

HERSHA HOSPITALITY TRUST

Form 10-Q

August 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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)

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Maryland 251811499  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

44 Hersha Drive, Harrisburg, PA 17102  
(Address of Registrant's Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (717) 236-4400

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer  
Non-accelerated filer Small reporting company

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

Yes No

As of August 5, 2014, the number of Class A common shares of beneficial interest outstanding was 200,729,931 and there were no Class B common shares of beneficial interest outstanding.



Hersha Hospitality Trust

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2014 [UNAUDITED] AND DECEMBER 31, 2013

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

	June 30, 2014	December 31, 2013
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation, Including Consolidation of Variable Interest Entity Assets of \$85,006 and \$85,759	\$ 1,760,893	\$ 1,535,835
Investment in Unconsolidated Joint Ventures	11,593	12,044
Cash and Cash Equivalents	29,191	36,213
Escrow Deposits	21,159	25,938
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of \$192 and \$43	13,156	9,141
Deferred Financing Costs, Net of Accumulated Amortization of \$6,354 and \$7,070	8,913	7,570
Due from Related Parties	6,358	11,124
Intangible Assets, Net of Accumulated Amortization of \$3,299 and \$3,227	7,515	7,603
Deposits on Hotel Acquisitions	-	18,586
Other Assets	35,013	27,460
Hotel Assets Held for Sale	-	56,583
Total Assets	\$ 1,893,791	\$ 1,748,097
Liabilities and Equity:		
Line of Credit	\$ 27,000	\$ -
Unsecured Term Loan	250,000	150,000
Unsecured Notes Payable	51,548	51,548
Mortgages Payable, including Net Unamortized Premium and Consolidation of Variable Interest Entity Debt of \$54,926 and \$55,714	615,229	571,953
Accounts Payable, Accrued Expenses and Other Liabilities	52,797	40,852
Dividends and Distributions Payable	15,830	15,955
Due to Related Parties	6,386	4,815
Liabilities Related to Hotel Assets Held for Sale	-	45,835
Total Liabilities	\$ 1,018,790	\$ 880,958
Equity:		
Shareholders' Equity:		
Preferred Shares: \$.01 Par Value, 29,000,000 Shares Authorized, 4,600,000 Series B and 3,000,000 Series C Shares Issued and Outstanding at June 30, 2014 and December	\$ 76	\$ 76

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31, 2013, with Liquidation Preferences of \$25 Per Share (Note 1)

Common Shares: Class A, \$.01 Par Value, 300,000,000 Shares Authorized at June 30, 2014 and December 31, 2013, 200,676,750 and 202,759,419 Shares Issued and Outstanding at June 30, 2014 and December 31, 2013, respectively	2,007	2,028
Common Shares: Class B, \$.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at June 30, 2014 and December 31, 2013	-	-
Accumulated Other Comprehensive Loss	(894)	(376)
Additional Paid-in Capital	1,190,875	1,200,798
Distributions in Excess of Net Income	(346,562)	(364,568)
Total Shareholders' Equity	845,502	837,958
Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	30,209	29,523
Noncontrolling Interests - Consolidated Variable Interest Entity	(710)	(342)
Total Noncontrolling Interests	29,499	29,181
Total Equity	875,001	867,139
Total Liabilities and Equity	\$ 1,893,791	\$ 1,748,097

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Hotel Operating Revenues	\$ 111,487	90,526	\$ 191,404	155,768
Interest Income from Development Loans	-	12	-	158
Other Revenues	66	1	99	206
Total Revenues	111,553	90,539	191,503	156,132
Operating Expenses:				
Hotel Operating Expenses	56,948	47,077	105,724	87,253
Insurance Recoveries	(2,557)	-	(4,602)	(403)
Hotel Ground Rent	595	266	1,005	494
Real Estate and Personal Property Taxes and Property Insurance General and Administrative (including Share Based Payments of \$1,449 and \$2,439 for the three months ended June 30, 2014 and 2013, respectively, and \$2,561 and \$4,827 for the six months ended June 30, 2014 and 2013, respectively)	4,738	5,691	8,640	10,841
Acquisition and Terminated Transaction Costs	1,672	773	1,806	776
Depreciation and Amortization	17,457	13,886	33,800	26,584
Total Operating Expenses	86,033	73,300	160,359	136,968
Operating Income	25,520	17,239	31,144	19,164
Interest Income	277	469	675	925
Interest Expense	(10,745)	(10,167)	(20,793)	(19,582)
Other Expense	(214)	-	(330)	-
Gain on Disposition of Hotel Properties	7,227	-	7,227	-
Gain on Hotel Acquisitions, net	13,609	12,107	13,609	12,107
Development Loan Recovery	22,494	-	22,494	-
Loss on Debt Extinguishment	-	(284)	(644)	(545)
Income Before Income (Loss) from Unconsolidated Joint Venture Investments, Income Taxes and Discontinued Operations	58,168	19,364	53,382	12,069



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Income (Loss) from Unconsolidated Joint Venture Investments	419	148	(1)	(248)
Income Before Income Taxes	58,587	19,512	53,381	11,821
Income Tax (Expense) Benefit	(1)	(1,439)	107	(309)
Income from Continuing Operations	58,586	18,073	53,488	11,512
Discontinued Operations (Note 11):				
Gain on Disposition of Discontinued Assets	-	1,043	81	1,043
Impairment of Discontinued Assets	-	(3,723)	(1,800)	(3,723)
Income from Discontinued Operations, Net of Income Taxes	-	2,692	304	1,577
Income (Loss) from Discontinued Operations	-	12	(1,415)	(1,103)
Net Income	58,586	18,085	52,073	10,409
(Income) Loss Allocated to Noncontrolling Interests	(1,655)	(210)	(1,148)	463
Preferred Distributions	(3,589)	(3,589)	(7,178)	(7,433)
Extinguishment of Issuance Costs Upon Redemption of Series A Preferred Shares	-	-	-	(2,250)
Net Income Applicable to Common Shareholders	\$ 53,342	\$ 14,286	\$ 43,747	\$ 1,189

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 (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Earnings Per Share:				
BASIC				
Income from Continuing Operations Applicable to Common Shareholders	\$ 0.27	\$ 0.07	\$ 0.22	\$ 0.01
Loss from Discontinued Operations Applicable to Common Shareholders	0.00	0.00	0.00	(0.01)
Net Income Applicable to Common Shareholders	\$ 0.27	\$ 0.07	\$ 0.22	\$ 0.00
DILUTED				
Income from Continuing Operations Applicable to Common Shareholders	\$ 0.27	\$ 0.07	\$ 0.22	\$ 0.01
Loss from Discontinued Operations Applicable to Common Shareholders	0.00	0.00	0.00	(0.01)
Net Income Applicable to Common Shareholders	\$ 0.27	\$ 0.07	\$ 0.22	\$ 0.00
Weighted Average Common Shares Outstanding:				
Basic	198,494,473	198,633,051	199,612,898	197,835,465
Diluted*	200,213,554	201,201,337	201,015,581	201,083,900

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\*Income (loss) allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and common units of limited partnership interest (“Common Units”) in the Operating Partnership have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these shares and units in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income (loss) from continuing operations applicable to common shareholders.

The following table summarizes potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2013	2012
Common Units of Limited Partnership Interest	6,914,716	6,944,496	6,914,716	7,022,238
Total Potentially Dilutive Securities Excluded from the Denominator	6,914,716	6,944,496	6,914,716	7,022,238

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

[IN THOUSANDS]

	Three Months Ended June 30,		Six Months Ended June 30, 2014	
	2014	2013	2014	2013
Net Income	\$ 58,586	\$ 18,085	\$ 52,073	10,409
Other Comprehensive (Loss) Income				
Change in Fair Value of Derivative Instruments	(1)	2,519	256	2,971
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	(418)	(312)	(774)	(608)
	\$ (419)	\$ 2,207	\$ (518)	\$ 2,363
Comprehensive Income	58,167	20,292	51,555	12,772
Less: Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(1,655)	(210)	(1,148)	463
Less: Preferred Distributions	(3,589)	(3,589)	(7,178)	(7,433)
Less: Extinguishment of Issuance Costs Upon Redemption of Series A Preferred Shares	-	-	-	(2,250)
Comprehensive Income Attributable to Common Shareholders	\$ 52,923	\$ 16,493	\$ 43,229	\$ 3,552

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

[IN THOUSANDS]

	Shareholders' Equity									Distributions in Excess of Total Shareholders' Equity (\$)
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Net Earnings (\$)	Total Shareholders' Equity (\$)	
Balance at December 31, 2013	202,759,419	2,028	-	7,600,000	76	1,200,798	(376)	(364,568)	837,958	6
Repurchase of Common Shares	(2,626,854)	(26)	-	-	-	(13,686)	-	(1,621)	(15,333)	-
Dividends and Distributions declared: Common Shares (\$0.12 per share)	-	-	-	-	-	-	-	(24,120)	(24,120)	-
Preferred Shares	-	-	-	-	-	-	-	(7,178)	(7,178)	-
Common Units (\$0.12 per share)	-	-	-	-	-	-	-	-	-	-
	4,310	-	-	-	-	23	-	-	23	-

Dividend										
Reinvestment										
Plan										
Share Based										
Compensation:										
Grants	539,875	5	-	-	-	494	-	-	499	-
Amortization	-	-	-	-	-	3,246	-	-	3,246	-
Change in Fair										
Value of										
Derivative										
Instruments	-	-	-	-	-	-	(518)	-	(518)	-
Net Income	-	-	-	-	-	-	-	50,925	50,925	-
Balance at June										
30, 2014	200,676,750	2,007	-	7,600,000	76	1,190,875	(894)	(346,562)	845,502	6

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

[IN THOUSANDS]

	Shareholders' Equity					Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Distributions in Excess of Net Earnings (\$)	Total Shareholders' Equity
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Common Shares					
Balance at December 31, 2012	198,672,356	1,986	-	7,000,000	70	1,178,292	(1,786)	(348,734)	829,828	
Unit Conversion/Redemption	27,790	1	-	-	-	(234)	-	-	(233)	
Reallocation of Noncontrolling Interest	-	-	-	-	-	-	-	-	-	
Preferred Shares	-	-	-	-	-	-	-	-	-	
Preferred Share Offering, Net of Costs	-	-	-	-	30	72,341	-	-	72,371	
Preferred Share Redemption	-	-	-	-	(24)	(59,976)	-	-	(60,000)	
Dividends and Distributions declared:										
Common Shares (\$0.12 per share)	-	-	-	-	-	-	-	(25,414)	(25,414)	
Preferred Shares	-	-	-	-	-	-	-	(7,433)	(7,433)	
Common Units (\$0.12 per share)	-	-	-	-	-	-	-	-	-	
Dividend Reinvestment Plan	3,571	-	-	-	-	19	-	-	19	
Share Based Compensation:										

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Grants	3,963,929	40	-	-	-	285	-	-	325
Amortization	-	-	-	-	-	6,187	-	-	6,187
Change in Fair Value of									
Derivative Instruments	-	-	-	-	-	-	2,363	-	2,363
Net Income	-	-	-	-	-	-	-	10,872	10,872
Balance at June 30, 2013	202,667,646	2,027	-	7,000,000	76	1,196,914	577	(370,709)	828,883

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 SIX MONTHS ENDED JUNE 30, 2014 AND 2013 [UNAUDITED]

[IN THOUSANDS]

	2014	2013
Operating Activities:		
Net Income	\$ 52,073	10,409
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on Hotel Acquisitions, net	(13,609)	(12,107)
Development Loan Recovery	(22,494)	-
Gain on Disposition of Hotel Properties	(7,308)	(1,043)
Impairment of Hotel Assets	1,800	3,723
Deferred Taxes	(107)	309
Depreciation	33,596	30,690
Amortization	990	1,246
Loss on Debt Extinguishment		