HERSHA HOSPITALITY TRUST
Form 10-Q
May 02, 2016

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 March 31, 2016

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	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 April 28, 2016, the number of Class A common shares of beneficial interest outstanding was 44,034,660 and there were no Class B common shares of beneficial interest outstanding.

Hersha Hospitality Trust

Table of Contents

2

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2016 (UNAUDITED) AND DECEMBER 31, 2015

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

	March 31, 2016	December 31, 2015
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation, Including Consolidation of Variable Interest Entity Assets of $82,412 and $82,787	$ 1,702,891	$ 1,831,119
Investment in Unconsolidated Joint Ventures	9,853	10,316
Cash and Cash Equivalents	23,677	27,955
Escrow Deposits	20,798	19,204
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of $2 and $12	10,263	9,465
Due from Related Parties	6,286	6,243
Intangible Assets, Net of Accumulated Amortization of $4,065 and $3,951	14,150	13,389
Deposits on Hotel Acquisitions	-	5,000
Other Assets	36,129	39,958
Hotel Assets Held for Sale	264,784	-
Total Assets	$ 2,088,831	$ 1,962,649
Liabilities and Equity:		
Line of Credit	$ 178,550	$ 27,000
Unsecured Term Loan, Net of Unamortized Deferred Financing Costs (Note 5)	547,829	547,780
Unsecured Notes Payable, Net of Unamortized Deferred Financing Costs (Note 5)	50,538	50,525
Mortgages Payable, including Net Unamortized Premium and Unamortized Deferred Financing Costs, and Consolidation of Variable Interest Entity Debt of $52,095 and $52,509 (Note 5)	495,604	544,659
Accounts Payable, Accrued Expenses and Other Liabilities	56,720	59,226
Dividends and Distributions Payable	16,900	16,515
Due to Related Parties	3,844	8,789
Liabilities Related to Hotel Assets Held for Sale	55,203	-
Total Liabilities	$ 1,405,188	$ 1,254,494
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 March 31, 2016 and December 31, 2015, with Liquidation Preferences of $25 Per Share (Note 1)	$ 76	$ 76
Common Shares: Class A, $.01 Par Value, 300,000,000 Shares Authorized at March 31, 2016 and December 31, 2015, 44,363,524 and 44,457,368 Shares Issued and Outstanding at March 31,2016 and December 31, 2015, respectively	443	444
Common Shares: Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at March 31, 2016 and December 31, 2015	-	-
Accumulated Other Comprehensive Loss	(703)	(466)
Additional Paid-in Capital	1,083,158	1,086,259
Distributions in Excess of Net Income	(432,017)	(408,274)
Total Shareholders' Equity	650,957	678,039
Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units and LTIP Units	34,608	31,876
Noncontrolling Interests - Consolidated Variable Interest Entity	(1,922)	(1,760)
Total Noncontrolling Interests	32,686	30,116
Total Equity	683,643	708,155
Total Liabilities and Equity	$ 2,088,831	$ 1,962,649

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

3

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Hotel Operating Revenues	$ 106,847	$ 95,688
Other Revenues	23	24
Total Revenues	106,870	95,712
Operating Expenses:		
Hotel Operating Expenses	65,718	57,355
Hotel Ground Rent	893	728
Real Estate and Personal Property Taxes and Property Insurance	9,156	8,270
General and Administrative (including Share Based Payments of $2,406 and $1,539 for the three months ended March 31, 2016 and 2015, respectively)	5,400	4,347
Acquisition and Terminated Transaction Costs	1,508	118
Depreciation and Amortization	20,060	18,253
Total Operating Expenses	102,735	89,071
Operating Income	4,135	6,641
Interest Income	46	48
Interest Expense	(12,221)	(10,635)
Other Expense	(123)	(169)
Loss on Debt Extinguishment	(42)	-
Loss Before Loss from Unconsolidated Joint Venture Investments and Income Taxes	(8,205)	(4,115)
Loss from Unconsolidated Joint Ventures	(214)	(274)
Loss from Unconsolidated Joint Venture Investments	(214)	(274)

Loss from Continuing Operations	(8,419)	(4,389)
Net Loss	(8,419)	(4,389)
Loss Allocated to Noncontrolling Interests	687	443
Preferred Distributions	(3,589)	(3,589)
Net Loss Applicable to Common Shareholders	$ (11,321)	$ (7,535)

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

	Three Months Ended March 31,	
	2016	2015
Earnings Per Share:		
BASIC		
Net Loss Applicable to Common Shareholders	$ (0.26)	$ (0.15)
DILUTED		
Net Loss Applicable to Common Shareholders	$ (0.26)	$ (0.15)
Weighted Average Common Shares Outstanding:		
Basic	44,379,327	49,582,790
Diluted*	44,379,327	49,582,790

*Income (loss) allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and the Operating Partnership’s common units of limited partnership interest (“Common Units”) and the Operating Partnership’s vested LTIP units (“Vested LTIP Units”) have been omitted from the denominator for the purpose of computing diluted earnings per share because 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 March 31,	
	2016	2015
Common Units and Vested LTIP Units	2,056,512	1,836,565
Unvested Stock Awards and LTIP Units Outstanding	51,878	202,129
Contingently Issuable Share Awards	407,732	280,727
Total Potentially Dilutive Securities Excluded from the Denominator	2,516,122	2,319,421

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

[IN THOUSANDS]

	Three Months Ended March 31,	
	2016	2015
Net Loss	$ (8,419)	$ (4,389)
Other Comprehensive Loss		
Change in Fair Value of Derivative Instruments	(416)	(217)
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	179	(339)
	$ (237)	$ (556)
Comprehensive Loss	(8,656)	(4,945)
Less: Comprehensive Loss Attributable to Noncontrolling Interests	687	443
Less: Preferred Distributions	(3,589)	(3,589)
Comprehensive Loss Attributable to Common Shareholders	$ (11,558)	$ (8,091)

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

		Shareholders' Equity								No
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Loss ($)	Distributions in Excess of Net Earnings ($)	Total Shareholders' Equity ($)	Co Ur LT Ur
Balance at December 31, 2015	44,457,368	444	-	7,600,000	76	1,086,259	(466)	(408,274)	678,039	2,
Unit Conversion	-	-	-	-	-	-	-	-	-	-
Repurchase of Common Shares	(116,257)	(1)	-	-	-	(2,313)	-	-	(2,314)	-
Dividends and Distributions declared:	-									
Common Shares	-	-	-	-	-	-	-	(12,422)	(12,422)	-
Preferred Shares	-	-	-	-	-	-	-	(3,589)	(3,589)	-
Common Units	-	-	-	-	-	-	-	-	-	-
LTIP Units	-	-	-	-	-	-	-	-	-	-

Dividend Reinvestment Plan	863	-	-	-	-	15	-	-	15	-
Share Based Compensation:										
Grants	21,550	-	-	-	-	(1,060)	-	-	(1,060)	29
Amortization	-	-	-	-	-	257	-	-	257	-
Change in Fair Value of Derivative Instruments	-	-	-	-	-	-	(237)	-	(237)	-
Net Income (Loss)	-	-	-	-	-	-	-	(7,732)	(7,732)	-
Balance at March 31, 2016	44,363,524	443	-	7,600,000	76	1,083,158	(703)	(432,017)	650,957	2,(

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

7

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

	Shareholders' Equity								
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Loss ($)	Distributions in Excess of Net Earnings ($)	Total Sharehol Equity ($
Balance at December 31, 2014	49,708,771	1,989	-	7,600,000	76	1,193,056	(358)	(365,381)	829,382
Unit Conversion/Redemption	-	-	-	-	-	-	-	-	-
Restricted Shares Forfeiture/LTIP Unit Issuance	-	-	-	-	-	-	-	-	-
Repurchase of Common Shares	(494,441)	(20)	-	-	-	(10,267)	-	(2,340)	(12,627)
Dividends and Distributions declared:									
Common Shares ($0.26 per share)	-	-	-	-	-	-	-	(13,784)	(13,784)
Preferred Shares	-	-	-	-	-	-	-	(3,589)	(3,589)
Common Units ($0.26 per share)	-	-	-	-	-	-	-	-	-
LTIP Units ($0.07 per share)	-	-	-	-	-	-	-	-	-
Dividend Reinvestment Plan	593	-	-	-	-	15	-	-	15
Share Based Compensation:									
Grants	12,031	-	-	-	-	-	-	-	-

Amortization	-	-	-	-	-	294	-	-	294
Change in Fair Value of Derivative Instruments	-	-	-	-	-	-	(556)	-	(556)
Net Income (Loss)	-	-	-	-	-	-	-	(3,946)	(3,946)
Balance at March 31, 2015	49,226,954	1,969	-	7,600,000	76	1,183,098	(914)	(389,040)	795,189

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015[UNAUDITED]

[IN THOUSANDS]

	Three Months Ended March 31,	
	2016	2015
Operating Activities:		
Net Loss	$ (8,419)	$ (4,389)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	19,981	18,147
Amortization	315	494
Unamortized Deferred Fees Expensed in Debt Extinguishment	42	-
Equity in (Income) Loss of Unconsolidated Joint Ventures	214	274
Distributions from Unconsolidated Joint Ventures	-	5
Loss Recognized on Change in Fair Value of Derivative Instrument	37	54
Share Based Compensation Expense	2,406	1,539
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Hotel Accounts Receivable	(698)	(766)
Escrows	(1,046)	(2,701)
Other Assets	2,895	(1,221)

Due from Related Parties	(43)	165
(Decrease) Increase in:		
Due to Related Parties	(4,945)	2,672
Accounts Payable, Accrued Expenses and Other Liabilities	(1,640)	149
Net Cash Provided by Operating Activities	$ 9,099	$ 14,422
Investing Activities:		
Purchase of Hotel Property Assets	$ (126,284)	$ -
Deposits on Hotel Acquisitions	-	(500)
Capital Expenditures	(11,090)	(5,383)
Cash Paid for Hotel Development Projects	-	(992)
Net Changes in Capital Expenditure Escrows	(188)	1,730
Distributions from Unconsolidated Joint Ventures	250	130
Net Cash Used in Investing Activities	$ (137,312)	$ (5,015)

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

[IN THOUSANDS]

	Three Months Ended March 31,	
	2016	2015
Financing Activities:		
Proceeds from Borrowings Under Line of Credit, Net	$ 151,550	$ 34,500
Principal Repayment of Mortgages and Notes Payable	(8,470)	(28,319)
Proceeds from Mortgages and Notes Payable	-	25,000
Cash Paid for Deferred Financing Costs	(117)	(95)
Repurchase of Common Shares	(2,314)	(12,627)
Dividends Paid on Common Shares	(12,476)	(13,903)
Dividends Paid on Preferred Shares	(3,589)	(3,589)
Distributions Paid on Common Units and LTIP Units	(649)	(621)
Net Cash Provided by Financing Activities	$ 123,935	$ 346
Net (Decrease) Increase in Cash and Cash Equivalents	$ (4,278)	$ 9,753
Cash and Cash Equivalents - Beginning of Period	27,955	21,675
Cash and Cash Equivalents - End of Period	$ 23,677	$ 31,428

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Hersha Hospitality Trust ("we," "us," "our" or the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") for interim financial information and with the general instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or any future period. Accordingly, readers of these consolidated interim financial statements should refer to the Company's audited financial statements prepared in accordance with US GAAP, and the related notes thereto, for the year ended December 31, 2015, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as certain footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted from this report pursuant to the rules of the Securities and Exchange Commission.

We are a self-administered Maryland real estate investment trust that was organized in May 1998 and completed our initial public offering in January 1999. Our common shares are traded on the New York Stock Exchange (the "NYSE") under the symbol "HT." We own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership ("HHLP"), for which we serve as the sole general partner. As of March 31, 2016, we owned an approximate 94.4% partnership interest in HHLP, including a 1.0% general partnership interest.

Noncontrolling Interest

We classify the noncontrolling interests of our consolidated variable interest entity, common units of limited partnership interest in HHLP ("Common Units"), and LTIP Units as equity. LTIP Units are a special class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units totaled $34,608 as of March 31, 2016 and $31,876 as of December 31, 2015. As of March 31, 2016, there were 2,613,546 Common Units outstanding with a fair market value of $55,773, based on the price per share of our common shares on the NYSE on such date. In accordance with the partnership agreement of HHLP, holders of these units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying cash.

Net income or loss attributed to Common Units, as well as the net income or loss related to the noncontrolling interests of our consolidated variable interest entity, is included in net income or loss but excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Variable Interest Entities

On January 1, 2016, we adopted ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis. We evaluated the application of ASU No. 2015-02 and concluded that no change was required to our accounting of our interests in less than wholly owned joint ventures. However, HHLP, our operating partnership, now meets the criteria as a variable interest entity. The Company's most significant asset is its investment in HHLP, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of HHLP.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

Shareholders' Equity

Terms of the Series B and Series C Preferred Shares outstanding at March 31, 2016 and December 31, 2015 are summarized as follows:

	Shares Outstanding					Dividend Per Share Three Months Ended March 31,	
Series	March 31, 2016	December 31, 2015		Aggregate Liquidation Preference	Distribution Rate	2016	2015
Series B	4,600,000	4,600,000	$	115,000	8.000%	$ 0.5000	$ 0.5000
Series C	3,000,000	3,000,000		75,000	6.875%	0.4297	0.4297
Total	7,600,000	7,600,000					

In May 2015, our Board of Trustees approved a reverse share split of our issued and outstanding common shares and Common Units and LTIP Units at a ratio of 1-for-4. This reverse share split converted every four issued and outstanding common shares into one common share. The reverse share split was effective as of 5:00 PM Eastern time on June 22, 2015. As a result of the reverse share split, the number of outstanding common shares was reduced from 191,079,951 to 47,769,961 shares and the number of outstanding Common Units and LTIP Units was reduced from 9,313,063 to 2,328,276 units. In addition, the second quarter 2015 dividend was adjusted to $0.28 per common share from the previously announced $0.07 per common share. All common share, Common Unit and LTIP Units and per share data related to these classes of equity have been updated in this Quarterly Report on Form 10-Q to reflect this share split for all periods presented.

In October 2015, our Board of Trustees authorized a new share repurchase program for up to $100,000 of common shares which commenced upon the completion of the previous program. The new program will expire on December 31, 2016 unless extended by the Board of Trustees. We may seek Board of Trustee approval to increase the 2016 authorization. For the three months ended March 31, 2016, the Company repurchased 116,257 common shares for an aggregate purchase price of $2,314. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

New Accounting Pronouncements

We adopted ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, on January 1, 2016. This standard requires debt issuance costs to be presented on the balance sheet as a direct deduction from the associated debt liability. Previously, debt issuance costs were recorded as an asset. The issuance costs will continue to be amortized over the life of the debt instrument and recorded in interest expense, as they were prior to the new standard. As part of this adoption, debt issuance costs are now included as an offset to the mortgages, unsecured term loan and unsecured notes payable line items on the consolidated balance sheets for all periods presented. For full reclassification amounts, see “Note 5 – Debt”.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted, but not prior to the original effective date of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. We do not believe it will have a material impact on the Company’s financial statements.

Reclassification

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

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Land	$ 465,102	$ 480,874
Buildings and Improvements	1,371,230	1,518,565
Furniture, Fixtures and Equipment	214,744	227,527
	2,051,076	2,226,966
Less Accumulated Depreciation	(348,185)	(395,847)
Total Investment in Hotel Properties	$ 1,702,891	$ 1,831,119

Acquisitions

We have acquired the following properties during the three months ended March 31, 2016:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Other Intangibles		Loan Costs	Total Purchase Price	Assumpt of Debt
Sanctuary Beach Resort, Marina, CA	1/28/2016	$ 20,014	$ 17,093	$ 2,369	$ -		$ 198	$ 39,674	$ 14,750
Hilton Garden Inn M Street, Washington, DC	3/9/2016	30,131	65,971	9,621	874	**	-	106,597	-
TOTAL		$ 50,145	$ 83,064	$ 11,990	$ 874		$ 198	$ 146,271	$ 14,750

*Assumption of debt includes a $50 premium resulting from the determination that the stated rate of interest is above market rates on the date of acquisition

**Includes an intangible asset for a lease-in-place of $648, advance bookings of $76 and franchise fees of $150.

Acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the above acquired assets. During the three months ended March 31, 2016, we paid $1,410 in acquisition costs related to the above acquired assets.

Included in the consolidated statement of operations for the three months ended March 31, 2016 are total revenues of $2,132, and total net income of $754 for the hotels we acquired during the three months ended March 31, 2016 and consolidated since the date of acquisition of the hotels.

	Three Months Ended March 31, 2016	
Hotel	Revenue	Net Income
Sanctuary Beach Resort, Marina, CA	$ 902	$ 263
Hilton Garden Inn M Street, Washington, DC	1,230	491

Total	$ 2,132	$ 754

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Purchase and Sale Agreement

On February 4, 2016, we announced the signing of asset purchase and contribution agreements (the “Contribution Agreements”) with Cindat Manhattan Hotel Portfolio (US) LLC (“Cindat”) to form a joint venture that initially invests in seven of our limited service hotels in Manhattan (The “JV Properties”) totaling 1,087 rooms. The joint venture’s purchase price for the JV Properties is $543,500, or $500 per key. This transaction closed on April 29, 2016. The proposed joint venture is structured with Cindat as a senior common equity member holding a 70.0% ownership interest, while we retain a 30% common equity interest. Under the terms of the Contribution Agreements, we contributed the JV Properties and Cindat will contribute cash equal to 70% of the remaining purchase price. In addition, we had a $37,000 preferred equity interest in the joint ventures that provides for a 9% non-cumulative return. Upon closing, we received a distribution from the joint venture in the amount of Cindat’s contributed cash and our 30% interest in the net proceeds from joint venture borrowings. We have classified the assets and mortgage indebtedness related to these seven hotels as held for sale as of March 31, 2016.

	March 31, 2016
Land	$ 65,916
Buildings and Improvements	236,830
Furniture, Fixtures and Equipment	29,596
	332,342
Less: Accumulated Depreciation & Amortization	(67,558)
Assets Held for Sale	$ 264,784
Liabilities Related to Assets Held for Sale	$ 55,203

We did not have any assets or liabilities related to assets held for sale as of December 31, 2015

14

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Pro Forma Results (Unaudited)

The following condensed pro forma financial data for the three months ended March 31, 2016 and 2015 are presented as if the hotels acquired by the Company in 2016 and 2015 had been acquired as of January 1, 2015 and 2014, respectively. The condensed pro forma financial data are not necessarily indicative of what actual results of operations of the Company would have been for the periods presented assuming the acquisitions had been consummated on January 1, 2015 and 2014, nor do they purport to represent the results of operations for future periods.

	Three Months Ended March 31,	
	2016	2015
Pro Forma Total Revenues	$ 110,325	$ 100,833
Pro Forma Net Loss	(6,192)	(3,948)
Loss Allocated to Noncontrolling Interest	588	427
Preferred Distributions	(3,589)	(3,589)
Pro Forma Loss Applicable to Common Shareholders	$ (9,193)	$ (7,110)
Pro Forma Loss Applicable to Common Shareholders per Common Share		
Basic	$ (0.21)	$ (0.14)
Diluted	$ (0.21)	$ (0.14)
Weighted Average Common Shares Outstanding		
Basic	44,379,327	49,582,790
Diluted	44,379,327	49,582,790

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of March 31, 2016 and December 31, 2015, our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned	Preferred Return	March 31, 2016	December 31, 2015
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0%	N/A	$ 656	$ 795
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0%	N/A	4,256	4,499
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT	8.8%-66.7%	8.5% non-cumulative	4,941	5,022
				$ 9,853	$ 10,316

Income or loss from our unconsolidated joint ventures is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets.

Income recognized during the three months ended March 31, 2016 and 2015, for our investments in unconsolidated joint ventures is as follows:

	Three Months Ended March 31, 2016	2015
SB Partners, LLC	$ (39)	$ (90)
Hiren Boston, LLC	(93)	(109)
Mystic Partners, LLC	(82)	(75)
Loss from Unconsolidated Joint Venture Investments	$ (214)	$ (274)

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company's share, related to the unconsolidated joint ventures discussed above as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015.

Balance Sheets

	March 31, 2016	December 31, 2015
Assets		
Investment in Hotel Properties, Net	$ 105,229	$ 105,354
Other Assets	14,723	15,558
Total Assets	$ 119,952	$ 120,912
Liabilities and Equity		
Mortgages and Notes Payable	$ 112,612	$ 113,532
Other Liabilities	32,413	30,575
Equity:		
Hersha Hospitality Trust	22,354	22,698
Joint Venture Partner(s)	(47,427)	(45,893)
Total Equity	(25,073)	(23,195)
Total Liabilities and Equity	$ 119,952	$ 120,912

Statements of Operations

	Three Months Ended March 31, 2016	2015
Room Revenue	$ 12,380	$ 12,682
Other Revenue	4,702	5,069
Operating Expenses	(12,884)	(13,193)
Lease Expense	(305)	(276)
Property Taxes and Insurance	(761)	(755)
General and Administrative	(1,232)	(1,406)
Depreciation and Amortization	(1,673)	(1,566)
Interest Expense	(1,606)	(1,622)
Gain/(Loss) allocated to Noncontrolling Interests	33	(24)
Net Loss	$ (1,346)	$ (1,091)

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

The following table is a reconciliation of the Company’s share in the unconsolidated joint ventures’ equity to the Company’s investment in the unconsolidated joint ventures as presented on the Company’s balance sheets as of March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
Company's share of equity recorded on the joint ventures' financial statements	$ 22,354	$ 22,698
Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1)	(12,501)	(12,382)
Investment in Unconsolidated Joint Ventures	$ 9,853	$ 10,316

(1) Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures consists of the following:

- cumulative impairment of the Company’s investment in joint ventures not reflected on the joint ventures' financial statements;
- the Company’s basis in the investment in joint ventures not recorded on the joint ventures' financial statements; and
- accumulated amortization of the Company’s equity in joint ventures that reflects the Company’s portion of the excess of the fair value of joint ventures' assets on the date of our investment over the carrying value of the assets recorded on the joint ventures financial statements (this excess investment is amortized over the life of the properties, and the amortization is included in Income (Loss) from Unconsolidated Joint Venture Investments on the Company’s

consolidated statement of operations).

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 4 – OTHER ASSETS

Other Assets

Other Assets consisted of the following at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Investment in Statutory Trusts	1,548	1,548
Prepaid Expenses	10,188	14,434
Deferred Tax Asset, Net of Valuation Allowance of $804	14,590	14,590
Other	9,803	9,386
	$ 36,129	$ 39,958

Investment in Statutory Trusts - We have an investment in the common stock of Hersha Statutory Trust I and Hersha Statutory Trust II. Our investment is accounted for under the equity method.

Prepaid Expenses - Prepaid expenses include amounts paid for property tax, insurance and other expenditures that will be expensed in the next twelve months.

Deferred Tax Asset - We have approximately $14,590 of net deferred tax assets as of March 31, 2016. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the $14,590 of net deferred tax assets in the future.

Deposits on Hotel Acquisitions

As of December 31, 2015, we had $5,000 in interest bearing deposits related to the future acquisition of the Sanctuary Beach Resort, located in Marina, California. We completed the acquisition of this property on January 28, 2016 (See "Note 2 – Investment in Hotel Properties" for more information). As of March 31, 2016, we had no deposits on hotel acquisitions.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 5 – DEBT

Mortgages

Mortgages payable at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
Mortgage Indebtedness	$ 496,063	$ 545,036
Net Unamortized Premium	3,208	3,503
Net Unamortized Deferred Financing Costs	(3,667)	(3,880)
	$ 495,604	$ 544,659
Liabilities Related to Hotel Assets Held for Sale	$ 55,203	$ -

Net Unamortized Deferred Financing Costs associated with entering into mortgage indebtedness are deferred and amortized over the life of the mortgages. Net Unamortized Premiums are also amortized over the remaining life of the loans.

Mortgage indebtedness balances are subject to fixed and variable interest rates, which ranged from 2.69% to 6.50% as of March 31, 2016. Aggregate interest expense incurred under the mortgage loans payable totaled $6,271 and $7,140 during the three months ended March 31, 2016 and 2015, respectively.

Our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, non-recourse financing arrangements. Our mortgage loans payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that certain debt service coverage ratio covenants contained in the loan agreements securing two of our hotel properties were not met as of March 31, 2016. Pursuant to these loan agreements, the lender has elected to escrow the operating cash flow for a number of these properties. However, these covenants do not constitute an event of default for these loan agreements.

As of March 31, 2016, the maturity dates for the outstanding mortgage loans ranged from May 2016 to February 2024.

Subordinated Notes Payable

We have two junior subordinated notes payable in the aggregate amount of $51,548 to the Hersha Statutory Trusts pursuant to indenture agreements which will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, prior to maturity in accordance with the provisions of the indenture agreements. The $25,774 of notes issued to each of Hersha Statutory Trust I and Hersha Statutory Trust II bear interest at a variable rate of LIBOR plus 3% per annum. This rate resets two business days prior to each quarterly payment. The face value of the notes payable is offset by $1,010 and $1,023 as of March 31, 2016 and December 31, 2015, respectively, in net deferred financing costs incurred as a result of entering into these notes. The deferred financing costs are amortized over the life of the notes payable. The weighted average interest rate on our two junior subordinated notes payable was 3.56% and 3.25% during the three months ended March 31, 2016 and 2015, respectively. Interest expense in the amount of $459 and $419 was recorded for the three months ended March 31, 2016 and 2015, respectively.

Credit Facilities

We maintain a senior unsecured credit agreement with Citigroup Global Markets Inc. and various other lenders. The credit agreement provides for a $500,000 senior unsecured credit facility (“Credit Facility”) consisting of a $250,000 senior unsecured revolving line of credit (“Line of Credit”), and a $250,000 senior unsecured term loan (“First Term Loan”). The Credit Facility expires on February 28, 2018, and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one-year period. The Credit Facility is also expandable to $850,000 at our request, subject to the satisfaction of certain conditions.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 5 – DEBT (CONTINUED)

On August 10, 2015, we entered into an additional $300,000 senior unsecured term loan agreement (“Second Term Loan”) with Citigroup Global Markets Inc. and various other lenders. The Second Term Loan expires on August 10, 2020.

The amount that we can borrow at any given time under our Credit Facility and Second Term Loan is governed by certain operating metrics of designated unencumbered hotel properties known as borrowing base assets. As of March 31, 2016, the following hotel properties were borrowing base assets:

- Holiday Inn Express, Cambridge, MA	- Hampton Inn, Philadelphia, PA
- Holiday Inn, Wall Street, NY	- Hampton Inn, Washington, DC
- Holiday Inn Express, Times Square, NY	- Hyatt Place, King of Prussia, PA
- Residence Inn, Norwood, MA	- Nu Hotel, Brooklyn, NY
- Residence Inn, Framingham, MA	- The Rittenhouse Hotel, Philadelphia, PA
- Sheraton, Wilmington South, DE	- The Boxer, Boston, MA
- Sheraton Hotel, JFK Airport, New York, NY	- Holiday Inn Express (Water Street), New York, NY
- Candlewood Suites, Times Square, NY	- Courtyard, San Diego, CA
- Hampton Inn, Times Square, NY	- Residence Inn, Coconut Grove, FL
- Winter Haven, Miami, FL	- Blue Moon, Miami, FL
- Hampton Inn, Pearl Street, NY	- Parrot Key Resort, Key West, FL
- Residence Inn, Greenbelt, MD	- Courtyard, Brookline, MA
- Courtyard, Miami, FL	- TownePlace Suites, Sunnyvale, CA
- Residence Inn, Tyson's Corner, VA	- Hawthorne Suites, Franklin, MA
- Ritz Carlton, Washington, DC	- Hilton Garden Inn, M Street, Washington, DC

The interest rate for borrowings under the Line of Credit and term loans are based on a pricing grid with a range of one month U.S. LIBOR plus a spread. The following table summarizes the balances outstanding and interest rate spread for each borrowing:

		Outstanding Balance	
Borrowing	Spread	March 31, 2016	December 31, 2015
Line of Credit	1.70% to 2.45%	$ 178,550	$ 27,000
First Term Loan	1.60% to 2.35%	250,000	250,000
Second Term Loan	1.50% to 2.25%	300,000	300,000

We maintain an interest rate swap, with a $150,000 notional amount, which effectively fix the interest rate on the First Term Loan at a blended rate of 2.914%. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information.

The balance of the First Term Loan and Second Term Loan is offset by $2,171 and $2,220 in net deferred financing costs as of March 31, 2016 and December 31, 2015, respectively. These costs were incurred as a result of originating the term loan borrowings and are amortized over the life of these loans.

The Credit Facility and the Second Term Loan agreements include certain financial covenants and require that we maintain: (1) a minimum tangible net worth (calculated as total assets, plus accumulated depreciation, less total liabilities, intangibles and other defined adjustments) of $900,000, plus an amount equal to 75% of the net cash proceeds of all issuances and primary sales of equity interests of the parent guarantor or any of its subsidiaries consummated following the closing date; (2) annual distributions not to exceed 95% of adjusted funds from operations; and (3) certain financial ratios, including the following:

- a fixed charge coverage ratio of not less than 1.50 to 1.00;
- a maximum leverage ratio of not more than 60%; and
- a maximum secured debt leverage ratio of 45%.

The Company is in compliance with each of the covenants listed above as of March 31, 2016. As of March 31, 2016, our remaining borrowing capacity under the Credit Facility and the Second Term Loan was $68,160 based on the borrowing base assets at March 31, 2016.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 5 – DEBT (CONTINUED)

The Company recorded interest expense of $4,480 and $1,742 related to borrowings drawn on the Credit Facility and the Second Term Loan for the three months ended March 31, 2016 and 2015, respectively. The weighted average interest rate on the Credit Facility and the Second Term Loan was 2.80% and 2.78% for the three months ended March 31, 2016 and 2015, respectively.

Capitalized Interest

We utilize cash, mortgage debt and our Line of Credit to finance on-going capital improvement projects at our hotels. Interest incurred on mortgages and the Line of Credit that relates to our capital improvement projects is capitalized through the date when the assets are placed in service. For the three months ended March 31, 2016 and 2015, we did not have any on-going capital projects which would require us to capitalize interest.

Deferred Financing Costs

As noted above, costs associated with entering into mortgages, notes payable and our credit facilities are deferred and amortized over the life of the debt instruments. The deferred costs related to mortgages and term loans and unsecured notes payable are presented as reductions in the respective debt balances. Amortization of deferred costs for the three months ended March 31, 2016 and 2015 was $660 and $719, respectively.

New Debt/Refinance

On February 29, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $8,500 secured by the Hawthorn Suites, Franklin, MA. The loan was due to mature on May 1, 2016, and we incurred approximately $42 in expense in unamortized deferred financing costs and fees.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned taxable REIT subsidiary ("TRS"), 44 New England, and certain of our joint venture entities engage eligible independent contractors in accordance with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, including HHMLP, as the property managers for hotels it leases from us pursuant to management agreements. HHMLP is owned, in part, by certain executives and trustees of the Company. Our management agreements with HHMLP provide for five-year terms and are 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. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee and, if a hotel exceeds certain thresholds, an 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 hotels. For the three months ended March 31, 2016 and 2015, base management fees incurred totaled $3,025 and $2,670, respectively, and are recorded as Hotel Operating Expenses. For the three months ended March 31, 2016 and 2015, we did not incur incentive management fees.

Franchise Agreements

Our branded 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 hotels and charged to expense as incurred. Franchise fee expenses for the three months ended March 31, 2016 and 2015 were $5,895 and $5,590, respectively, and are recorded in Hotel Operating Expenses. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Accounting and Information Technology Fees

Each of the wholly-owned hotels and consolidated joint venture hotel properties managed by HHMLP incurs a monthly accounting and information technology fee. Monthly fees for accounting services are between $2 and $3 per property and monthly information technology fees range from $1 to $2 per property. For the three months ended March 31, 2016 and 2015, the Company incurred accounting fees of $392 and $360, respectively. For the three months ended March 31, 2016 and 2015, the Company incurred information technology fees of $141 and $106, respectively. Accounting fees and information technology fees are included in Hotel Operating Expenses.

Capital Expenditure Fees

HHMLP charges a 5% fee on all capital expenditures and pending renovation projects at the properties as compensation for procurement services related to capital expenditures and for project management of renovation projects. For the three months ended March 31, 2016 and 2015, we incurred fees of $447 and $147, respectively, which were capitalized with the cost of fixed asset additions.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

Acquisitions from Affiliates

We have entered into an option agreement with certain of our officers and trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. 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 approved by the Acquisition Committee.

Hotel Supplies

For the three months ended March 31, 2016 and 2015, we incurred charges for hotel supplies of $21 and $23, respectively. For the three months ended March 31, 2016 and 2015, we incurred charges for capital expenditure purchases of $882 and $1,360, respectively. These purchases were made from Hersha Purchasing and Design, a hotel supply company owned, in part, by certain executives and trustees of the Company. Hotel supplies are expensed and included in Hotel Operating Expenses on our consolidated statements of operations, and capital expenditure purchases are included in investment in hotel properties on our consolidated balance sheets. Approximately $2 and $3 is included in accounts payable at March 31, 2016 and December 31, 2015, respectively.

Due From Related Parties

The due from related parties balance as of March 31, 2016 and December 31, 2015 was approximately $6,286 and $6,243, respectively. The balances primarily consisted of working capital deposits made to HHMLP and related party service providers.

Due to Related Parties

The balance due to related parties as of March 31, 2016 and December 31, 2015 was approximately $3,844 and $8,789, respectively. The balances consisted of amounts payable to HHMLP and related party service providers for administrative, management, and benefit related fees.

Hotel Ground Rent

For the three months ended March 31, 2016 and 2015, we incurred $893 and $728, respectively, of rent expense payable pursuant to ground leases related to certain hotel properties.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 7 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Fair Value Measurements

Our determination of fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we utilize a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of March 31, 2016, the Company's derivative instruments represented the only financial instruments measured at fair value. Currently, the Company uses derivative instruments, such as interest rate swaps and caps, to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. However, as of March 31, 2016 we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 7 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

Derivative Instruments

							Estimated Fair Value	
Hedged Debt	Type	Strike Rate	Index	Effective Date	Maturity Date	Notional Amount	March 31, 2016	December 31, 2015
Courtyard, LA Westside, Culver City, CA	Cap	3.000%	1-Month LIBOR + 3.00%	October 27, 2015	September 29, 2017	35,000	16	19
Hyatt, Union Square, New York, NY	Cap	3.000%	1-Month LIBOR + 2.30%	June 10, 2015	June 10, 2019	55,750	45	136
Hyatt, Union Square, New York, NY*	Cap	2.000%	1-Month LIBOR + 4.19%	April 9, 2013	April 9, 2016	55,000	-	-
Unsecured Term Loan	Swap	0.545%	1-Month LIBOR + 2.35%	November 5, 2012	November 5, 2016	100,000	(20)	84
Unsecured Term Loan	Swap	0.600%	1-Month LIBOR + 2.35%	December 18, 2012	November 5, 2016	50,000	(27)	18
Duane Street Hotel, New York, NY	Swap	0.933%	1-Month LIBOR + 4.50%	February 1, 2014	February 1, 2017	9,119	(29)	(21)
Hilton Garden Inn 52nd Street, New York, NY	Swap	1.152%	1-Month LIBOR + 2.90%	June 1, 2015	February 21, 2017	45,000	(239)	(215)

	$ (254)	$ 21

* On June 10, 2015, we refinanced the debt associated with Hyatt Union Square. As a result, we entered into an interest rate cap

with a strike rate of 3.000%. The original interest rate cap matured on April 9, 2016 and was replaced by the aforementioned interest rate cap with a strike rate of 3.000%.

The fair value of certain swaps and our interest rate caps is included in other assets at March 31, 2016 and December 31, 2015 and the fair value of certain of our interest rate swaps is included in accounts payable, accrued expenses and other liabilities at March 31, 2016 and December 31, 2015.

The net change in fair value of derivative instruments designated as cash flow hedges was a loss of $237 and $556 for the three months ended March 31, 2016 and 2015, respectively. These unrealized losses were reflected on our consolidated balance sheet in accumulated other comprehensive loss.

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 derivative. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of $179 of net unrealized losses and $339 of net unrealized gains from accumulated other comprehensive income as an increase/decrease to interest expense for the three months ended March 31, 2016 and 2015, respectively. For the next twelve months ending March 31, 2017, the Company estimates that an additional $334 will be reclassified as an increase to interest expense.

Fair Value of Debt

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. As of March 31, 2016, the carrying value and estimated fair value of the Company's debt were $1,327,724 and $1,328,508, respectively. As of December 31, 2015, the carrying value and estimated fair value of the Company's debt were $1,169,377 and $1,170,901, respectively.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 8 – SHARE BASED PAYMENTS

In May 2011, the Company established and our shareholders approved the Hersha Hospitality Trust 2012 Equity Incentive Plan (the "2012 Plan") for the purpose of attracting and retaining executive officers, employees, trustees and other persons and entities that provide services to the Company.

Executives & Employees

Annual Long Term Equity Incentive Programs

To further align the interests of the Company's executives with those of shareholders, the Compensation Committee grants annual long term equity incentive awards that are both "performance based" and "time based."

On March 17, 2016, the Compensation Committee approved the 2016 Annual Long Term Equity Incentive Program ("2016 Annual EIP") for the executive officers, pursuant to which the executive officers are eligible to earn equity awards in the form of stock awards or performance share awards issuable pursuant to the 2012 Plan ("LTIP Units"). LTIP Units are earned under the 2016 Annual EIP based on achieving a threshold, target or maximum level of performance in the performance of RevPAR growth in certain defined areas. The Company accounts for these grants as performance awards for which the Company assesses the probable achievement of the performance conditions at the end of each period. As of March 31, 2016, no shares or LTIP Units have been issued in accordance with the 2012 Plan to the executive officers in settlement of 2016 Annual EIP awards.

The following table is a summary of all unvested LTIP Units issued to executives:

				Units Vested		Unearned Compensation	
Issuance Date	LTIP Units Issued	Vesting Period	Vesting Schedule	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
March 30, 2016 (2015 Annual EIP)	183,396	3 years	25%/year (1)	45,847	-	$ 1,741	$ -
March 30, 2015 (2014 Annual EIP)	128,832	3 years	25%/year (1)	64,415	64,415	624	758
December 23, 2014 (2013 Annual EIP) (3)	83,993	3 years	25%/year (1)	83,992	83,992	130	173
December 23, 2014 (3)	258,899	5 years	33% Year 3, 4, 5 (2)	86,299	86,299	1,279	1,553
	655,120			280,553	234,706	$ 3,774	$ 2,484

(1) 25% of the issued shares or LTIP Units vested immediately upon issuance. In general, the remaining shares or LTIP Units vest 25% on the first through third anniversaries of the end of the performance period (subject to continuous employment through the applicable vesting date).

(2) On April 18, 2012, the Company entered into amended and restated employment agreements with the Company's executive officers. To induce the executives to agree to the substantial reduction in benefits upon certain terminations following a change of control as described in the agreements, the Company awarded an aggregate of 258,899 restricted common shares to the executives pursuant to the 2012 Plan, which were subsequently forfeited and replaced with LTIP Units. One-third of each award of LTIP Units vested or will vest on each of the third, fourth and fifth anniversaries of the date of issuance. Vesting will accelerate upon a change of control or if the relevant executive's employment with the Company were to terminate for any reason other than for cause (as defined in the employment agreements).

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

(3) On December 23, 2014, the 2012 Plan was amended and restated to add LTIP Units as a type of award available under the 2012 Plan. On this date, the Compensation Committee approved an aggregate of 487,081 LTIP Units to certain executive officers. These executive officers forfeited an aggregate of 487,081 Class A Common Shares, all of which were unvested as of the grant date of the LTIP Units and previously awarded to the executive officers under the 2012 Plan as restricted stock awards. These LTIP Units are subject to the same time-based vesting conditions that applied to the forfeited restricted stock awards.

Stock based compensation expense related to the Annual Long Term Equity Incentive Program of $1,411 and $1,195 was incurred during the three months ended March 31, 2016 and 2015, respectively. Unearned compensation related to the Annual Long Term Equity Incentive Program as of March 31, 2016 and December 31, 2015 was $3,774 and $2,484, respectively.

Compensation related to the grants and amortization of LTIP Units is included in Noncontrolling Interests on the Company's Consolidated Balance Sheets and Consolidated Statements of Equity.

Multi-Year Long Term Equity Incentive Programs

On March 17, 2016, the Compensation Committee approved the 2016 Multi-Year Long Term Equity Incentive Program ("2016 Multi-Year EIP"). This program has a three-year performance period which commenced on January 1, 2016 and ends December 31, 2018. As of March 31, 2016, no shares or LTIP Units have been issued to the executive officers in settlement of 2016 Multi-Year EIP awards. Stock based compensation expense for the three months ended March 31, 2016 and 2015 was $0 and $23, respectively.

The following table is a summary of the approved Multi-Year Long Term Equity Incentive Programs:

Compensation Committee Approval Date	LTIP Units Issued	LTIP Issuance Date	Performance Period	Units Vested		Unearned Compensation	
				March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
March 18, 2015 (2015 Multi-Year EIP)	-	N/A	1/1/2015 to 12/31/2017	-	-	$ 546	$ 596
April 11, 2014 (2014 Multi-Year EIP)	-	N/A	1/1/2014 to 12/31/2016	-	-	495	567
April 15, 2013 (2013 Multi-Year EIP)	110,849	3/30/2016	1/1/2013 to 12/31/2015	55,424	-	445	385
	110,849			55,424	-	$ 1,486	$ 1,548

The shares or LTIP Units issuable under the Multi-Year Long Term Incentive Programs, including the 2016 Multi-Year EIP, are based on the Company's achievement of a certain level of (1) absolute total shareholder return (37.50% of the award), (2) relative total shareholder return as compared to the Company's peer group (37.50% of the award), and (3) relative growth in revenue per available room compared to the Company's peer group (25% of the award).

The Company accounts for the total shareholder return components of these grants as market based awards where the Company estimates unearned compensation at the grant date fair value which is then amortized into compensation cost over the vesting period of each individual plan. The Company accounts for the RevPAR component of the grants as performance-based awards for which the Company assesses the probable achievement of the performance conditions at the end of the reporting period.

Stock based compensation expense of $841 and $167 was recorded for the three months ended March 31, 2016 and 2015, respectively, for the Multi-Year Long Term Equity Incentive Programs. Unearned compensation related to the multi-year program as of March 31, 2016 and December 31, 2015, respectively, was $1,486 and $1,548.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Restricted Share Awards

In addition to stock based compensation expense related to awards to executives under the Multi-Year and Annual Long Term Equity Incentive Programs, stock based compensation expense related to restricted common shares issued to employees of the Company of $122 and $88 was incurred during the three months ended March 31, 2016 and 2015, respectively. Unearned compensation related to the restricted share awards as of March 31, 2016 and December 31, 2015 was $499 and $491, respectively. The following table is a summary of all unvested share awards issued to employees under the 2012 Plan and prior to equity incentive plans:

					Shares Vested		Unearned Compensation	
Original Year of Issuance Date	Original Shares Issued	Range of Share Price on Date of Grant*	Vesting Period	Vesting Schedule	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
2016	6,261	$ 21.11	2 years	50% /year	-	-	$ 132	$ -
2015	23,492	21.76-28.09	2-4 years	25-50% /year	600	600	339	419
2014	11,455	26.00-27.00	2 years	50% /year	6,619	6,619	21	54
2013	11,899	22.56	2-4 years	25-50% /year	11,199	11,199	3	7
2012	13,646	21.12	2-4 years	25-50% /year	12,445	12,445	4	11
Total	66,753				30,863	30,863	$ 499	$ 491

*Original share price on date of grants prior to June 22, 2015 was multiplied by four to account for the reverse share split which occurred on June 22, 2015. See “Note 1 – Basis of Presentation” for more information.

Trustees

Annual Retainer

The Compensation Committee approved a program that allows the Company's trustees to make a voluntary election to receive any portion of the annual cash retainer in the form of common equity valued at a 25% premium to the cash that would have been received. On March 30, 2016, we issued 5,289 shares which do not fully vest until December 31, 2016. Compensation expense for the three months ended March 31, 2016 and 2015 under this program was not material. The following table is a summary of all unvested share awards issued to trustees in lieu of an annual cash retainer:

					Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on Date of Grant	Vesting Period	Vesting Schedule	March 31, 2016	December 31, 2015
March 30, 2016	5,289	$ 21.11	1 year	100%	$ 112	$ -

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015 [UNAUDITED]

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

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Multi-Year Long-Term Equity Incentives

Compensation expense for the multi-year long term incentive plans for the Company's trustees incurred for the three months ended March 31, 2016 and 2015 was $15 for both periods. Unearned compensation related to the multi-year long term equity incentives was $104 and $67 as of March 31, 2016 and December 31, 2015, respectively.

The following table is a summary of all unvested share awards issued to trustees under the 2012 Plan and prior to equity incentive plans:

				Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Vesting Period	Vesting Schedule	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
March 30, 2016	2,500	3 years	33%/year	-	-	$ 48	$ -
December 30, 2014	2,500	3 years	33% /year	835	835	42	48
December 27, 2013	3,000	3 years	33% /year	2,170	2,170	14	19
				3,005	3,005	$ 104	$ 67

Non-employees

The Company issues share based awards as compensation to non-employees for services provided to the Company consisting primarily of restricted common shares. The Company recorded stock based compensation expense of $17 and $51 for the three months ended March 31, 2016 and 2015, respectively. Unearned compensation related to the restricted share awards as of March 31, 2016 and December 31, 2015 was $248 and $90, respectively. The following table is a summary of all unvested share awards issued to non-employees under the 2012 Plan:

					Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on Date of Grant*	Vesting Period	Vesting Schedule	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
March 30, 2016	7,500	$ 21.11	2 years	50% /year	-	-	$ 158	$ -
March 27, 2015	7,438	$ 25.88	2 years	50% /year	3,762	3,762	90	90
Total	14,938				3,762	3,762	$ 248	$ 90

*Original share price on date of grants prior to June 22, 2015 was multiplied by four to account for the reverse share split which occurred on June 22, 2015. See "Note 1 – Basis of Presentation" for more information.