

HERSHA HOSPITALITY TRUST
Form 10-Q
August 01, 2013

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, 2013

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 1, 2013, the number of Class A common shares of beneficial interest outstanding was 202,669,197 and there were no Class B common shares outstanding.

Hersha Hospitality Trust

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2013 [UNAUDITED] AND DECEMBER 31, 2012

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

	June 30, 2013	December 31, 2012
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation, (including consolidation of variable interest entity assets of \$86,515 and \$86,657)	\$ 1,672,120	\$ 1,466,713
Investment in Unconsolidated Joint Ventures	14,365	16,007
Development Loans Receivable	-	28,425
Cash and Cash Equivalents	29,294	69,059
Escrow Deposits	33,394	26,792
Hotel Accounts Receivable, net of allowance for doubtful accounts of \$19 and \$365	13,974	11,538
Deferred Financing Costs, net of Accumulated Amortization of \$5,945 and \$4,841	9,098	8,695
Due from Related Parties	5,776	8,488
Intangible Assets, net of Accumulated Amortization of \$3,119 and \$2,413	8,251	8,698
Deposits on Hotel Acquisitions	16,486	37,750
Other Assets	21,304	25,514
Hotel Assets Held for Sale	8,193	-
Total Assets	\$ 1,832,255	\$ 1,707,679
Liabilities and Equity:		
Line of Credit	\$ 66,200	\$ -
Unsecured Term Loan	150,000	100,000
Unsecured Notes Payable	51,548	51,548
Mortgages Payable, including net Unamortized Premium (including consolidation of variable interest entity debt of \$56,488 and \$57,256)	649,680	641,160
Accounts Payable, Accrued Expenses and Other Liabilities	34,641	33,838
Dividends and Distributions Payable	15,949	15,621
Due to Related Parties	6,139	4,403
Total Liabilities	974,157	846,570
Redeemable Noncontrolling Interests - Common Units (Note 1)	\$ -	\$ 15,321
Equity:		
Shareholders' Equity:	76	70

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Preferred Shares: \$.01 Par Value, 29,000,000 shares Authorized, 7,600,000 Series B and C Shares Issued and Outstanding at June 30, 2013 and 7,000,000 Series A and B Shares Issued and Outstanding at December 31, 2012, with Liquidation Preferences of \$25 per Share (Note 1)		
Common Shares: Class A, \$.01 Par Value, 300,000,000 Shares Authorized at June 30, 2013 and December 31, 2012, 202,667,646 and 198,672,356 Shares Issued and Outstanding at June 30, 2013 and December 31, 2012, respectively	2,027	1,986
Common Shares: Class B, \$.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Income (Loss)	577	(1,786)
Additional Paid-in Capital	1,196,914	1,178,292
Distributions in Excess of Net Income	(370,709)	(348,734)
Total Shareholders' Equity	828,885	829,828
Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	29,167	15,484
Noncontrolling Interests - Consolidated Variable Interest Entity	46	476
Total Noncontrolling Interests	29,213	15,960
Total Equity	858,098	845,788
Total Liabilities and Equity	\$ 1,832,255	\$ 1,707,679

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 [UNAUDITED]

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

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Revenue:				
Hotel Operating Revenues	\$ 106,092	\$ 94,785	\$ 182,095	\$ 158,855
Interest Income from Development Loans	12	518	158	1,139
Other Revenues	60	52	94	114
Total Revenues	106,164	95,355	182,347	160,108
Operating Expenses:				
Hotel Operating Expenses	55,765	50,130	103,442	89,849
Gain on Insurance Settlements	-	-	(403)	-
Hotel Ground Rent	266	214	494	408
Real Estate and Personal Property Taxes and Property Insurance General and Administrative (including Share Based Payments of \$2,439 and \$2,266 and \$4,827 and \$4,399 for the three and six months ended, respectively)	6,425	5,090	13,023	10,122
Acquisition and Terminated Transaction Costs	5,699	5,340	10,695	10,508
Depreciation and Amortization	773	124	776	1,082
Gain on Hotel Acquisitions, net	16,083	13,924	30,957	27,155
Total Operating Expenses	(12,107)	-	(12,107)	-
Operating Income	72,904	74,822	146,877	139,124
Interest Income	33,260	20,533	35,470	20,984
Interest Expense	469	346	925	452
Other Expense	11,138	10,442	21,558	21,925
Loss on Debt Extinguishment	350	287	584	522
Income (loss) before Income (loss) from Unconsolidated Joint Venture	284	240	545	246
Investments, Income Taxes and Discontinued Operations	21,957	9,910	13,708	(1,257)
Income (loss) from Unconsolidated Joint Ventures	148	414	(248)	(316)
Loss from Remeasurement of Investment in Unconsolidated Joint Venture	-	(224)	-	(224)
Income (loss) from Unconsolidated Joint Venture Investments	148	190	(248)	(540)
Income (loss) Before Income Taxes	22,105	10,100	13,460	(1,797)

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Income Tax Expense	(1,438)	-	(309)	-
Income (loss) from Continuing Operations	20,667	10,100	13,151	(1,797)
Discontinued Operations (Note 12):				
Gain on Disposition of Hotel Properties	1,043	6,949	1,043	11,452
Impairment of Discontinued Assets	(3,723)	-	(3,723)	-
Income (loss) from Discontinued Operations	98	340	(62)	(180)
(Loss) Income from Discontinued Operations	(2,582)	7,289	(2,742)	11,272
Net Income	18,085	17,389	10,409	9,475
(Income) Loss Allocated to Noncontrolling Interests	(210)	(796)	463	(55)
Preferred Distributions	(3,589)	(3,500)	(7,433)	(7,000)
Extinguishment of Issuance Costs Upon Redemption of Series A Preferred Stock	-	-	(2,250)	-
Net Income applicable to Common Shareholders	\$ 14,286	\$ 13,093	\$ 1,189	\$ 2,420

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 [UNAUDITED]

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

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Earnings Per Share:				
BASIC				
Income (loss) from Continuing Operations applicable to Common Shareholders	\$ 0.08	\$ 0.03	\$ 0.01	\$ (0.05)
(Loss) Income from Discontinued Operations applicable to Common Shareholders	(0.01)	0.04	(0.01)	0.06
Net Income applicable to Common Shareholders	\$ 0.07	\$ 0.07	\$ -	\$ 0.01
DILUTED				
Income (loss) from Continuing Operations applicable to Common Shareholders	\$ 0.08	\$ 0.03	\$ 0.01	\$ (0.05)
(Loss) Income from Discontinued Operations applicable to Common Shareholders	(0.01)	0.04	(0.01)	0.06
Net Income applicable to Common Shareholders	\$ 0.07	\$ 0.07	\$ -	\$ 0.01
Weighted Average Common Shares Outstanding:				
Basic	198,633,051	186,264,437	197,835,465	178,345,932
Diluted	201,201,337	* 189,011,990	* 201,083,900	* 178,345,932 *

* Income (loss) allocated to noncontrolling interest in Hersha Hospitality Limited Partnership has been excluded from the numerator and units of limited partnership interest in Hersha Hospitality Limited Partnership have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. 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		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Common Units of Limited Partnership Interest	6,944,496	7,257,604	7,022,238	7,260,561
Unvested Stock Awards Outstanding	-	-	-	-
Contingently Issuable Share Awards	-	-	-	2,188,470
Options to Acquire Common Shares Outstanding	-	-	-	554,189
Total potentially dilutive securities excluded from the denominator	6,944,496	7,257,604	7,022,238	10,003,220

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

AS OF JUNE 30, 2013 [UNAUDITED] AND DECEMBER 31, 2012

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 18,085	\$ 17,389	\$ 10,409	\$ 9,475
Other comprehensive income				
Change in fair value of derivative instruments	2,519	107	2,971	401
Less: Reclassification adjustment for change in fair value of derivative instruments included in net income	(312)	(308)	(608)	(575)
Comprehensive income	20,292	17,188	12,772	9,301
Less: Comprehensive (income) loss attributable to noncontrolling interests	(210)	(796)	463	(55)
Comprehensive income attributable to common shareholders	\$ 20,082	\$ 16,392	\$ 13,235	\$ 9,246

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 [UNAUDITED]

[IN THOUSANDS]

	Shareholders' Equity				Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Distributions in Excess of Net Earnings	Total Shareholders' Equity
	Class A Common Shares	Class B Common Shares	Preferred Shares					
Balance at December 31, 2012	\$ 1,986	-	70		\$ 1,178,292	\$ (1,786)	\$ (348,734)	\$ 829,8
Unit								
Conversion/Redemption	1	-	-	(234)	-	-	-	(233)
Reclassification of Noncontrolling Interest	-	-	-	-	-	-	-	-
Preferred Stock Offering, net of costs	-	-	30	72,341	-	-	-	72,371
Preferred Stock Redemption	-	-	(24)	(59,976)	-	-	-	(60,000)
Dividends and Distributions declared:								
Common Stock (\$0.12 per share)	-	-	-	-	-	-	(25,414)	(25,414)
Preferred Stock	-	-	-	-	-	-	(7,433)	(7,433)
Common Units (\$0.12 per share)	-	-	-	-	-	-	-	-
Dividend Reinvestment Plan	-	-	-	19	-	-	-	19
Stock Based Compensation Grants	40	-	-	285	-	-	-	325

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Amortization	-	-	-	6,187	-	-	6,187
Change in Fair Value of Derivative Instruments	-	-	-	-	2,363	-	2,363
Net Income (Loss)	-	-	-	-	-	10,872	10,872
Balance at June 30, 2013	\$ 2,027	\$ -	\$ 76	\$ 1,196,914	\$ 577	\$ (370,709)	\$ 828,8

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 [UNAUDITED]

[IN THOUSANDS]

	Shareholders' Equity					Accumulated Other Comprehensive Loss	Distributions in Excess of Net Earnings	Total Shareholders' Equity	Non- Controlling Units
	Class A Common Shares	Class B Common Shares	Preferred Shares	Additional Paid-In Capital					
Balance at December 31, 2011	\$ 1,699	\$ -	\$ 70	\$ 1,041,027	\$ (1,151)	\$ (310,974)	\$ 730,671	16,800	
Unit Conversion	-	-	-	52	-	-	52	(52)	
Reallocation of Noncontrolling Interest	-	-	-	(1,548)	-	-	(1,548)	-	
Common Stock Issuance									
Common Stock Offering, net of costs	240	-	-	128,457	-	-	128,697	-	
Common Stock Option Cancellation	25	-	-	(25)	-	-	-	-	
Dividends and Distributions declared:									
Common Stock (\$0.12 per share)	-	-	-	-	-	(22,304)	(22,304)	-	
Preferred Stock	-	-	-	-	-	(7,000)	(7,000)	-	
Common Units (\$0.12 per share)	-	-	-	-	-	-	-	(50)	
Dividend Reinvestment Plan	-	-	-	8	-	-	8	-	

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Stock Based Compensation Grants	20	-	-	2,454	-	-	2,474	-
Amortization	-	-	-	3,249	-	-	3,249	-
Consolidation of Variable Interest Entity	-	-	-	-	-	-	-	-
Deconsolidation of Consolidated Joint Ventures	-	-	-	-	-	-	-	-
Change in Fair Value of Derivative Instruments	-	-	-	-	(174)	-	(174)	-
Net Income (Loss)	-	-	-	-	-	9,420	9,420	57
Balance at June 30, 2012	\$ 1,984	\$ -	70	\$ 1,173,674	\$ (1,325)	\$ (330,858)	\$ 843,545	16,3

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 [UNAUDITED]

[IN THOUSANDS]

	2013	2012
Operating activities:		
Net income	\$ 10,409	\$ 9,475
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on acquisition of hotel assets	(12,107)	-
Gain on disposition of hotel assets	(1,043)	(11,452)
Impairment of assets	3,723	-
Deferred taxes	309	-
Depreciation	30,690	27,127
Amortization	1,246	1,982
Debt extinguishment	470	7
Development loan interest added to principal	-	(678)
Equity in loss of unconsolidated joint ventures	248	540
Distributions from unconsolidated joint ventures	12	1,132
Loss recognized on change in fair value of derivative instrument	106	218
Stock based compensation expense	4,827	4,399
Change in assets and liabilities:		
(Increase) decrease in:		
Hotel accounts receivable	(2,436)	(1,989)
Escrows	(4,048)	(2,023)
Other assets	(6)	95
Due from related parties	2,712	(4,583)
Increase (decrease) in:		
Due to related parties	1,736	