIONS (continued)

The following table sets forth the components of discontinued operations for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Revenue:			
Percentage Lease Revenues - HHMLP	\$ -	\$ 692	\$ 2,766
Hotel Operating Revenues	4,108	6,921	-
Total Revenue	4,108	7,613	2,766
Expenses:			
Interest Expense	323	676	644
Land Lease	300	275	-
Hotel Operating Expenses	3,094	4,250	-
Real Estate and Personal Property Taxes and Property Insurance	276	215	45
General and Administrative	15	30	20
Depreciation and Amortization	154	599	654
Total Expenses	4,162	6,045	1,363
(Loss) Income from Discontinued Operations	(54)	1,568	1,403
Allocation to Minority Interest	(7)	243	717
(Loss) Income from Discontinued Operations	\$ (47)	\$ 1,325	686

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NOTE 13 - 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 declared 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 voted 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 were convertible into Priority Class A Common Shares as of January 26, 2004. During 2005 and 2004, 8,155 and 957,286 common units were converted to Class A Common Shares, respectively.

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.

Preferred Shares

On August 5, 2005, the Company completed a public offering of 2,400,000 of its 8.00% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share. Net proceeds of the offering, less expenses and underwriters commissions, were approximately \$57,750. Proceeds from the offering were used to finance the acquisition of the Company's interests in Mystic Partners, LLC and SB Partners, LLC. The remaining net proceeds have been principally allocated to fund secured development loans and for general corporate purposes.

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 additional 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 had 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 had a liquidation preference of \$100 per unit plus accrued and unpaid distributions. CNL converted all of their preferred limited partnership units during 2004.

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NOTE 13 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP (Continued)

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. During 2005, 8,155 units of limited partnership interest were converted to Class A Common Shares.

The total number of units of limited partnership interest outstanding as of December 31, 2005, 2004 and 2003 was 2,834,282; 2,842,437; and 3,799,723, respectively.

At December 31, 2005 and 2004, the aggregate number of common shares issuable to the limited partners upon exercise of the redemption rights is 2,834,282 and 2,842,437, 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.

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NOTE 14 - INCOME TAXES

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1999. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its shareholders. It is the Company's current intention to adhere to these requirements and maintain the Company's qualification for taxation as a REIT. As a REIT, the Company generally will not be subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.

In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes. 44 New England Company, a 100% owned taxable REIT subsidiary, and Revere Hotel Group LLC, a 55% owned taxable REIT subsidiary, (collectively "Consolidated TRS") are both entities subject to income taxes at the applicable federal, state and local tax rates.

In 2005, 2004 and 2003, 44 New England Management Company generated net operating losses of \$20, \$1,279 and \$351, respectively. In 2005 and 2004, Revere Hotel Group LLC generated net operating losses of \$670 and \$201, respectively. The Company did not record a tax benefit for the net operating losses generated in either 2005 or 2004.

There was no income tax expense (benefit) recognized by the Consolidated TRS for 2005, 2004 and 2003.

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NOTE 14 - INCOME TAXES (continued)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

	For the year ended December 31,	
	2005	2004
Computed "Expected" federal tax expense (benefit) of TRS - at 35%	\$ (242)	\$ (518)
State income taxes, net of federal income tax effect	(44)	(74)
Changes in valuation allowance	286	592
Total income tax expense	\$ -	\$ -

The components of consolidated TRS's deferred tax assets as of December 31, 2005 were as follows:

	2005	as of December 31,		2003
		2004		
Deferred tax assets:				
Net Operating loss carryforward	\$ 1,048	\$ 732	\$	140
Depreciation	(30)	-		-
Net deferred tax assets	1,018	732		140
Valuation allowance	(1,018)	(732)		(140)
Deferred tax assets	\$ -	\$ -	\$	-

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Consolidated TRS will not realize the benefits of these Net Operating Losses at December 31, 2005.

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NOTE 15 - RECENT ACCOUNTING PRONOUNCEMENTS

In July of 2005, the Emerging Issues task Force (EITF) agreed on a framework for evaluating whether a general partner or a group of general partners controls a limited partnership and therefore should consolidate it. EITF Issue 04-5, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights" (EITF 04-5), amends the guidance in AICPA Statement of Position No. 78-9, "Accounting for Investments in Real Estate Ventures" (SOP 78-9) and states that the presumption of general-partner control would be overcome only when the limited partners have either of two types of rights. The first type—referred to as "kick-out rights"—is the right to dissolve or liquidate the partnership or otherwise remove the general partner "without cause." The second type—referred to as "participating rights"—is the right to effectively participate in significant decisions made in the ordinary course of the partnership's business. The kick-out rights and the participating rights must be substantive in order to overcome the presumption of general-partner control. EITF 04-5's guidance is effective immediately for all newly formed limited partnerships and for existing limited partnership agreements that are modified. The guidance will be effective for existing limited-partnership agreements no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company has adopted EITF 04-5 immediately for newly formed or modified partnerships and will adopt EITF 04-05 on January 1, 2006 for all existing partnerships. The Company does not expect the adoption of EITF 04-5 to have a material effect on its consolidated financial statements.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 16 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Year Ended December 31, 2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 13,323	\$ 21,159	\$ 26,212	\$ 23,451
Expenses	14,623	18,711	24,186	25,260
Income (Loss) from Unconsolidated Joint Ventures	49	280	522	(394)
Income (Loss) Before Distributions to Preferred Unitholders, Minority Interests, & Discontinued Operations	(1,251)	2,728	2,548	(2,202)
Income (Loss) Allocated to Minority Holders in Continuing Operations	(260)	381	309	(479)
Income (Loss) from Continuing Operations	(991)	2,347	2,239	(1,723)
Income from Discontinued Operations	17	247	222	(215)
Basic and diluted earnings (loss) per share:				
(Loss) Income from continuing operations applicable to common shareholders	\$ (0.05)	\$ 0.12	\$ 0.08	\$ (0.14)
Discontinued Operations	\$ 0.00	\$ 0.07	\$ 0.01	\$ (0.01)
Weighted Average Common Shares Outstanding				
Basic	20,291,234	20,293,169	20,293,827	20,296,009
Diluted	20,291,234	20,316,576	20,364,827	20,367,009

	Year Ended December 31, 2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 7,112	\$ 13,224	\$ 16,706	\$ 13,962
Expenses	7,921	12,013	14,563	15,645
Income (Loss) from Unconsolidated Joint Ventures	(19)	165	261	74
Income (Loss) Before Distributions to Preferred Unitholders, Minority Interests, & Discontinued Operations	(828)	1,376	2,404	(1,609)

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Income (Loss) Allocated to Minority Holders in Continuing Operations	(287)	271	434	(304)
Income (Loss) from Continuing Operations	(1,040)	1,105	1,970	(1,305)
Income from Discontinued Operations	171	342	288	518
Basic and diluted earnings (loss) per share:				
(Loss) Income from continuing operations applicable to common shareholders	\$ (0.08)	\$ 0.07	\$ 0.12	\$ (0.06)
Discontinued Operations	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03
Weighted Average Common Shares Outstanding				
Basic	12,716,456	15,893,539	16,621,875	20,289,983
Diluted	12,716,456	15,893,539	16,621,875	20,289,983

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**HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]**

NOTE 17 - SUBSEQUENT EVENTS

On January 3, 2006, we acquired the 118 room Fairfield Inn & Suites in Mt. Laurel, NJ, the 103 room Fairfield Inn & Suites in Bethlehem, NJ, and the Langhorne Courtyard in Langhorne, PA for approximately \$40,500.

On February 1, 2006, we acquired the 120 room Courtyard in Scranton, PA for approximately \$8,700.

On February 2, 2006, we acquired the 96 room Residence Inn in Tyson's Corner, VA for approximately \$19,800.

On February 8, 2006, we acquired through our Mystic Partners joint venture a 15% interest in the 409 room Hartford Marriott for approximately \$6,700.

On February 15, 2006, we acquired an 80% interest of the limited partnership interests in Affordable Hospitality Associates, LP, the owner of the land, improvements and certain personal property of the Hampton Inn (Center City) in Philadelphia for approximately \$6,900.

On February 16, 2006, we acquired 100% of the outstanding interests in Metro JFK Associates, LLC, the owner of a leasehold interest in the land, improvements and certain personal property of the Hilton Garden Inn - JFK, located in Jamaica, NY for approximately \$29,000. Consideration was given in the form of cash, assumption of debt, and issuance of 657,895 limited partnership units.

On December 8, 2005, we declared a \$0.18 per common share dividend and distribution of \$0.18 per limited partnership unit that was paid on January 16, 2006. The quarterly dividend pertaining to the Series A Preferred Shares for the fourth quarter was declared on December 8, 2005 and paid on January 16, 2006 at a rate of \$0.50 per share.

On March 17, 2006, we declared a \$0.18 per common share dividend and distribution of \$0.18 per limited partnership unit to shareholders and unitholders on record at March 31, 2006. The dividend and distribution payment date is April 21, 2006. The quarterly dividend pertaining to the Series A Preferred Shares for the first quarter of 2006 was declared on March 17, 2006 to shareholders of record on April 1, 2006 at a rate of \$0.50 per share. The dividend payment date is April 17, 2006.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2005
[IN THOUSANDS]

Description	Encumbrances	Initial Costs		Costs Capitalized		Gross Amounts at which		Total	Accumulated Depreciation	Net Book Value	Date Acquired
		Land	Buildings and Improvements	Subsequent to Acquisition	Buildings and Improvements	Carried at Close of Period	Buildings and Improvements				
Holiday Inn,											
Harrisburg, PA	\$ 3,196	\$ 412	\$ 1,234	\$ -	\$ 2,921	\$ 412	\$ 4,155	\$ 4,567	\$ 1,609	\$ 2,958	12/05
Holiday Inn Express,											
New Columbia, PA											
Columbia, PA	1,692	94	2,510	66	681	160	3,191	3,351	642	2,709	12/05
Holiday Inn Express,											
Hershey, PA											
Hershey, PA	4,417	426	2,645	410	3,091	836	5,736	6,572	1,135	5,437	10/05
HIEXP & Suites,											
Harrisburg, PA											
Harrisburg, PA	-	213	1,934	81	995	294	2,929	3,223	514	2,709	03/05
Comfort Inn,											
Harrisburg, PA											
Harrisburg, PA	2,256	-	2,720	214	1,094	214	3,814	4,028	713	3,315	05/05
Hampton Inn,											
Selinsgrove, PA											
PA	3,102	157	2,511	93	2,261	250	4,772	5,022	1,104	3,918	09/05
Hampton Inn,											
Carlisle, PA											
Carlisle, PA	3,713	300	3,109	200	2,092	500	5,201	5,701	1,051	4,650	06/05

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Hampton Inn, Danville, PA	2,350	300	2,787	99	1,135	399	3,922	4,321	677	3,644	08/2017
Hampton Inn, Hershey, PA	3,528	807	5,714	4	208	811	5,922	6,733	942	5,791	01/2017
Hampton Inn, Newnan, GA	2,933	712	5,504	-	314	712	5,818	6,530	899	5,631	04/2017
Hampton Inn, Peachtree City, GA	1,949	394	3,054	-	299	394	3,353	3,747	532	3,215	04/2017
Comfort Suites, Duluth, GA	3,050	432	4,343	-	103	432	4,446	4,878	643	4,235	05/2017
Holiday Inn Express, Duluth, GA	2,529	470	2,912	-	40	470	2,952	3,422	429	2,993	05/2017
Mainstay Suites Frederick, MD	2,771	262	1,049	171	2,909	433	3,958	4,391	393	3,998	01/2017
Sleep/Mainstay KOP, PA	-	1,133	7,294	-	64	1,133	7,358	8,491	839	7,652	06/2017
Hampton Inn, Linden, NJ	9,974	1,211	11,961	-	27	1,211	11,988	13,199	676	12,523	10/2017
Hilton Garden Inn, Edison, NJ	7,979	-	12,159	-	1	-	12,160	12,160	684	11,476	10/2017
Residence Inn Framingham, MA	9,382	1,325	12,737	-	59	1,325	12,796	14,121	575	13,546	03/2017
Comfort Inn, Fredrick, MD	3,600	450	4,342	-	20	450	4,362	4,812	178	4,634	05/2017

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Residence Inn											
Greenbelt, MD Hilton Garden Inn,	12,769	2,615	14,815	-	21	2,615	14,836	17,451	541	16,910	07/1
Gettysburg, PA Fairfield Inn	5,339	745	6,116	-	12	745	6,128	6,873	225	6,648	07/2
Laurel, MD Hampton Inn,	-	927	6,120	-	4	927	6,124	7,051	134	6,917	01/3
NYC, NY Holiday Inn Express,	22,000	5,472	23,497	-	-	5,472	23,497	28,969	411	28,558	04/0
Langhorne, PA Holiday Inn Express,	5,460	1,088	6,573	-	-	1,088	6,573	7,661	132	7,529	05/2
Malvern, PA Holiday Inn Express,	5,740	2,639	5,324	654	-	3,293	5,324	8,617	83	8,534	05/2
King of Prussia, PA Courtyard Inn	11,270	2,557	13,339	-	-	2,557	13,339	15,896	208	15,688	05/2
Wilmington, DE McIntosh Inn	8,000	988	10,295	-	-	988	10,295	11,283	139	11,144	06/1
Wilmington, DE Courtyard Inn	3,760	898	4,515	-	-	898	4,515	5,413	61	5,352	06/1
Brookline, MA Sheraton Four Points	38,913	-	47,414	-	-	-	47,414	47,414	642	46,772	06/1
Revere, MA	8,654	70	14,996	-	-	70	14,996	15,066	2,571	12,495	02/2

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Springhill
Suites

Williamsburg, VA	5,781	1,430	10,293	-	-	1,430	10,293	11,723	985	10,738	11/2
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Residence Inn

Williamsburg, VA	8,491	1,911	11,624	-	-	1,911	11,624	13,535	1,253	12,282	11/2
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Total
Investment in

Real Estate	\$ 204,598	\$ 30,438	\$ 265,440	\$ 1,992	\$ 18,351	\$ 32,430	\$ 283,791	\$ 316,221	\$ 21,620	\$ 294,601
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Assets Held for
Sale

Holiday Inn
Express,

Hartford, CT	-	-	2,601	-	43	-	2,644	2,644	107	2,537	01/1
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Total Real

Estate	\$ 204,598	\$ 30,438	\$ 268,041	\$ 1,992	\$ 18,394	\$ 32,430	\$ 286,435	\$ 318,865	\$ 21,727	\$ 297,138
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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2005
(continued)
[IN THOUSANDS]

	2005
Reconciliation of Real Estate	
Balance at beginning of year	\$ 178,935
Additions during the year	158,095
Change in assets held for sale	(20,809)
Investments in real estate	\$ 316,221
Assets held for sale	2,644
Total Real Estate	\$ 318,865
Reconciliation of Accumulated Depreciation	
Balance at beginning of year	\$ 14,418
Depreciation for year	5,992
Accumulated Depreciation on Assets Sold	(843)
Depreciation assumed in consolidated joint venture	2,160
Balance at the end of year	\$ 21,727

The aggregate cost of land, buildings and improvements for Federal income tax purposes is approximately \$252,444.

	2004
Reconciliation of Real Estate	
Balance at beginning of year	\$ 117,325
Additions during the year	61,610
Change in assets held for sale	(18,160)
Investments in real estate	\$ 160,775
Assets held for sale	18,160
Total Real Estate	\$ 178,935
Reconciliation of Accumulated Depreciation	
Balance at beginning of year	\$ 8,765
Depreciation for year	3,487
Depreciation assumed in consolidated joint venture	2,166
Balance at the end of year	\$ 14,418

The aggregate cost of land, buildings and improvements for Federal income tax purposes is approximately \$128,518.

Depreciation is computed based upon the following useful lives:

Buildings and Improvements 15 to 40 years

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Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2005. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are not effective and reasonably designed to ensure that all material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission due to the Company's material weaknesses in internal control over financial reporting that existed as of December 31, 2005, as described below.

(b) Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness in internal control over financial reporting is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria contained in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on that evaluation, management has concluded that, as of December 31, 2005, the Company did not maintain effective internal control over financial reporting because of the following material weaknesses in internal control over financial reporting.

- *Inadequate controls at HHMLP related to the existence and accuracy of revenue.* Specifically, the following two reconciliation controls were designed to ensure the existence and accuracy of revenue, (i) a reconciliation of cash received in the Company's bank account to the revenue recorded in the financial statements and (ii) a reconciliation of rooms occupied per the hotel reservation system to the number of rooms for which revenue was recorded in the financial statements. These revenue reconciliations were not operating effectively. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.
- *Inadequate controls at HHMLP related to completeness and accuracy of payroll expense.* Specifically, a control was designed to compare the payroll costs as calculated by the third party who administers the Company's payroll to payroll expense recorded in the general ledger. This control was not consistently performed. This deficiency resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.
- *Inadequate controls related to the approval of journal entries and the review and analysis of account reconciliations and related data.* Specifically, controls over the approval of the Company's journal entries prepared by HHMLP personnel from account reconciliations and related data were not being performed. Additionally, controls related to the review and analysis of the Company's account reconciliations and related data were not always performed timely or by personnel with the appropriate level of experience or knowledge. The failure of these controls resulted in material errors in hotel accounts receivable, due from related parties, accounts payable and accrued expenses, minority interest, hotel operating expenses, general and administrative expenses, other revenue, (loss) income in joint venture investments, income allocated to minority interest and the classification of proceeds from mortgages and notes payable in connection with the purchase of hotel property assets in the consolidated statement of cash flows. These errors were corrected prior to the issuance of the consolidated financial statements.

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·*Inadequate controls designed to ensure the completeness of accounts payable and accrued expenses.* Specifically, the Company lacks controls designed to ensure the completeness of the Company's accounts payable and accrued expenses administered by HHMLP. The failure of these controls resulted in material errors in accounts payable and accrued expenses, hotel operating expenses and general and administrative expenses. These errors were corrected prior to the issuance of the consolidated financial statements.

We acquired Fairfield Inn, Laurel, MD, McIntosh Portfolio, Courtyard by Marriott, Brookline, MA, LTD Associates One, LLC and LTD Associates Two, LLC during the year ended December 31, 2005 and excluded from our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, their internal control over financial reporting associated with total assets of \$141.7 million and total revenues of \$14.4 million included in the consolidated financial statements for the year ended December 31, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which appears herein in Item 9A.

(c) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended December 31, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In response to the material weaknesses described above, subsequent to December 31, 2005, the Company is closely monitoring HHMLP's progress to ensure that HHMLP has taken, and intends to take further, remedial measures in response to these identified material weaknesses. To date, those remedial measures include the following:

- HHMLP has hired a Corporate Controller and is seeking to hire additional senior accounting professionals. The Company intends to continue its oversight of the internal control improvements being implemented by HHMLP and other third party service providers.
- The Company is working with HHMLP to establish additional and more rigorous procedures to be performed by HHMLP to prepare and review financial information prior to release to the Company for inclusion in the consolidated financial statements.
- HHMLP, in cooperation with the Company, is taking steps to better inform and train hotel level accounting employees regarding controls over revenue accounting, account reconciliations and account analysis.

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees of
Hersha Hospitality Trust:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A(b)), that Hersha Hospitality Trust (the Company) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of material weaknesses identified in management's assessment, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment as of December 31, 2005:

·Inadequate controls at Hersha Hospitality Management, LP (HHMLP) related to the existence and accuracy of revenue. Specifically, the following two reconciliation controls were designed to ensure the existence and accuracy of revenue: (i) a reconciliation of cash received in the Company's bank account to the revenue recorded in the financial statements and (ii) a reconciliation of rooms occupied per the hotel reservation system to the number of

rooms for which revenue was recorded in the financial statements. These revenue reconciliations were not operating effectively. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

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·*Inadequate controls at HHMLP related to completeness and accuracy of payroll expense.* Specifically, a control was designed to compare the payroll costs as calculated by the third party who administers the Company's payroll to payroll expense recorded in the general ledger. This control was not consistently performed. This deficiency resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

·*Inadequate controls related to the approval of journal entries and the review and analysis of account reconciliations and related data.* Specifically, controls over the approval of the Company's journal entries prepared by HHMLP personnel from account reconciliations and related data were not being performed. Additionally, controls related to the review and analysis of the Company's account reconciliations and related data were not always performed timely or by personnel with the appropriate level of experience or knowledge. The failure of these controls resulted in material errors in hotel accounts receivable, due from related parties, accounts payable and accrued expenses, minority interest, hotel operating expenses, general and administrative expenses, other revenue, (loss) income in joint venture investments, income allocated to minority interest and the classification of proceeds from mortgages and notes payable in connection with the purchase of hotel property assets in the consolidated statement of cash flows.

·*Inadequate controls designed to ensure the completeness of accounts payable and accrued expenses.* Specifically, the Company lacks controls designed to ensure the completeness of the Company's accounts payable and accrued expenses administered by HHMLP. The failure of these controls resulted in material errors in accounts payable and accrued expenses, hotel operating expenses and general and administrative expenses.

The Company acquired Fairfield Inn, Laurel, MD., McIntosh Portfolio, Courtyard by Marriott, Brookline MA, LTD Associates One, LLC and LTD Associated Two, LLC (the Acquisitions) during the year ended December 31, 2005, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, the Acquisitions' internal control over financial reporting associated with total assets of \$141.7 million and total revenues of \$14.4 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2005. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the Acquisitions.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for the years then ended. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated March 17, 2006, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

/s/ KPMG LLP

Harrisburg, Pennsylvania

March 17, 2006

Index**PART III****Item 10. Trustees and Executive Officers of the Registrant****Trustees and Executive Officers**

Our Board of Trustees consists of eight members, five of whom are independent trustees under the rules of the American Stock Exchange. All of the trustees serve staggered terms of two years and the trustees are divided into two classes. Each trustee in Class I holds office for a term expiring at the 2006 annual meeting of shareholders and the election and qualification of his successor. Each trustee in Class II holds office initially for a term expiring at the 2007 annual meeting of shareholders and the election and qualification of his successor. Certain information regarding our trustees and executive officers is set forth below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Hasu P. Shah (Class II)	61	Chairman of the Board of Trustees
Jay H. Shah (Class I)	37	Chief Executive Officer and Trustee
Neil H. Shah	32	President and Chief Operating Officer
Ashish R. Parikh	36	Chief Financial Officer
Michael R. Gillespie	33	Chief Accounting Officer
Kiran P. Patel	56	Corporate Secretary
David L. Desfor	44	Treasurer
K.D. Patel (Class II)	62	Trustee
John M. Sabin (Class II)	51	Independent Trustee
Michael A. Leven (Class II)	68	Independent Trustee
William Lehr, Jr. (Class I)	65	Independent Trustee
Thomas S. Capello (Class I)	62	Independent Trustee
Donald J. Landry (Class I)	57	Independent Trustee

Hasu P. Shah has been the Chairman of the Board since our inception in 1998 and was our Chief Executive Officer until his retirement in 2005. Mr. Shah is also the founder and Chief Executive Officer of the Hersha Group. Mr. Shah founded Hersha with the purchase of a single hotel in Harrisburg, Pennsylvania in 1984. In the last twenty years, Mr. Shah has developed, owned, or managed over fifty hotels across the Eastern United States and started affiliated businesses in general construction, purchasing, and hotel management. He has earned numerous awards including the

Entrepreneur of the Year, the Creating a Voice award, and was recently named a Fellow of Penn State University. Mr. Shah and his wife, Hersha, are active members of the local community and remain involved with charitable initiatives in India as well. Mr. Shah has been an active Rotarian for nearly twenty years and continues to serve as a Trustee of several community service and spiritual organizations including Vraj Hindu Temple and the India Heritage Research Foundation. Mr. Shah received a Bachelors of Science degree in Chemical Engineering from Tennessee Technical University and obtained a Masters degree in Administration from Pennsylvania State University. Mr. Shah is also an alumnus of the Owner and President's Management program at Harvard Business School. Mr. Shah is the father of Jay H. Shah, our Chief Executive Officer and Neil H. Shah, our President and Chief Operating Officer.

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Jay H. Shah was named Chief Executive Officer and a Trustee as of January 1, 2006. Prior thereto, Mr. Shah had served as our President and Chief Operating Officer since September 3, 2003. Until September 2003, Mr. Shah was a principal in the law firm of Shah & Byler, LLP, which he founded in 1997, and managing director of the Hersha Group. Mr. Shah previously was a consultant with Coopers & Lybrand LLP, served the late Senator John Heinz on Capitol Hill, and was employed by the Philadelphia District Attorney's office and two Philadelphia-based law firms. Mr. Shah received a Bachelor of Science degree from the Cornell University School of Hotel Administration, a Masters degree from the Temple University School of Business Management and a Law degree from Temple University School of Law. Mr. Shah is the son of Hasu P. Shah, our Chairman and the brother of Neil H. Shah, our President and Chief Operating Officer.

Neil H. Shah was named President and Chief Operating Officer as of January 1, 2006. Prior thereto, Mr. Shah had served as our Executive Vice President since January 2005. Prior to that, he served as our Director of Acquisitions & Development since May 2002 and had been a principal of the Hersha Group since 2000. Prior to joining Hersha, he served in senior management positions with the Advisory Board Company and the Corporate Executive Board. Mr. Shah graduated with honors from the University of Pennsylvania and the Wharton School with degrees in Management and Political Science. Mr. Shah earned his M.B.A. from the Harvard Business School. Mr. Shah is the son of Hasu P. Shah, our Chairman and brother of Jay H. Shah, our Chief Executive Officer.

Ashish R. Parikh has been Chief Financial Officer of Hersha Hospitality Trust since 1999. Previously, Mr. Parikh was Assistant Vice President in the Mergers and Acquisition Group for Fleet Financial Group where he developed valuable expertise in numerous forms of capital raising activities including leveraged buyouts, bank syndications and venture financing. Mr. Parikh has also been employed by Tyco International Ltd and Ernst & Young LLP. Mr. Parikh received his M.B.A. from New York University and a B.B.A. from the University of Massachusetts at Amherst. Mr. Parikh is a licensed Certified Public Accountant.

Michael R. Gillespie has served as our Chief Accounting Officer since June 2005. Prior to that he was the Manager, Financial Policy & Controls for Tyco Electronics Corporation, a manufacturer of electronic components and subsidiary of Tyco International, from June 3, 2003, until June 17, 2005. Prior to this, he was Senior Manager in the Audit and Assurance Practice at KPMG, LLP from May 28, 2002, until June 2, 2003. From September 1995 to May 27, 2002, he served as Experienced Manager in the Audit and Business Advisory Practice at Arthur Anderson LLP. Mr. Gillespie received his B.S.B.A in Accounting from Bloomsburg University of Pennsylvania.

Kiran P. Patel has been our Secretary since 1998 and has been a principal of the Hersha Group since 1993. Prior to Hersha, Mr. Patel was employed by AMP Incorporated (electrical component manufacturer), in Harrisburg, Pennsylvania. Mr. Patel serves on various Boards for community service organizations. Mr. Patel received a Bachelor of Science degree in Mechanical Engineering from M.S. University of India and obtained a Masters of Science degree in Industrial Engineering from the University of Texas in Arlington.

David L. Desfor has served as Treasurer of Hersha since December 2002. Previously, Mr. Desfor had been a principal and comptroller of the Hersha Group since 1992. Mr. Desfor previously co-founded and served as President of a hotel management company focused on conference centers and full service hotels. Mr. Desfor earned his undergraduate degree from East Stroudsburg University in Hotel Administration.

K.D. Patel currently serves as a Director for Hersha Hospitality Management, L.P., the manager of 42 of our hotels. Mr. Patel has been a principal of the Hersha Group since 1990 and was previously the President of Hersha Hospitality Management, L.P. Mr. Patel was previously employed by Dupont Electronics from 1973 to 1990. Mr. Patel is currently a Board member of the International Association of Holiday Inns and has been a member of the Board of Trustees of the regional chapter of the American Red Cross and the Advisory Board of Taneytown Bank and Trust. Mr. Patel has served on our Board of Trustees since our initial public offering in 1999. Mr. Patel received a Bachelor

of Science degree in Mechanical Engineering from the M.S. University of India and earned a Professional Engineering License from the Commonwealth of Pennsylvania.

John M. Sabin is Chief Financial Officer and General Counsel of Phoenix Health Systems, Inc. From 2000 to 2004, Mr. Sabin was the Chief Financial Officer, General Counsel and Secretary of NovaScreen Biosciences Corporation, a private bioinformatics and contract research biotech company. Prior to joining NovaScreen, Mr. Sabin served as an executive with Hudson Hotels Corporation, Vistana, Inc., Choice Hotels International, Inc., Manor Care, Inc. and Marriott International, Inc. Mr. Sabin also serves on the Boards of Competitive Technologies, Inc., Prime Group Realty Trust and North American Scientific, Inc. Mr. Sabin joined our Board of Trustees on June 30, 2003. Mr. Sabin received Bachelor of Science degrees in Accounting and University Studies, a Masters of Accountancy and a Masters of Business Administration from Brigham Young University and also received a Juris Doctor from the J. Reuben Clark Law School at Brigham Young University. Mr. Sabin is a licensed CPA and is admitted to the bar in several states. Mr. Sabin serves on the Audit Committee for Prime Group Realty Trust, Competitive Technologies, Inc. and North American Scientific, Inc. The Board has determined that Mr. Sabin's service on these multiple audit committees does not detract from his service to our audit committee.

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Michael A. Leven is the Chairman and Chief Executive Officer of US Franchise Systems, Inc. (USFS), which franchises the Microtel, Hawthorn Suites and Best Inns & Suites hotel brands. Prior to forming USFS in 1995, he was President of Holiday Inns Worldwide. During his five-year tenure, the new Holiday Inn Express brand grew from zero to 330 open hotels. From 1985 to 1990, Mr. Leven was President of Days Inn of America leading the company from reorganization of a regional chain to one of the largest brands in the world with over 1,000 units. Mr. Leven is a co-founder of the Asian American Hotel Owners Association (AAHOA) which now has over 7,000 members. Mr. Leven is a Trustee of The Marcus Foundations, serves on the Boards of the Marcus Institute and the Georgia Aquarium, and the United Jewish Communities. He has received honorary doctorate degrees from The Johnson & Wales University and The College of Hospitality and Tourism Management of Niagara University. Mr. Leven has served on our Board of Trustees since 2001. Mr. Leven holds a Bachelor of Arts from Tufts University and a Master of Science from Boston University.

William Lehr, Jr. retired from Hershey Foods Corporation in 1995. He had been Senior Vice President and Secretary of the Corporation, as well as its Treasurer. During a 28 year career with Hershey Foods, Mr. Lehr had a multitude of diverse responsibilities, including senior management, corporate governance, law, finance, human resources, and public affairs. Mr. Lehr is currently devoting his time to working with various nonprofit organizations in the following capacities. He is Chairman of the Board of Trustees of Lebanon Valley College; Chairman of the Board Emeritus of The Foundation for Enhancing Communities as well as Chairman of the Capital Region's Early Childhood Training Institute; a director and Chairman of Capital Blue Cross; a director and immediate past Chairman of Americans for the Arts. Mr. Lehr has served on the Board of Trustees since our 2001 annual meeting. Mr. Lehr holds a Bachelor's degree in Business Administration from the University of Notre Dame, where he graduated cum laude, and a law degree from Georgetown University Law Center. Mr. Lehr is also a graduate of the Stanford Executive Program and successfully completed The Governing for Nonprofit Excellence Course at Harvard University's Graduate School of Business Administration. Mr. Lehr has been designated our Lead Trustee by the Independent Trustees.

Thomas S. Capello has been President and Principal of Bank Realty LP, a private enterprise specializing in the placement of commercial mortgages and the private placement of venture capital, since 2000. From 1988 to 1999, Mr. Capello was the President, Chief Executive Officer and Director of First Capitol Bank in York, Pennsylvania. From 1983 to 1988, Mr. Capello served as Vice President and Manager of the Loan Production Office of The First National Bank of Maryland. Prior to his service at The First National Bank of Maryland, Mr. Capello served as Vice President and Senior Regional Lending Officer at Commonwealth National Bank and worked at the Pennsylvania Development Credit Corporation. Mr. Capello is the Chairman of the York regional Board of Directors of Community Bank, Inc. Mr. Capello is a Director and Treasurer for the Ben Franklin Venture Investment Forum and the Martin Library and is a Board member of the Pennsylvania Angel Network. Mr. Capello has served on the Board of Trustees since our initial public offering in January 1999. Mr. Capello is a graduate of the Stonier Graduate School of Banking at Rutgers University and holds an undergraduate degree with a major in Economics from the Pennsylvania State University.

Donald J. Landry is president and owner of Top Ten, an independent hospitality industry consulting company. Mr. Landry has over thirty-five years of lodging and hospitality experience in a variety of leadership positions. Most recently, Mr. Landry was the Chief Executive Officer, President and Vice Chairman of Sunburst Hospitality Inc. Mr. Landry has also served as an executive officer for Choice Hotels International, Inc., Manor Care Hotel Division and Richfield Hotel Management. Mr. Landry currently serves on the corporate advisory boards of Arescom, Revpac, Unifocus and Campo Architects and numerous non-profit boards. Mr. Landry is a frequent guest lecturer at Johnson and Wales University and the University of New Orleans. Mr. Landry has served on the Board of Trustees since our 2001 annual meeting. Mr. Landry holds a Bachelor of Science from the University of New Orleans and was the University's Alumnus of the Year in 1999. Mr. Landry is a Certified Hotel Administrator.

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None of our current executives or trustees have been principally employed by a corporation or other organization that is a parent, subsidiary or other affiliate of Hersha except as described herein.

Independent Trustees

The Board of Trustees has determined that the five members of the Board indicated as “independent” above are independent as that term is defined under the general independence standards in the listing standards of the American Stock Exchange.

Committees and Meetings of the Board of Trustees

Trustees’ Meetings. Our business is under the general management of our Board of Trustees as provided by our Bylaws and the laws of Maryland. The Board of Trustees holds regular quarterly meetings during our fiscal year and holds additional meetings as needed in the ordinary course of business. The Board of Trustees held eight meetings during 2005, four in person and four by conference call. Each trustee attended at least 75% of the aggregate of (i) the total number of the meetings of the Board of Trustees and (ii) the total number of meetings of all committees of the Board on which the trustee then served.

We presently have an Audit Committee, Compensation Committee, Nominating Committee, Acquisition Committee and a Corporate Governance Committee of our Board of Trustees. We may, from time to time, form other committees as circumstances warrant. These committees have authority and responsibility as delegated by the Board of Trustees.

Audit Committee. We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Audit Committee consists of Messrs. Capello (Chairperson), Landry, Lehr and Sabin, all of whom are independent trustees defined in Section 121(A) of the American Stock Exchange’s (“AMEX”) listing standards. The Audit Committee is responsible for the engagement of independent public accountants, reviews with the independent public accountants the plans and results of the audit engagement, approves professional services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. The Audit Committee held 16 meetings, five in person and 11 conference calls, during 2005 and discussed relevant topics regarding financial reporting and auditing procedures. Our Board of Trustees has adopted a Charter for the Audit Committee, which is available on our website at www.hersha.com.

The Board of Trustees has determined that each of Mr. Capello and Mr. Sabin is an “audit committee financial expert” as that term is defined in the rules promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002. The Board of Trustees has determined that each of the members of the Audit Committee is financially literate and has accounting or related financial management expertise, as such terms are interpreted by the Board of Trustees.

Compensation Committee. The Compensation Committee consists of Messrs. Leven (Chairperson), Sabin, Landry and Lehr, all of whom are independent trustees. The Compensation Committee determines compensation for our executive officers and administers our option plan. The Compensation Committee met 3 times during 2005 and discussed relevant topics regarding compensation and established a formal compensation plan for all officers and trustees. Our Board of Trustees has adopted a Charter for the Compensation Committee, which is available on our website at www.hersha.com.

Nominating Committee. The Nominating Committee consists of Messrs. Sabin (Chairperson), Capello and Leven. The Nominating Committee recommends candidates for election as trustees and in some cases the election of officers. The

Nominating Committee held 2 meetings during 2005 and discussed relevant topics regarding trustee and officer nominations at the meetings of the Board of Trustees. Each of the members of the Nominating Committee is independent as defined in Section 121(A) of the AMEX Listing Standards. Our Board of Trustees has adopted a Charter for the Nominating Committee, which is available on our website at www.hersha.com.

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Acquisition Committee. The Acquisition Committee consists of Messrs. Landry (Chairperson), Leven and Sabin. The Acquisition Committee establishes guidelines for acquisitions to be presented to the Board of Trustees and leads the Board in its review of potential acquisitions presented by management. The Acquisition Committee makes recommendations to the Board and senior management regarding acquisitions and ensures that proper due diligence is conducted on all properties. The Acquisition Committee was established in January 2004 and held 4 meetings and 1 conference call during 2005 and discussed relevant topics regarding potential acquisitions. Our Board of Trustees has adopted a Charter for the Acquisition Committee, which is available on our website at www.hersha.com.

Corporate Governance Committee. The Corporate Governance Committee consists of Messrs. Lehr (Chairperson), Capello and Landry. The Corporate Governance Committee develops and recommends to the Board of Trustees a set of Corporate Governance guidelines and annually reviews these guidelines, considers questions of possible conflicts of interest of Board members and executives and remains informed about existing and new corporate governance standards mandated by the SEC and American Stock Exchange as they apply to us. The Corporate Governance Committee was established in January 2004 and met 1 time during 2005 and discussed issues related to corporate governance. Our Board of Trustees has adopted a Charter for the Corporate Governance Committee, which is available on our website at www.hersha.com.

Compensation of Trustees

In 2005, each trustee was paid \$20,000 for their service on the Board. In addition, the chairperson of the Audit Committee was paid \$7,500, and each of the chairpersons of the Acquisition Committee, Compensation Committee, Nominating Committee and Governance Committee was paid \$1,500, respectively. All of the trustees are paid a \$1,000 fee for in-person board meetings, a \$500 fee for in-person committee meetings and a \$500 fee for telephonic attendance at board and committee meetings. Our Lead Trustee receives a fee of \$2,500. Each trustee receives an annual award of 1,000 common shares of our stock. We will reimburse all trustees for reasonable out-of-pocket expenses incurred in connection with their services on the Board of Trustees. The Compensation Committee determined that any executive officers who serve on the Board will not receive any board fees.

Code of Ethics

Our Board of Trustees has adopted a Code of Ethics that applies to our chief executive officer, chief financial officer, chief accounting officer, controller and other executive officers. The Code of Ethics is posted on our Internet website, www.hersha.com. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K relating to amendments to or waivers from any provision of the Code of Ethics applicable to the our chief executive officer, chief financial officer, chief accounting officer, controller and other executive officers by posting such information on our Internet website.

Section 16(A) Beneficial Ownership Reporting Compliance

Based solely upon a review of forms furnished to us pursuant to Rule 16a-3(e) during 2005, no trustees or executive officers failed to file on a timely basis, or failed to file, the reports required by Section 16(a) of the Exchange Act during 2005.

Item 11.

Executive Compensation

We did not pay compensation to our executive officers or other employees from our inception through 2003. However, beginning with the 2004 fiscal year, we established a formal management compensation plan for our executive officers. The following table summarizes the compensation paid or accrued to our Chief Executive Officers and four most highly compensated executive officers other than the Chief Executive Officer for the year ended

December 31, 2005.

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Name and Principal Position	Year	Annual Compensation		Long Term Compensation				
		Salary \$	Bonus \$	Awards Other Annual Compensation \$	Restricted Share Award(s) \$	Securities Underlying Options/SARs #	Payouts LTIP \$	All Other Compensation \$
Hasu P. Shah Chairman and Chief Executive Officer	2005	300,000	(1)		96,000			
	2004	225,000	28,125					
	2003	0	0					
Jay H. Shah President and Chief Operating Officer	2005	250,000	(1)		240,000			
	2004	200,000	25,000					
	2003	0	0					
Neil H. Shah Executive Vice President	2005	200,000	(1)		144,000			
	2004	150,000	18,750					
	2003	0	0					
Ashish R. Parikh (2) Chief Financial Officer	2005	200,000	(1)		144,000			
	2004	175,000	21,875					
	2003	80,000	0					
Michael R. Gillespie Chief Accounting Officer	2005	140,000	(1)		0			
	2004	N/A	N/A					
	2003	N/A	N/A					

(1) The amount of bonus earned by executive officers for fiscal year 2005 was not determined as of the date of this filing.

(2) In 2003, Mr. Parikh's \$90,000 salary was paid by the primary Lessee of our hotels, HHMLP, and \$80,000 was designated as related to the services provided per the terms of the Administrative Services Agreement between us and HHMLP. The terms of the agreement provide for a fee of \$10,000 per property per year (prorated from the time of acquisition) for each hotel in our portfolio.

(3) As of December 31, 2005, there were 71,000 shares of restricted stock issued and outstanding with a value of approximately \$639,700. The restricted stock vests 25% per year, but owners are entitled to receive the dividends with respect to restricted shares prior to vesting.

Option Grants

There were no option grants to any executive officers or employees during 2005. There were no options outstanding as of December 31, 2005 and no options were exercised by any executive officers or employees during the fiscal year ending December 31, 2005.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

On January 21, 2005, we entered into employment agreements (individually, an "Agreement" collectively, the "Agreements") with David Desfor (Treasurer), Ashish Parikh (Chief Financial Officer), Jay H. Shah (President and

Chief Operating Officer), Hasu P. Shah (Chairman and Chief Executive Officer) and Neil H. Shah (Director of Acquisitions and Development) (individually, an “Executive” and collectively, the “Executives”). The Agreements in their entirety were filed as exhibits to our Current Report on Form 8-K filed January 26, 2005.

The terms of the Agreements expire on December 31, 2006, unless non-renewal is given no later than July 3, 2006, except that Jay H. Shah’s Agreement expires on December 31, 2008, unless notice of non-renewal is given no later than July 3, 2008. If no such notice is given, then the Agreements shall continue until terminated by either party upon not less than one hundred eighty (180) days notice to the other party setting forth the effective date of termination.

The Agreements provide for a base salary and certain incentive compensation, including in the forms of stock options or shares of stock of the Company. The Agreements also provide certain compensation in the event of a voluntary or involuntary termination by the Company or upon a change of control of the Company, including the following:

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- Upon a termination without cause (as defined in the Agreements), the Company shall continue to pay the Executive's base salary through the end of the twelfth month following the month in which the termination without cause (or, if shorter, the base salary for the balance of the term of the Agreements) plus accrued and unused vacation as of the termination date.
- Upon a termination without cause or an Executive's resignation for good reason (as defined in the Agreements) within twelve months following a change of control of the Company (as defined in the Agreement), the Company shall (i) fully vest the Executive's share awards and option grants, regardless of any vesting schedule, (ii) pay all base salary and any reimbursable expenses incurred and accrued vacation through the termination date, (iii) pay an amount equal to two times the Executive's then base salary (except that Mr. Jay H. Shah shall receive four times his base salary), and (iv) pay the Executive's insurance benefits for a period of eighteen (18) months after termination; less however, that amount, if any, which would constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended.

The Agreements also contain certain provisions concerning confidential information, non-competition and non-recruitment.

Additionally, we entered into a Change of Control Agreement (the "Gillespie Agreement") with Michael R. Gillespie (Chief Accounting Officer) effective July 1, 2005. The Gillespie Agreement was filed as an exhibit to our Current Report on Form 8-K filed July 6, 2005. The Gillespie Agreement provides for a base salary and certain incentive compensation. The Agreement also provides certain compensation in the event of a voluntary or involuntary termination or upon a change of control of the Company, including the following:

- In the event of a change of control (as defined in the Gillespie Agreement), during the first year of employment, and a subsequent termination without cause (as defined in the Gillespie Agreement), Hersha shall pay Mr. Gillespie his pro-rata annual salary, bonus and health insurance benefits for a period of three months following the termination.
- In the event of a change of control, during the second or third year of employment, and a subsequent termination without cause, Hersha shall pay Mr. Gillespie his pro-rata annual salary, bonus and health insurance benefits for a period of six months following the termination.
- In the event of a change of control, and subsequent termination without cause, Hersha shall fully vest Mr. Gillespie's share awards and stock options, regardless of any vesting schedule.

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THE COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Trustees (the "Compensation Committee") is composed of four independent trustees and operates under a written charter adopted by the Board of Trustees, a copy of which is available on our website at www.hersha.com. The Compensation Committee determines compensation for our executive officers and administers our option plan. The Compensation Committee met three times during 2005.

From our inception through 2003, we had not paid compensation to our executive officers or other employees. However, beginning with the 2004 fiscal year, we established a formal management compensation plan for our executive officers. Prior to 2004, the compensation of our executive officers was covered by an administrative services agreement between our Company and our primary lessee, HHMLP. The Company significantly increased its size and market capitalization during 2003 and 2004 and terminated all of its existing leases with HHMLP in 2004. As a result, the Company has established a formal management compensation plan for its executive officers in order to serve the best interests of the Company's shareholders.

Compensation Policies

In establishing the formal management compensation plan for our executive officers, the Compensation Committee sought to accomplish the following two primary objectives:

- 1) to provide overall levels of compensation that are competitive in order to attract, retain and motivate highly qualified executives to continue to enhance long-term stockholder value; and
- 2) to provide annual and long-term incentives that emphasize performance based compensation contingent upon achieving corporate and individual performance goals.

The key elements of compensation provided to our executive officers include base salary and annual incentive bonus awards. Base salaries are set at annual rates, based on the level of the officer's position within the Company and the individual's current and sustained performance results. The annual base salary for each executive officer and each other member of senior management is reviewed each year by the Compensation Committee.

On May 6, 2005, the Compensation Committee approved the 2005 Annual Incentive Compensation Plan for executive officers and certain other key employees of the Company (the "Cash Bonus Plan"). The Cash Bonus Plan is not set forth in a written agreement. For fiscal 2005, the Compensation Committee established opportunities for a cash bonus of between 25% to 50% of base salary under the Cash Bonus Plan that could be earned on the basis of certain financial metrics together with specific individual performance objectives that will be determined by the Compensation Committee. Eligibility for 25% of the bonus award occurs upon an FFO per share increase of 5% from 2004, and 50% of the potential cash bonus award is achieved upon an FFO increase of 10% from 2004. An additional threshold for eligibility for a cash bonus award by the CEO and each of the named executive officers include a dividend payout of less than or equal to 98% of FFO. The Compensation Committee also established additional position specific financial and other performance goals for each of the CEO and named executive officers. Bonus payments under the Cash Bonus Plan will be paid in one annual payment shortly after the end of the 2005 calendar year if the Compensation Committee determines that the performance criteria are met.

The Compensation Committee has determined that the executive officers are eligible for payments under the Cash Bonus Plan and is in the process of determining such payments.

Compensation of the Chief Executive Officer

In 2005, we paid Mr. Hasu P. Shah an annual salary of \$300,000. The Compensation Committee meets annually, without the Chief Executive Officer present, to evaluate his performance and to determine his compensation. In considering Mr. Shah's compensation, the Compensation Committee considers his principal responsibilities, which are to provide our Company with vision and strategic direction, to attract and retain highly qualified employees and to develop and to foster relationships with other hotel companies, developers and franchisors. Mr. Shah's 2005 annual incentive bonus will be determined based upon the Company's financial performance relative to other comparable lodging real estate investment trusts, Mr. Shah's ability to foster additional strategic relationships during the year, corporate governance compliance, achievement of acquisition targets and retention of key management personnel.

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The Board of Trustees did not modify or reject in any material way any action or recommendation by such committee with respect to such decisions in the last completed fiscal year.

THE COMPENSATION COMMITTEE

Michael A. Leven, Chairperson

Donald J. Landry

William Lehr, Jr.

John M. Sabin

March 23, 2006

Performance Graph

The following graph compares the cumulative total shareholder return on the common shares for the period from January 1, 2001 (commencement of operations) through December 31, 2005, with the cumulative total shareholder return for the Standard and Poor's 500 Stock Index and the NAREIT Composite Index for the same period, assuming \$100 is invested in the Priority Common Shares and each index and dividends are reinvested quarterly. The performance graph is not necessarily indicative of future investment performance.

	2001	2002	2003	2004	2005
HERSHA (1), (2)	100	124.6	216.0	262.7	222.7
S&P 500 (1)	100	76.6	96.9	105.6	108.7
NAREIT COMPOSITE INDEX (1), (2)	100	103.8	142.4	187.3	210.1

(1) Returns for Hersha Hospitality Trust and the NAREIT Composite Index assume dividends are reinvested at ex-dividend date.

(2) Source: FactSet

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The following table sets forth certain information regarding the beneficial ownership of common shares by (i) each shareholder known by us to beneficially own more than five percent of our common shares, (ii) each of our trustees and executive officers, and (iii) all of our trustees and executive officers as a group, each as of March 15, 2006. Unless otherwise indicated, all shares are owned directly, and the indicated person has sole voting and investment power. The number of outstanding common shares at March 15, 2006 was 20,379,463. This table assumes that all limited partnership units held by such person or group of persons are redeemed for common shares. The total number of shares outstanding used in calculating the percentage assumes that none of the limited partnership units held by other persons are redeemed for common shares.

Name of Beneficial Owner	Number of Common Shares	Percent of Class
Persons Believed to Own In Excess of 5% of Common Shares		
Deutsche Bank AG and RREEF America, L.L.C. ⁽¹⁾ Taunusanlage 12, D-60325 Frankfurt am Main Federal Republic of Germany	3,073,000	15.08%
Kensington Investment Group, Inc. ⁽²⁾ 4 Orinda Way, Suite 200C Orinda, CA 94563	2,388,500	11.72%
Delaware Management Holdings ⁽³⁾ 2005 Market Street Philadelphia PA 19103	1,832,900	8.99%
Teachers Insurance and Annuity Association of America ⁽⁴⁾ 730 Third Avenue New York, NY 10017	1,096,783	5.38%
Officers and Trustees:		
Hasu P. Shah ⁽⁵⁾	334,600	1.62%
Jay H. Shah ⁽⁶⁾	920,435	4.33%
Neil H. Shah ⁽⁷⁾	872,379	4.11%
K.D. Patel ⁽⁸⁾	420,729	2.02%
Kiran P. Patel ⁽⁹⁾	161,563	*
David L. Desfor ⁽¹⁰⁾	125,391	*
Ashish R. Parikh ⁽¹¹⁾	24,079	*
John M. Sabin	1,919	*
Thomas S. Capello	5,819	*
Donald J. Landry	2,919	*
Michael A. Leven	4,919	*
William Lehr Jr.	3,029	*
Shreenathji Enterprises, Ltd. ⁽¹²⁾	15,454	*

Total for all officers and trustees (12 persons)⁽¹³⁾:	2,893,235⁽¹⁴⁾	12.52%
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- * Less than 1%
- (1) Based solely on Amendment No. 4 to Schedule 13G filed on February 8, 2006.
 - (2) Based solely on Schedule 13G filed on February 9, 2006.
 - (3) Based solely on Amendment No. 2 to Schedule 13G filed on February 9, 2006.
 - (4) Based solely on Schedule 13G filed on February 13, 2006.
 - (5) Includes 286,600 limited partnership units in HHLP and 10,000 restricted shares, all or some of which may not be vested. Includes common shares owned by Shree Associates, a family limited partnership controlled by Hasu P. Shah.
 - (6) Includes 894,035 limited partnership units in HHLP and 25,000 restricted shares, all or some of which may not be vested.
 - (7) Includes 855,379 limited partnership units in HHLP and 15,000 restricted shares, all or some of which may not be vested.
 - (8) Includes 410,729 limited partnership units in HHLP.
 - (9) Includes 150,563 limited partnership units in HHLP and 1,000 restricted shares, all or some of which may not be vested.
 - (10) Includes 118,591 limited partnership units in HHLP and 5,000 restricted shares, all or some of which may not be vested.
 - (11) Includes 6,579 limited partnership units in HHLP and 15,000 restricted shares, all or some of which may not be vested.
 - (12) Shreenathji Enterprises, Ltd. (“SEL”) is a limited partnership owned by Hasu P. Shah (27%), Kiran P. Patel (13%), Bharat C. Mehta (15%), Kanti D. Patel (15%), Jay H. Shah (15%) and Neil H. Shah (15%). SEL acquired these limited partnership units in HHLP in exchange for contributions of hotel properties to the Partnership.
 - (13) Includes the limited partnership units in HHLP owned by Shreenathji Enterprises, Ltd.
 - (14) Includes 2,737,930 limited partnership units in HHLP and 71,000 restricted shares, all or some of which may not be vested.

Item 13. Certain Relationships and Related Transactions

In developing our portfolio since our initial public offering in 1999, we have entered into various transactions with our trustees, officers and entities controlled by them, including transactions relating to the leasing and managing of our hotels, acquisitions and dispositions of hotels, loans made by or for the benefit of us, and the purchase of goods and services. Certain of these transactions have been instrumental in the implementation of our business strategy and the growth of our portfolio. Although we have made certain efforts, described below, to ensure that these transactions were negotiated on an arms-length basis, we cannot assure you of this fact or that the terms of these transactions are as favorable to us as those we may have received from unaffiliated third parties. As a result of the growth in our portfolio, our current growth strategy and modifications to the REIT qualification rules, we have adopted certain policies with respect to transactions with our trustees, officers and entities controlled by them. The following is a summary of certain of these transactions, including a description of the transaction, the business purpose for the transaction and our current policy with respect to such a transaction.

Portfolio Formation Transactions with Trustees and Officers

In connection with our initial public offering in 1999, entities controlled by our officers and trustees contributed ten hotels to us in exchange for limited partnership units in our operating partnership. Since that time, we have continued to buy hotels from, and sell hotels to, entities controlled by our officers and trustees when a majority of our independent trustees has determined it was in our best interest to do so.

Hotel Acquisitions

We have not, and do not in the future intend to, undertake the risks of developing new hotels. However, since our initial public offering in 1999, we have been able to acquire newly-constructed or newly-renovated hotels from entities controlled by our officers or trustees. Of the 49 hotel properties purchased by us since our initial public offering, 16 were acquired from affiliates, 15 of which were newly-constructed or substantially renovated. In connection with our initial public offering, we entered into an Option Agreement with Hasu Shah, Jay Shah, Neil Shah, K.D. Patel, David Desfor, and Kiran Patel. Pursuant to this agreement, we had the option to purchase any hotels owned or developed by these individuals that was within fifteen miles of any of our hotels or any hotel subsequently acquired by us for two years after such acquisition or development. In September 2003, the parties to this agreement amended the Option Agreement so that (a) the right of first refusal now applies to all hotels owned or developed by the parties, regardless of proximity to our hotels, and (b) the right of first refusal applies to each party until one year after such party ceases to be an officer or trustee. This arrangement gives us access to a pipeline of newly-constructed and newly-renovated hotels, without bearing all the risks associated with development and renovation.

As of September 2001, the Board of Trustees has elected to hire an independent accounting firm to review in advance all asset purchases and asset sales between us and related parties. The Board of Trustees will determine the scope of each review on a case-by-case basis. The independent third party accounting firm will review each acquisition or sale to determine if the terms of the transaction are in line with then-current market conditions as well as how the transaction impacts us. The accounting firm then will present its findings to the Board of Trustees to aid it in its evaluation of the terms of the transaction.

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The following table sets forth certain information with respect to all of the acquisitions of, and agreements to acquire, hotels from entities controlled by our officers or trustees since January 1, 2004.

<i>Hotel</i>	<i>Acquisition Date</i>	<i>Affiliated Sellers</i>	<i>Purchase Price</i>
Hilton Garden Inn, New York, New York (JFK Airport)	February 16, 2006	Metro JFK Associates LLC, in which Hasu P. Shah, K.D. Patel, Jay H. Shah, Neil H. Shah, Ashish R. Parikh, David L. Desfor, and Kiran P. Patel collectively owned a 96.0% interest.	\$29.0 million, including the assumption of \$13.0 million of debt
Hampton Inn, Philadelphia, Pennsylvania	February 15, 2006	Affordable Hospitality Associates, LP, in which Hasu P. Shah, K.D. Patel, Jay H. Shah, Neil H. Shah, Ashish R. Parikh, David L. Desfor and Kiran P. Patel collectively owned a 90.1% interest.	\$6.9 million in cash
Hampton Inn Herald Square, New York, New York	April 1, 2005	Brisam Hotel LLC, in which Hasu Shah owned a 100% interest	\$31.3 million, including the assumption of \$16.5 million of debt and \$14.8 million of cash
Hilton Garden Inn, Gettysburg, Pennsylvania	July 23, 2004	44 Aarti Associates, in which Hasu Shah, Jay Shah, Kiran Patel, Neil Shah, Ashish Parikh, K.D. Patel, David Desfor and their immediate families collectively owned a 94% interest	\$7.65 million, including the assumption of \$5.45 million of mortgage debt and \$2.2 million of cash
Comfort Inn, Frederick, Maryland	May 27, 2004	44 Frederick Associates, in which Hasu Shah, Jay Shah, Kiran Patel, Neil Shah, Ashish Parikh, K.D. Patel, David Desfor and their immediate families collectively owned a 95% interest	\$5.35 million, including the assumption of \$3.7 million of mortgage debt and \$1.65 million of cash

Hotel Development Loans

We have approved lending to entities in which our executive officers and trustees own an interest to enable such entities to construct hotels and conduct related improvements on specific hotel projects at interest rates ranging from

8.0% to 12.0% (“Development Loans”). The rate for each of these loans is based upon the security interest and term of the loan and is approved by the independent trustees. As of December 31, 2005, our Development Loans to related parties totaled \$32,450,000 and consisted of the following:

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Hotel Property	Borrower	Principal Outstanding December 31, 2005	Interest Rate	Maturity Date
Hilton Garden Inn - JFK Airport, NY	Metro Ten Hotels, LLC	\$ 850,000	10.0%	(1)
Boutique Hotel - 35 th Street, NY	44 Fifth Avenue, LLC	\$ 9,100,000	9.0%	(1)
Boutique Hotel - Tribeca, NY	5444 Associates, LP	\$ 9,500,000	10.0%	(1)
Hampton Inn - Seaport, NY	HPS Seaport, LLC and BCM, LLC	\$ 13,000,000	10.0%	March 31, 2006
		\$ 32,450,000		

(1) - Development loan has been paid off in full as of January 2006.

Management Agreements with HHMLP

Beginning in April 2003, 44 New England, our TRS, engaged Hersha Hospitality Management, L.P., or HHMLP, a private management company owned by certain of our trustees, officers and other third party investors, as the property manager for hotels it leased from us pursuant to 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, 2005, HHMLP managed all 31 of our wholly-owned hotels leased to our TRS, and we consolidated the financial statements of these 31 hotels in our financial statements. HHMLP also managed one consolidated joint venture, three unconsolidated joint venture hotel properties in which we maintain an investment. 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 ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotel. There were no incentive management fees payable for the years ended December 31, 2005 or 2004. For the years ended December 31, 2005 and 2004, management fees incurred totaled \$2,887,000 and \$1,454,000, respectively, and are recorded as Hotel Operating Expenses.

Unit Redemption

On December 14, 2005, Kiran P. Patel, K.D. Patel and a unaffiliated third party investor gifted 1,669, 3,243 and 3,243 units of limited partnership interest to the Shree Krishna Foundation, a non-profit corporation for which Hasu P. Shah serves as trustee. On December 15, 2005, the Shree Krishna Foundation redeemed these units for 8,155 shares of our common stock. On March 5, 2004, Hasu P. Shah, Kiran P. Patel and David L. Desfor redeemed 564,286, 363,000 and 30,000 units of limited partnership interest, respectively, in our operating partnership for shares of our common stock.

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Miscellaneous Services Provided by Affiliated Entities

Administrative Services Agreement with HHMLP

Prior to July 1, 2005, under the terms of an administrative service agreement, HHMLP provided accounting and securities reporting services for the Company. The terms of the agreement provided for us to pay HHMLP an annual fee of \$10 per property (prorated from the time of acquisition) for each hotel in our portfolio. On July 1, 2005, the administrative service fee was replaced by monthly accounting and information technology fees for each of our wholly owned hotels. Monthly fees for accounting services are \$2,000 per property and monthly information technology fees are \$500 per property. For the years ended December 31, 2005, 2004 and 2003, the Company incurred administrative services fees of \$140,000 \$253,000 and \$178,000, respectively. For the year ended December 31, 2005, the Company incurred accounting fees of \$386,000 and information technology fees of \$95,000.

Payments to Shah & Byler Law Firm

We have paid to the law firm of Shah & Byler, LLP and its predecessor, Shah Ray & Byler, LLP, whose former senior partner, Jay H. Shah is now our Chief Executive Officer and is the son of Hasu P. Shah, legal fees aggregating \$806,000 \$679,000 and \$212,000 during 2005, 2004 and 2003, respectively. Mr. Shah had resigned from the law firm and relinquished all ownership and control of the firm as of September 2003. Mr. Shah will continue as counsel to the law firm and may receive compensation from the firm for prior client origination. We intend to continue to use the services of Shah & Byler, LLP. In addition, we have paid Shah & Byler, LLP approximately \$73,000, \$59,000, and \$-0- in office rent expenses for the years ended December 31, 2005, 2004, and 2003, respectively, for the use of our corporate office space.

Payments to Hersha Hotel Supply Company

We have purchased hotel supplies for our hotel properties from time to time from Hersha Hotel Supply Company, currently owned by Hasu P. Shah, Jay H. Shah, Neil Shah, Kiran P. Patel, K.D. Patel and other investors. For the years ended December 31, 2005, 2004 and 2003, we paid Hersha Hotel Supply Company \$969,000, \$804,000 and \$73,000, respectively. Hersha Hotel Supply Company is not our only provider of hotel supplies and must bid with a number of unaffiliated suppliers for our business.

Item 14. Principal Accountant Fees and Services

KPMG LLP was Hersha's principal independent accountant for the 2004 and 2005 fiscal years. Hersha's principal independent accountant for the 2003 fiscal year was Reznick Group, P.C. We have provided below certain information with respect to each of KPMG LLP and Reznick Group, P.C.

KPMG LLP

KPMG LLP, the Company's independent auditor for 2004 and 2005, rendered the following services and billed, or expects to bill, the following fees for fiscal 2005.

Audit Fees

For professional services rendered by KPMG LLP for the audit of our annual financial statements, reviews of the financial statements included in the our Quarterly Reports on Form 10-Q, and other services provided in connection with statutory and regulatory filings, and an audit of internal control over financial reporting, KPMG LLP billed us

\$784,600 with respect to 2005 and \$887,000 with respect to 2004.

Audit Related Fees

For professional services rendered by KPMG LLP provided in connection with comfort letters and SEC registration statements, KPMG LLP billed us \$171,700 with respect to 2005 and \$36,000 with respect to 2004.

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Tax Fees

For professional services rendered by KPMG LLP for tax compliance, tax advice and tax planning matters, KPMG LLP billed us fees in the aggregate amount of \$187,500 with respect to 2005 and \$161,000 with respect to 2004. These tax services related to the preparation of our state and federal tax returns, and tax advice on structuring loans and joint ventures and review of dividend calculations.

All Other Fees

KPMG LLP did not render or charge us for any other services not included in audit fees or audit related fees as disclosed above with respect to 2005 or 2004.

Reznick Group, P.C.

During the fiscal year ended December 31, 2005, Reznick Group, P.C. billed us the fees set forth below in connection with services rendered by that firm.

Audit Fees

For professional services rendered by Reznick Group, P.C. for the audit of financial statements of acquisitions, certain agreed upon procedures for acquisitions, reviews of the financial statements included in the our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and other services provided in connection with statutory and regulatory filings, Reznick Group, P.C. billed us \$49,135 with respect to 2005 and \$112,425 with respect to 2004.

Audit Related Fees

For professional services rendered in connection with comfort letters and SEC registration statements, Reznick Group, P.C. billed us \$26,324 with respect to 2005 and \$0 with respect to 2004.

Tax Fees

For professional services rendered by Reznick Group, P.C. for tax compliance, tax advice and tax planning matters, Reznick Group, P.C. billed us fees in the aggregate amount of \$8,500 with respect to 2005 and \$46,700 with respect to 2004. These tax services related to the preparation of our state and federal tax returns, Schedule 704C depreciation and allocation calculations and Section 1031 like kind exchange tax planning.

All Other Fees

For professional services other than those described above, Reznick Group, P.C. billed us fees in the aggregate amount of \$109,517 with respect to 2005 and \$55,798 with respect to 2004. These fees related to services provided in connection with implementation and assessment of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Pre-Approval Policies for Permissible Non-Audit Services

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy that it must pre-approve all audit and permissible non-audit services provided by the independent auditor prior to engagement of the auditor for each such service. Except as disclosed

above, there were no non-audit services provided by the independent auditor in 2005.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

None.

(b) Exhibits:

The Exhibits listed in the “Index of Exhibits” on page 72 hereof are filed and incorporated by reference as a part of this Amendment No. 1 to our Annual Report on form 10-K for the year ended December 31, 2005.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERSHA HOSPITALITY TRUST

March 29, 2006

/s/ Jay H. Shah
Jay H. Shah
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Hasu P. Shah Hasu P. Shah	Chairman of the Board of Trustees	March 29, 2006
/s/ Jay H. Shah Jay H. Shah	Trustee and Chief Executive Officer (Principal Executive Officer)	March 29, 2006
/s/ Thomas S. Capello Thomas S. Capello	Trustee	March 29, 2006
/s/ John M. Sabin John M. Sabin	Trustee	March 29, 2006
/s/ Donald J. Landry Donald J. Landry	Trustee	March 29, 2006
/s/ William Lehr, Jr. William Lehr, Jr.	Trustee	March 29, 2006
/s/ Michael A. Leven Michael A. Leven	Trustee	March 29, 2006
/s/ K.D. Patel K.D. Patel	Trustee	March 29, 2006
/s/ Ashish R. Parikh Ashish R. Parikh	Chief Financial Officer (Principal Financial Officer)	March 29, 2006
/s/ Michael R. Gillespie		March 29, 2006

Chief Accounting Officer (Principal
Accounting Officer)

Michael R. Gillespie

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INDEX OF EXHIBITS

<u>23.1</u>	Consent of Reznick Group, P.C.*
<u>23.2</u>	Consent of KPMG LLP*
<u>31.1</u>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>31.2</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
<u>32.2</u>	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.