HERSHA HOSPITALITY TRUST
Form 10-Q
October 26, 2017

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 September 30, 2017

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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of October 25, 2017, the number of Class A common shares of beneficial interest outstanding was 41,609,974 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 SEPTEMBER 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016

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

	September 30, 2017	December 31, 2016
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation	$ 2,034,588	$ 1,767,570
Investment in Unconsolidated Joint Ventures	3,705	11,441
Cash and Cash Equivalents	57,529	185,644
Escrow Deposits	8,504	8,993
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of $22 and $91	13,344	8,769
Due from Related Parties	4,708	18,332
Intangible Assets, Net of Accumulated Amortization of $5,987 and $4,532	16,969	16,944
Other Assets	46,107	39,370
Hotel Assets Held for Sale	-	98,473
Total Assets	$ 2,185,454	$ 2,155,536
Liabilities and Equity:		
Line of Credit	$ -	$ -
Unsecured Term Loans, Net of Unamortized Deferred Financing Costs (Note 5)	721,361	663,500
Unsecured Notes Payable, Net of Unamortized Deferred Financing Costs (Note 5)	50,617	50,578
Mortgages Payable, Net of Unamortized Premium and Unamortized Deferred Financing Costs	311,200	337,821
Accounts Payable, Accrued Expenses and Other Liabilities	62,166	65,106
Dividends and Distributions Payable	17,588	26,050
Liabilities Related to Hotel Assets Held for Sale	-	51,428
Deferred Gain on Disposition of Hotel Assets	81,269	81,314
Total Liabilities	$ 1,244,201	$ 1,275,797
Equity:		
Shareholders' Equity:		
Preferred Shares: $.01 Par Value, 29,000,000 Shares Authorized, 3,000,000 Series C, 7,700,000 Series D and 4,000,000 Series E Shares Issued and Outstanding at September 30, 2017 and December 31, 2016, with Liquidation Preferences of $25 Per Share (Note	$ 147	$ 147

1)

Common Shares: Class A, $.01 Par Value, 104,000,000 Shares Authorized at September 30, 2017 and 90,000,000 Shares Authorized at December 31, 2016; 41,608,976 and 41,770,514 Shares Issued and Outstanding at September 30, 2017 and December 31, 2016, respectively	416	418
Common Shares: Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at September 30, 2017 and December 31, 2016	-	-
Accumulated Other Comprehensive Income	648	1,373
Additional Paid-in Capital	1,194,637	1,198,311
Distributions in Excess of Net Income	(309,864)	(364,831)
Total Shareholders' Equity	885,984	835,418
Noncontrolling Interests (Note 1):	55,269	44,321
Total Equity	941,253	879,739
Total Liabilities and Equity	$ 2,185,454	$ 2,155,536

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Hotel Operating Revenues	$ 129,510	$ 120,515	$ 374,478	$ 354,991
Other Revenues	79	92	1,113	192
Total Revenues	129,589	120,607	375,591	355,183
Operating Expenses:				
Hotel Operating Expenses	76,917	66,779	220,706	198,397
Hotel Ground Rent	892	891	2,593	2,676
Real Estate and Personal Property Taxes and Property Insurance	8,419	7,307	24,113	24,412
General and Administrative (including Share Based Payments of $1,512 and $1,514, and $5,468 and $5,793 for the three and nine months ended September 30, 2017 and 2016, respectively)	4,919	5,400	16,142	17,255
Acquisition and Terminated Transaction Costs	297	170	2,121	1,733
Depreciation and Amortization	21,658	18,704	61,234	57,259
Property Losses in Excess of Insurance Recoveries	3,812	-	3,812	-
Total Operating Expenses	116,914	99,251	330,721	301,732
Operating Income	12,675	21,356	44,870	53,451
Interest Income	40	95	237	219
Interest Expense	(11,141)	(10,425)	(31,580)	(33,927)
Other Expense	(118)	(125)	(796)	(864)
(Loss) Gain on Disposition of Hotel Properties	(39)	(437)	89,544	94,839
Lease Buyout	294	-	294	-
(Loss) Gain on Debt Extinguishment	(312)	15	(586)	(1,076)
Income Before Results from Unconsolidated Joint Venture Investments and Income Taxes	1,399	10,479	101,983	112,642

Income (Loss) from Unconsolidated Joint Ventures	539	(3,717)	(2,636)	(2,410)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	-	-	16,239	-
Income (Loss) from Unconsolidated Joint Venture Investments	539	(3,717)	13,603	(2,410)
Income Before Income Taxes	1,938	6,762	115,586	110,232
Income Tax Benefit (Expense)	1,325	1,443	(1,580)	4,513
Net Income	3,263	8,205	114,006	114,745
Loss (Income) Allocated to Noncontrolling Interests	90	(211)	(5,849)	(4,273)
Preferred Distributions	(6,040)	(4,417)	(18,124)	(12,006)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	-	-	(4,021)
Net (Loss) Income Applicable to Common Shareholders	$ (2,687)	$ 3,577	$ 90,033	$ 94,445

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Earnings Per Share:				
BASIC				
(Loss) Income from Continuing Operations Applicable to Common Shareholders	$ (0.07)	$ 0.08	$ 2.15	$ 2.17
DILUTED				
(Loss) Income from Continuing Operations Applicable to Common Shareholders	$ (0.07)	$ 0.08	$ 2.13	$ 2.14
Weighted Average Common Shares Outstanding:				
Basic	41,721,425	42,309,044	41,725,159	43,368,153
Diluted*	41,721,425	42,745,864	42,225,238	43,869,293

*Income allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and the Class A common shares issuable upon any redemption of 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 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Common Units and Vested LTIP Units	2,783,895	2,241,857	2,710,861	2,161,088
Unvested Stock Awards and LTIP Units Outstanding	180,465	-	-	-
Contingently Issuable Share Awards	272,110	-	-	-
Total Potentially Dilutive Securities Excluded from the Denominator	3,236,470	2,241,857	2,710,861	2,161,088

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	$ 3,263	$ 8,205	$ 114,006	$ 114,745
Other Comprehensive Income (Loss)				
Change in Fair Value of Derivative Instruments	611	43	(348)	(496)
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	(144)	110	(424)	428
Total Other Comprehensive Income (Loss)	$ 467	$ 153	$ (772)	$ (68)
Comprehensive Income	3,730	8,358	113,234	114,677
Less: Comprehensive Loss (Income) Attributable to Noncontrolling Interests	63	(211)	(5,802)	(4,273)
Less: Preferred Distributions	(6,040)	(4,417)	(18,124)	(12,006)
Less: Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	-	-	(4,021)
Comprehensive (Loss) Income Attributable to Common Shareholders	$ (2,247)	$ 3,730	$ 89,308	$ 94,377

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

		Shareholders' Equity								N
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Income ($)	Distributions in Excess of Net Income ($)	Total Shareholders' Equity ($)	C U L U
Balance at December 31, 2016	41,770,514	418	-	14,700,000	147	1,198,311	1,373	(364,831)	835,418	2
Unit Conversion	23,964	-	-	-	-	392	-	-	392	(
Repurchase of Common Shares	(264,805)	(3)	-	-	-	(4,746)	-	-	(4,749)	-
Common Units Issued	-	-	-	-	-	-	-	-	-	2
Dividends and Distributions declared:										
Common Shares ($0.84 per share)	-	-	-	-	-	-	-	(35,066)	(35,066)	-
	-	-	-	-	-	-	-	(18,124)	(18,124)	-

Preferred Shares										
Common Units ($0.84 per share)	-	-	-	-	-	-	-	-	-	-
LTIP Units ($0.84 per share)	-	-	-	-	-	-	-	-	-	-
Dividend Reinvestment Plan	3,427	-	-	-	-	63	-	-	63	-
Share Based Compensation:										
Grants	75,876	1	-	-	-	(506)	-	-	(505)	1
Amortization	-	-	-	-	-	1,123	-	-	1,123	-
Change in Fair Value of Derivative Instruments	-	-	-	-	-	-	(725)	-	(725)	-
Net Income	-	-	-	-	-	-	-	108,157	108,157	-
Balance at September 30, 2017	41,608,976	416	-	14,700,000	147	1,194,637	648	(309,864)	885,984	3

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 (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

	Shareholders' Equity									N
	Common Shares	Class A Common Shares ($)	Class B Common Shares ($)	Preferred Shares	Preferred Shares ($)	Additional Paid-In Capital ($)	Accumulated Other Comprehensive Loss ($)	Distributions in Excess of Net Income ($)	Total Shareholders' Equity ($)	C U I U
Balance at December 31, 2015	44,457,368	444	-	7,600,000	76	1,086,259	(466)	(408,274)	678,039	2
Repurchase of Common Shares	(2,605,649)	(26)	-	-	-	(49,023)	-	(2)	(49,051)	-
Preferred Shares										
Preferred Share Offering, Net of Costs	-	-	-	7,700,000	77	185,922	-	-	185,999	-
Preferred Share Redemption	-	-	-	(4,600,000)	(46)	(114,954)	-		(115,000)	-
Dividends and Distributions declared:										
Common Shares ($0.84 per share)	-	-	-	-	-	-	-	(36,095)	(36,095)	-
Preferred Shares	-	-	-	-	-	-	-	(12,006)	(12,006)	-
Common Units ($0.84 per	-	-	-	-	-	-	-	-	-	-

share)										
LTIP Units ($0.84 per share)	-	-	-	-	-	-	-	-	-	
Dividend Reinvestment Plan	2,576	-	-	-	-	47	-	-	47	-
Share Based Compensation:										
Grants	62,943	1	-	-	-	(613)	-	-	(612)	2
Amortization	-	-	-	-	-	1,036	-	-	1,036	-
Change in Fair Value of Derivative Instruments	-	-	-	-	-	-	(68)	-	(68)	-
Exercise of Option to Acquire Noncontrolling Interest	-	-	-	-	-	(4,515)	-	-	(4,515)	-
Net Income (Loss)	-	-	-	-	-	-	-	110,472	110,472	-
Balance at September 30, 2016	41,917,238	419	-	10,700,000	107	1,104,159	(534)	(345,905)	758,246	2

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Nine Months Ended September 30,	
	2017	2016
Operating Activities:		
Net Income	$ 114,006	$ 114,745
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Gain on Disposition of Hotel Properties, Net	(89,544)	(94,839)
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	(16,239)	-
Property Losses in Excess of Insurance Recoveries	3,812	-
Lease Buyout	(294)	-
Deferred Taxes	1,580	(4,513)
Depreciation	59,953	56,808
Amortization	2,592	1,204
Loss on Debt Extinguishment	586	1,076
Equity in Loss (Income) of Unconsolidated Joint Ventures	2,636	2,410
Distributions from Unconsolidated Joint Ventures	400	1,237
Loss Recognized on Change in Fair Value of Derivative Instrument	33	47
Share Based Compensation Expense	5,468	5,793
Change in Assets and Liabilities:		

(Increase) Decrease in:		
Hotel Accounts Receivable	(1,480)	1,018
Escrows	525	2,608
Other Assets	1,577	4,333
Due from Related Parties	13,624	(5,797)
(Decrease) Increase in:		
Due to Related Parties	-	(8,789)
Accounts Payable, Accrued Expenses and Other Liabilities	(8,711)	904
Net Cash Provided by Operating Activities	$ 90,524	$ 78,245
Investing Activities:		
Purchase of Hotel Property Assets	$ (249,291)	$ (238,848)
Deposits on Hotel Acquisitions	-	(4,000)
Capital Expenditures	(32,982)	(26,866)
Cash Paid for Hotel Development Projects	(1,500)	-
Proceeds from Disposition of Hotel Properties	188,612	21,093
Net Changes in Capital Expenditure Escrows	(36)	2,559
Proceeds from the Sale of Joint Venture Interests	11,623	-
Proceeds from Contribution of Hotel Property Assets to Unconsolidated Joint Venture	-	429,250
Repayment of Notes Receivable	2,000	-
Distributions from Unconsolidated Joint Ventures	-	2,184
Net Cash (Used in) Provided by Investing Activities	$ (81,574)	$ 185,372

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 (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Nine Months Ended September 30,	
	2017	2016
Financing Activities:		
Repayment of Borrowings Under Line of Credit, Net	$ -	$ (27,000)
Proceeds of Unsecured Term Loan Borrowing	58,380	102,000
Repayment of Borrowings Under Unsecured Term Loan Borrowing	-	(39,480)
Principal Repayment of Mortgages and Notes Payable	(122,312)	(156,921)
Cash Paid for Deferred Financing Costs	(3,344)	(1,828)
Cash Paid for Debt Extinguishment	(370)	(1,026)
Proceeds from Issuance of Preferred Shares, Net	-	185,999
Redemption of Series B Preferred Shares	-	(115,000)
Repurchase of Common Shares	(4,749)	(49,051)
Exercise of Option to Acquire Noncontrolling Interest	-	(2,318)
Dividends Paid on Common Shares	(43,401)	(36,803)
Dividends Paid on Preferred Shares	(17,729)	(11,699)
Distributions Paid on Common Units and LTIP Units	(3,279)	(2,485)
Other Financing Activities	(261)	-
Net Cash Used in Financing Activities	$ (137,065)	$ (155,612)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (128,115)	$ 108,005
Cash and Cash Equivalents - Beginning of Period	185,644	27,955
Cash and Cash Equivalents - End of Period	$ 57,529	$ 135,960

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [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 and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 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, 2016, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, 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" or "the Partnership"), for which we serve as the sole general partner. As of September 30, 2017, we owned an approximate 92.8% partnership interest in HHLP, including a 1.0% general partnership interest.

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all of our accounts as well as accounts of the Partnership, subsidiary partnerships and our wholly owned Taxable REIT Subsidiary Lessee ("TRS Lessee"). All significant inter-company amounts have been eliminated.

Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Properties owned in joint ventures are also consolidated if the determination is made that we are the primary beneficiary in a variable interest entity (“VIE”) or we maintain control of the asset through our voting interest in the entity. Control can be demonstrated when the general partner has the power to impact the economic performance of the partnership, which includes the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the limited partners and the inability of the limited partners to replace the general partner. Control can be demonstrated by the limited partners if the limited partners have the right to dissolve or liquidate the partnership or otherwise remove the general partner without cause or have rights to participate in the significant decisions made in the ordinary course of the partnership’s business.

Variable Interest Entities

We evaluate each of our investments and contractual relationships to determine whether they meet the guidelines for consolidation. Entities are consolidated if the determination is made that we are the primary beneficiary in a VIE or we maintain control of the asset through our voting interest or other rights in the operation of the entity. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have a controlling financial interest in that VIE. An enterprise is deemed to have a controlling financial interest if it has i) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance, and ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE. Control can also be demonstrated by the ability of a member to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the other member and the inability of the members to replace the managing member. Based on our examination, the following entities were determined to be VIEs: HHLP, Cindat Hersha Owner JV, LLC; Cindat Hersha Lessee JV, LLC; South Bay Boston, LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II. As noted, HHLP meets the criteria as a VIE. 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. Cindat Hersha Owner JV, LLC and Cindat Hersha Lessee JV, LLC are both VIE entities, however because we are not the primary beneficiary in either entity, they are not consolidated by the Company. Our maximum exposure to losses from our investment in Cindat Hersha Owner JV, LLC is limited to our basis in the joint venture which is $0 as of September 30, 2017. Also, South Bay Boston, LLC leases hotel property and is a VIE. This entity is consolidated by the lessor, the primary beneficiary of the entity. Hersha Statutory Trust I and Hersha Statutory Trust II (collectively “Hersha Statutory

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

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

NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

Trusts”) are VIEs but the Company is not the primary beneficiary in these entities. Accordingly, the accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated.

Noncontrolling Interest

We classify the noncontrolling interests of our consolidated variable interest entity, common units of limited partnership interest in HHLP (“Common Units”), and Long Term Incentive Plan Units (“LTIP Units”) as equity. LTIP Units are a separate class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units and LTIP Units totaled $55,269 as of September 30, 2017 and $44,321 as of December 31, 2016. As of September 30, 2017, there were 3,223,366 Common Units outstanding with a fair market value of $60,180, 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 Common 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 and LTIP Units is included in net income or loss but excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Shareholders’ Equity

Terms of the Series C, Series D, and Series E Preferred Shares outstanding at September 30, 2017 and December 31, 2016 are summarized as follows:

Series	Shares Outstanding September 30, 2017	December 31, 2016	Aggregate Liquidation Preference	Distribution Rate	Dividend Per Share Nine Months Ended September 30, 2017	2016
Series C	3,000,000	3,000,000	$ 75,000	6.875%	$ 1.2891	$ 1.2891
Series D	7,700,000	7,700,000	$ 192,500	6.500%	$ 1.2189	0.6094
Series E	4,000,000	4,000,000	$ 100,000	6.500%	$ 1.2189	-
Total	14,700,000	14,700,000				

In October 2016, 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 existing repurchase program. The new repurchase program will expire on December 31, 2017, unless extended by our Board of Trustees.

On April 26, 2017, we entered into Equity Distribution Agreements with four investment banks whereby we agreed to sell up to 8,000,000 Class A common shares, up to 1,000,000 Series D Cumulative Redeemable Preferred Shares, and up to 1,000,000 Series E Cumulative Redeemable Preferred Shares from time to time in an “at the market” offering. In conjunction with this transaction, the Company increased the number of authorized Class A common shares from 90,000,000 to 104,000,000.

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NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

New Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The update will make more financial and nonfinancial hedging strategies eligible for hedge accounting, changes how companies assess hedge effectiveness, and amends the presentation and disclosure requirements for hedging transactions. The provisions of the update will be effective for the Company starting January 1, 2019 with the early adoption available as early as the quarter ended September 30, 2017. Based on the type of derivative instruments within the Company's portfolio, we do not anticipate this update to have a material effect on our consolidated financial statements and related disclosures, however, we are currently assessing the ultimate impact of this update.

In February 2017, the FASB issued ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The update defines the term "in substance nonfinancial asset" as it is presented in Subtopic 610-20 as a "financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets that are promised to the counterparty in the contract is concentrated in nonfinancial assets." As it relates to the Company, real estate, such as land and building, would be considered an example of a nonfinancial asset. Additionally, the update provides guidance over partial sale transactions, particularly, when an entity should derecognize a distinct nonfinancial asset or in substance nonfinancial asset in a partial sale transaction, and the extent of gain that should be recognized as a result of the partial sale transaction. This standard is effective in conjunction with ASU No. 2014-09 (presented below), which is effective for periods beginning after December 15, 2017, however early adoption is permitted. The provisions of this update must be applied at the same time as the adoption of ASU No. 2014-09. The Company is currently evaluating how the provisions of this update affect our adoption of ASU No. 2014-09. See below for our discussion of ASU No. 2014-09 and the effect it will have on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business as it relates to acquisitions and business combinations. The

update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which permits the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. For instance, during the nine months ended September 30, 2017, the Company incurred $2,121 in expenses related to acquisition costs that would have been subject to capitalization under this ASU. This standard is effective for periods beginning after December 31, 2017, however early adoption is permitted.

Effective January 1, 2017, we adopted ASU No. 2016-09, Improvements to Employee Share-Based Award Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold a percentage of the shares issuable upon settlement of an award up to the maximum individual statutory tax rate without causing the award to be classified as a liability. The Company has elected to expense forfeitures of share-based award as they occur as our accounting policy. The adoption of ASU No. 2016-09 had no material impact on our consolidated financial statements and related disclosures.

In November 2016 the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), which provides guidance on the presentation of restricted cash or restricted cash equivalents within the statement of cash flows. Accordingly, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for the Company for periods beginning after December 15, 2017. The adoption of ASU No. 2016-18 will change the presentation of the statement of cash flows for the Company and we will utilize a retrospective transition method for each period presented within financial statements for periods subsequent to the date of adoption.

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NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. We are also a lessor in certain office space and retail lease agreements related to our hotels. While we do not anticipate any material change to the accounting for leases under which we are a lessor, we are still evaluating the impact this ASU will have on the accounting for our leasing arrangements as well as our disclosures within the notes to our financial statements. This standard will be effective for the first annual reporting period beginning after December 15, 2018.

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. We are evaluating each of our revenue streams and related accounting policy under the standard. 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 modified retrospective transition method. The modified retrospective method allows for, among other things, a cumulative adjustment to opening equity upon adoption of the standard. The Company continues to evaluate the ultimate effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. Based on our analysis to date, we do not expect the new revenue recognition model to have a material impact on our hotel operating revenue, including room revenue, food and beverage, and other revenue, however, our final evaluation has not been concluded. Our evaluation under the standard also includes sales to third parties, primarily a result of dispositions of real estate. Our evaluation over sales of real estate is continuing and will be impacted by the FASB definition of a business and in substance nonfinancial assets, which have recently been addressed through the issuance of ASU No. 2017-01 and ASU No. 2017-05, respectively. Based on the provisions of ASU No. 2017-01 and ASU No. 2017-05, the Company would expect any future sales of interests in hotel properties to likely meet the criteria for full gain on sale recognition. This treatment is not different from our historical position when selling our entire interest in hotel properties, however, this is different than the historical treatment in certain instances where the Company sold partial interests in hotel properties. In particular, during 2016 the Company sold partial interests in seven hotel properties to

a third party (“Cindat Sale”) resulting in an approximate $81 million deferred gain based on prevailing GAAP at the time of the transaction. The Company anticipates utilizing the modified retrospective transition method with available practical expedients upon adopting ASU No. 2014-09. As such, the Company is analyzing the Cindat Sale to assess whether it is defined to be a closed contract under the guidance of ASU No. 2014-09 which may result in no change to the deferred gain amount recorded in conjunction with the Cindat Sale.

Reclassification

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

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Land	$ 538,322	$ 499,484
Buildings and Improvements	1,625,695	1,383,266
Furniture, Fixtures and Equipment	248,142	204,212
Construction in Progress	2,450	950
	2,414,609	2,087,912
Less Accumulated Depreciation	(380,021)	(320,342)
Total Investment in Hotel Properties	$ 2,034,588	$ 1,767,570

Acquisitions

We acquired the following properties during the nine months ended September 30, 2017:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Other Intangibles		Total Purchase Price	Assumption of Debt
Mystic Marriott Hotel & Spa, Groton, CT (1)	1/3/2017	$ 1,420	$ 40,440	$ 7,240	$ 899	*	$ 49,999	$ 41,333
The Ritz-Carlton, Coconut Grove, FL	2/1/2017	5,185	30,742	1,064	(291)	**	36,700	3,150
The Pan Pacific Hotel, Seattle, WA	2/21/2017	13,079	59,256	6,665	-		79,000	-
Philadelphia Westin, Philadelphia, PA	6/29/2017	19,154	103,451	12,028	367	***	135,000	-
TOTAL		$ 38,838	$ 233,889	$ 26,997	$ 975		$ 300,699	$ 44,483

(1) The Mystic Marriott Hotel & Spa was acquired as partial consideration within the transaction to redeem and transfer our joint venture interest in Mystic Partners, LLC. See Note 3 for further description of the transaction.

* Consists entirely of $899 of advanced bookings.

** Includes an intangible asset for a lease-in-place of $229, and a below market lease liability of $520.

*** Consists entirely of $367 of advanced bookings.

The Company is currently finalizing our analysis of the fair value of assets acquired and liabilities incurred in connection with the purchase of the Ritz Carlton, Coconut Grove. As such, the amounts reported in the table above are preliminary. We expect the amounts will be finalized within the one year remeasurement period as defined within ASC 805.

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 and nine months ended September 30, 2017,

we incurred $297 and $2,121 in costs related to acquired assets and terminated transactions.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

The following table illustrates total revenues and total net income, including related acquisition costs, included in the consolidated statement of operations for the three and nine months ended September 30, 2017 for the hotels we acquired or assumed ownership during the nine months ended September 30, 2017 and consolidated since the date of acquisition of the hotels.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
Hotel	Revenue	Net Income (Loss)	Revenue	Net Income (Loss)
Mystic Marriott Hotel & Spa, Groton, CT	$ 5,667	$ 744	$ 15,819	$ 1,303
The Ritz-Carlton, Coconut Grove, FL	2,377	(695)	8,921	(774)
The Pan Pacific Hotel, Seattle, WA	4,485	669	9,795	638
Philadelphia Westin, Philadelphia, PA	6,758	1,308	6,787	296
Total	$ 19,287	$ 2,026	$ 41,322	$ 1,463

Lease Buyout

During November 2016, we signed an agreement with our restaurant lessee at the Courtyard Cadillac Miami to buyout the remainder of their current lease. The agreement was made in conjunction with our overall property improvement plan, which will also include room and common area upgrades, with the intention to rebrand the hotel to a more upscale Marriott brand. As defined by terms of the agreement, we were contractually obligated to pay total consideration to complete the buyout of $10,000 and issue 450,000 operating partnership units. During the fourth quarter of 2016, we paid $5,000 and issued 225,000 units valued at $4,400 with the remainder of the consideration due upon completion of the buyout. During 2016, we accounted for this transaction in accordance with ASU 420 “Exit or

Disposal Cost Obligations," recording the entire amount of consideration as an expense at the time of agreement execution, resulting in a total expense of $18,831. This recorded expense was partially offset by the write-off of an intangible liability related to the lease of $2,000 during the fourth quarter of 2016. In September 2017, we completed the buy-out through the payment of $5,000 and the issuance of 225,000 units valued at $4,133.

Property Damage from Natural Disaster

During September 2017, all six of our hotels located in South Florida incurred property damage and an interruption of business operations as a result of Hurricane Irma. Two of our hotels, the Courtyard Cadillac Miami and the Parrot Key Hotel & Resort, incurred significant physical damage and have been closed since the disaster with the expectation to open for business during the first quarter of 2018. The remaining four properties have resumed normal business activities as of September 30, 2017. Based on our initial assessments, we have recorded estimated property impairment and remediation losses of $10,194 during the three and nine months ended September 30, 2017 offset by a corresponding insurance claim receivable of $6,382 for a net loss in excess of estimated insurance recoveries of $3,812. Our current insurance policies also contain coverage for income lost due to business interruption from covered losses. Any recoveries obtained through business interruption coverage will be recorded as a gain at such time that the recovery is probable. The Company recorded $0 gain related to business interruption insurance coverage during the three and nine months ended September 30, 2017.

Hotel Dispositions

In July 2016, we entered into purchase and sale agreements to sell the Residence Inn, Greenbelt, MD, Courtyard, Alexandria, VA, Hyatt House, Scottsdale, AZ, Hyatt House, Pleasant Hill, CA, and Hyatt House, Pleasanton, CA to an unaffiliated buyer for a sales price of $185,000. The purchase and sale agreements were amended subsequently to increase the total sales price by $7,500 in exchange for providing the buyer with an extension to close on three of the assets.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

On January 5, 2017, the Company closed on the sales of the Residence Inn, Greenbelt, MD, and the Courtyard, Alexandria, VA to an unaffiliated buyer for a combined total sales price of $62,000 resulting in a gain on sale of approximately $18,731. The Residence Inn, Greenbelt, MD was acquired by the Company in July 2004 and the Courtyard, Alexandria, VA was acquired by the Company in September 2006. The operating results for these hotels are included in operating income as shown in the

consolidated statements of operations for the period owned during the nine months ended September 30, 2017 and 2016 as disposition of these hotels does not represent a strategic shift in our business.

On June 8, 2017, the Company closed on the sale of the Hyatt House, Scottsdale, AZ, Hyatt House, Pleasant Hill, CA, and Hyatt House, Pleasanton, CA to an unaffiliated buyer for a sales price of $130,500 resulting in a gain on sale of approximately $70,852. All three of the properties were acquired by the Company in December 2006. The operating results for these hotels are included in operating income as shown in the consolidated statements of operations for the period owned during the three and nine months ended September 30, 2017 and 2016 as disposition of these hotels does not represent a strategic shift in our business.

Assets Held For Sale

There are no assets held for sale as of September 30, 2017. The table below shows the balances classified as assets held for sale as of December 31, 2016:

	December 31, 2016
Land	$ 22,208
Buildings and Improvements	105,663
Furniture, Fixtures and Equipment	24,187
	152,058
Less: Accumulated Depreciation & Amortization	(53,585)
Assets Held for Sale	$ 98,473
Liabilities Related to Assets Held for Sale	$ 51,428

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Pro Forma Results (Unaudited)

The following condensed pro forma financial data for the three and nine months ended September 30, 2017 and 2016 are presented as if the hotels acquired by the Company in 2017 and 2016 had been acquired as of January 1, 2017 and 2016, 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, 2017 and 2016, nor do they purport to represent the results of operations for future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pro Forma Total Revenues	$ 129,589	144,563	$ 393,610	$ 438,810
Pro Forma Net Income	3,263	11,054	119,340	121,983
(Income) Loss Allocated to Noncontrolling Interest	90	(354)	(6,174)	(4,617)
Preferred Distributions	(6,040)	(4,417)	(18,124)	(12,006)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	-	-	(4,021)
Pro Forma (Loss) Income Applicable to Common Shareholders	$ (2,687)	$ 6,283	$ 95,042	$ 101,339
Pro Forma (Loss) Income Applicable to Common Shareholders per Common Share				
Basic	$ (0.07)	$ 0.15	$ 2.28	$ 2.34
Diluted	$ (0.07)	$ 0.15	$ 2.25	$ 2.31

Weighted Average Common Shares Outstanding				
Basic	41,721,425	42,309,044	41,725,159	43,368,153
Diluted	41,721,425	42,745,864	42,225,238	43,869,293

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of September 30, 2017 and December 31, 2016, our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned	Preferred Return	September 30, 2017	December 31, 2016
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0%	N/A	$ 1,364	$ 913
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0%	N/A	2,341	2,112
Cindat Hersha Owner JV, LLC	Hilton and IHG branded hotels in NYC	30.0%	*	-	3,717
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT	8.8%-66.7%	8.5% non-cumulative	-	4,699
				$ 3,705	$ 11,441

*See explanation below of the Cindat Hersha Owner JV, LLC (“Owner JV”) for more information on the preferred return provisions of this joint venture.

On January 3, 2017, we redeemed our joint venture interest in Mystic Partners, LLC by acquiring a 100% ownership interest in the Mystic Marriott Hotel & Spa and transferring our minority ownership interests in the Hartford Marriott

and Hartford Hilton to our joint venture partner. We received $11,623 in cash and assumed a mortgage on the Mystic Marriott Hotel & Spa of $41,333 as consideration for this redemption and transfer of our minority interest. Subsequent to the assumption of the mortgage, the Company fully paid off the outstanding balance of the debt and added the property to the borrowing base of our Credit Facility. As a result of the remeasurement of the consideration received to fair value, the Company recognized a gain of $16,239 in conjunction with this transaction.

Income/Loss Allocation

For the Cindat Hersha Owner JV, LLC cash available for distribution will be distributed (1) to us until we receive a 9% annual rate of return on our contributed $43,194 preferred equity interest, (2) then to Cindat until they receive a return on their contributed $142,000 senior common equity interest, currently at 9.5%, and (3) then to us until we receive an 8% return on our contributed $60,857 junior common equity interest. Any cash available for distribution remaining will be split 30% to us and 70% to Cindat. Cindat’s senior common equity return is reduced by 0.5% annually for 4 years following the closing until it is set at a rate of 8% for the remainder of the life of the joint venture. Beginning June 30, 2016, a lender to the Owner JV determined that certain debt coverage ratio covenants contained in its loan agreement were not met. Pursuant to these agreements, the lender elected to escrow the operating cash flow for Owner JV, which continues as of September 30, 2017. The failure to meet these covenants, however, does not constitute an event of default. As of September 30, 2017, based on the income allocation methodology described above, the Company has absorbed cumulative losses equal to our accounting basis in the joint venture resulting in a $0 investment balance in the table above, however, we currently maintain a positive equity balance within the venture. This difference is due to difference in our basis inside the venture versus our basis outside of the venture, which is explained later in this note.

For SB Partners, LLC and Hiren Boston, LLC, income or loss is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. This results in an income allocation consistent with our percentage of ownership interests.

Any difference between the carrying amount of any of our investments noted above and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets.

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Income (loss) recognized during the three and nine months ended September 30, 2017 and 2016, for our investments in unconsolidated joint ventures is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
SB Partners, LLC	$ 216	$ 195	$ 451	$ 483
Hiren Boston, LLC	323	406	630	692
Cindat Hersha Owner JV, LLC	-	(80)	(3,717)	(239)
Mystic Partners, LLC	-	(4,238)	-	(3,346)
Income (Loss) from Unconsolidated Joint Venture Investments	$ 539	$ (3,717)	$ (2,636)	$ (2,410)

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 September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016.

Balance Sheets

	September 30, 2017	December 31, 2016
Assets		
Investment in Hotel Properties, Net	$ 563,409	$ 647,548
Other Assets	42,331	45,576
Total Assets	$ 605,740	$ 693,124
Liabilities and Equity		
Mortgages and Notes Payable	$ 351,906	$ 432,173
Other Liabilities	8,238	36,275
Equity:		
Hersha Hospitality Trust	90,090	119,892
Joint Venture Partner(s)	155,763	104,784
Accumulated Other Comprehensive Loss	(257)	-
Total Equity	245,596	224,676
Total Liabilities and Equity	$ 605,740	$ 693,124

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Room Revenue	$ 25,837	$ 37,757	$ 66,845	$ 81,715
Other Revenue	499	5,718	1,453	17,213
Operating Expenses	(11,632)	(23,433)	(31,988)	(56,999)
Lease Expense	(164)	(278)	(504)	(860)
Property Taxes and Insurance	(2,948)	(3,326)	(8,444)	(6,404)
General and Administrative	(1,428)	(2,636)	(3,956)	(5,985)
Depreciation and Amortization	(3,152)	(4,040)	(9,157)	(9,049)
Interest Expense	(5,375)	(6,146)	(15,473)	(12,410)
Acquisition Costs	-	-	-	(1,499)
Loss Allocated to Noncontrolling Interests	-	(10)	-	(50)
Net Income (Loss)	$ 1,637	$ 3,606	$ (1,224)	$ 5,672

The following table is a reconciliation of our share in the unconsolidated joint ventures' equity to our investment in the unconsolidated joint ventures as presented on our balance sheets as of September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
Our share of equity recorded on the joint ventures' financial statements	$ 90,090	$ 119,892
Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1)	(86,385)	(108,451)

Investment in Unconsolidated Joint Ventures	$ 3,705	$ 11,441

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

- the difference between our basis in the investment in joint ventures and the equity recorded on the joint ventures' financial statements;
- accumulated amortization of our equity in joint ventures that reflects the difference in our portion of the fair value of joint ventures' assets on the date of our investment when compared to the carrying value of the assets recorded on the joint ventures' financial statements (this excess or deficit investment is amortized over the life of the properties, and the amortization is included in Income (Loss) from Unconsolidated Joint Venture Investments on our consolidated statement of operations); and
- cumulative impairment of our investment in joint ventures not reflected on the joint ventures' financial statements, if any.

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NOTE 4 – OTHER ASSETS

Other Assets

Other Assets consisted of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Derivative Asset	$ 1,963	$ 1,835
Deferred Financing Costs	2,483	1,383
Prepaid Expenses	9,336	9,217
Investment in Statutory Trusts	1,548	1,548
Investment in Non-Hotel Property and Inventories	3,307	2,641
Deposits with Unaffiliated Third Parties	4,581	3,332
Deferred Tax Asset, Net of Valuation Allowance of $804	14,616	16,197
Property Insurance Receivable	6,382	-
Other	1,891	3,217
	$ 46,107	$ 39,370

Derivative Asset – This category represents the Company's gross asset fair value of interest rate swaps and interest rate caps. Any swaps and caps resulting in a liability to the Company are accounted for separately within Other Liabilities on the Balance Sheet.

Deferred Financing Costs – This category represents financing costs paid by the Company to establish our Line of Credit. These costs have been capitalized and will amortize to expense over the life of the Line of Credit.

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

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.

Deposits with Unaffiliated Third Parties – These deposits represent deposits made by the Company with unaffiliated third parties for items such as lease security deposits, utility deposits, and deposits with unaffiliated third party management companies.

Deferred Tax Asset – We have approximately $14,616 of net deferred tax assets as of September 30, 2017. 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 $14,616 of net deferred tax assets in the future.

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NOTE 5 – DEBT

Mortgages

Mortgages payable at September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, 2017	December 31, 2016
Mortgage Indebtedness	$ 312,129	$ 338,529
Net Unamortized Premium	1,928	2,313
Net Unamortized Deferred Financing Costs	(2,857)	(3,021)
Mortgages Payable	$ 311,200	$ 337,821
Liabilities Related to Hotel Assets Held for Sale	$ -	$ 51,428

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 3.48% to 6.30% as of September 30, 2017. Aggregate interest expense incurred under the mortgage loans payable totaled $3,172 and $4,930, and $9,202 and $16,921 during the three and nine months ended September 30, 2017 and 2016, 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 all debt covenants contained in the loan agreements securing our consolidated hotel properties were met as of September 30, 2017.

As of September 30, 2017, the maturity dates for the outstanding mortgage loans ranged from January 2018 to September 2025.

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 $931 and $970 as of September 30, 2017 and December 31, 2016, respectively, in net deferred financing costs incurred as a result of entering into these indentures. 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 4.36% and 3.80%, and 4.17% and 3.69% during the three and nine months ended September 30, 2017 and 2016, respectively. Interest expense in the amount of $562 and $490, and $1,614 and $1,427 was recorded for the three and nine months ended September 30, 2017 and 2016, respectively.

Credit Facilities

We maintain three unsecured credit agreements which aggregate to $975,000 with Citigroup Global Markets Inc., Wells Fargo Bank, Inc. and various other lenders. The first credit agreement was amended and restated during the third quarter of 2017. The first credit facility now provides for a $475,000 senior unsecured credit facility (“Credit Facility”) which was an increase over the existing credit facility capacity of $460,520. The Credit Facility consists of a $250,000 senior unsecured revolving line of credit (“Line of Credit”), for which the balance remained unchanged as a result of the refinance, and a senior unsecured term loan (“First Term Loan”) for which the balance increased to $225,000 from $210,520 during the refinance. The Credit Facility expires on August 10, 2022, 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 $875,000 at our request, subject to the satisfaction of certain conditions.

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NOTE 5 – DEBT (CONTINUED)

Our second credit agreement provides for a $300,000 senior unsecured term loan agreement ("Second Term Loan") and expires on August 10, 2020.

Our third credit agreement provides for a $200,000 senior unsecured term loan agreement ("Third Term Loan") and expires on August 2, 2021.

The amount that we can borrow at any given time under our Line of Credit, and the First, Second and Third Term Loan (each a "Term Loan" and together the "Term Loans") is governed by certain operating metrics of designated unencumbered hotel properties known as borrowing base assets. As of September 30, 2017, the following hotel properties were borrowing base assets:

- Courtyard, Brookline, MA
- Holiday Inn Express, Cambridge, MA
- Envoy Hotel, Boston, MA
- The Boxer, Boston, MA
- Hampton Inn, Seaport, NY
- The Duane Street Hotel, NY
- Hampton Inn, Pearl Street, NY
- Holiday Inn Express, 29th Street, NY
- Sheraton Hotel, JFK Airport, New York, NY
- Hilton Garden Inn, JFK Airport, New York, NY
- NU Hotel, Brooklyn, NY
- Hyatt House White Plains, NY
- Sheraton, Wilmington South, DE
- Hampton Inn, Washington, DC
- Ritz Carlton, Washington, DC
- Hilton Garden Inn, M Street, Washington, DC
- Residence Inn, Coconut Grove, FL
- The Winter Haven, Miami, FL
- The Blue Moon, Miami, FL
- Courtyard, Miami, FL
- The Parrot Key Hotel & Resort, Key West, FL
- TownePlace Suites, Sunnyvale, CA
- The Ambrose Hotel, Santa Monica, CA
- Courtyard, San Diego, CA

- Holiday Inn Express Chester, NY
- Hampton Inn, Philadelphia, PA
- The Rittenhouse, Philadelphia, PA
- The Westin, Philadelphia, PA
- The Pan Pacific Hotel, Seattle, WA
- Residence Inn, Tyson's Corner, VA
- Hyatt House Gaithersburg, MD
- Mystic Marriott Hotel & Spa, Groton, CT

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	September 30, 2017	December 31, 2016
Line of Credit	1.50% to 2.25%	$ -	$ -
First Term Loan	1.45% to 2.20%	225,000	210,520
Second Term Loan	1.50% to 2.25%	300,000	300,000
Third Term Loan	1.45% to 2.20%	200,000	156,100

We maintain an interest rate swap, with a $150,000 notional amount, which effectively fixes the interest rate on $150,000 of the $200,000 Third Term Loan at a blended rate of 3.211%. This swap agreement matures on October 3, 2019. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information regarding interest rate hedging strategies we employ.

On March 14, 2017, we entered into an interest rate swap associated with $50,000 of our $200,000 Third Term Loan, which became effective on April 3, 2017. This swap effectively fixes the interest rate on $50,000 of the Third Term Loan at 3.894%. This swap matures on October 3, 2019.

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NOTE 5 – DEBT (CONTINUED)

On March 23, 2017, we entered into an interest rate swap associated with our $300,000 Second Term Loan, which became effective beginning on August 10, 2017. This swap effectively fixes the interest rate of the Second Term Loan at 3.6930% from the effective date through August 9, 2018. For the period from August 10, 2018 to August 11, 2019, the interest rate will be fixed at 4.1155%. For the period from August 12, 2019 through maturity, the interest rate will be fixed at 4.3925%. This swap matures on August 10, 2020.

The balance of the Term Loans is offset by $3,639 and $3,120 in net deferred financing costs as of September 30, 2017 and December 31, 2016, 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 Term Loans 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 $1,075,000, 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 all of the covenants as of September 30, 2017.

The Company recorded interest expense of $6,572 and $3,983, and $17,793 and $12,546 related to borrowings drawn on the Credit Facility and Term Loans for the three and nine months ended September 30, 2017 and 2016, respectively. The weighted average interest rate on the Credit Facility and Term Loans was 3.61% and 2.80%, and 3.35% and 2.71% for the three and nine months ended September 30, 2017 and 2016, 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 and nine months ended September 30, 2017 and 2016, we capitalized $0 of interest expense to ongoing capital improvement projects.

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 and nine months ended September 30, 2017 and 2016 was $442 and $645, and $1,703 and $1,945, respectively.

New Debt/Refinance

On August 10, 2017, we amended and restated our existing credit facility, which now consists of a $250 million senior unsecured revolving line of credit and a $225 million senior unsecured term loan referred to above as the First Term Loan. The Credit Facility was due to expire on February 28, 2018, but will now expire on August 10, 2021. In conjunction with this transaction we recognized $280 in debt extinguishment costs.

On August 1, 2017, we refinanced the outstanding mortgage debt with an original principal balance of $35,000 secured by the Courtyard Culver City, Los Angeles, CA. The loan was due to mature on September 29, 2017, but will now mature on August 1, 2021. We incurred approximately $32 in expense in third party fees.

On February 24, 2017, we refinanced the outstanding mortgage debt with an original principal balance of $45,000 secured by the Hilton Garden Inn, 52nd Street, NY. The loan was due to mature in May 2017, but will now mature on February 24, 2020. We incurred approximately $94 in expense in third party fees.

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NOTE 5 – DEBT (CONTINUED)

On February 1, 2017, we issued a note payable in the amount of $3,150 with the acquisition of the Ritz Carlton Coconut Grove.

On January 31, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $9,500 secured by the Duane Street Hotel, NY, which was schedule to mature on February 1, 2017 and we incurred approximately $12 in expense related to unamortized deferred financing costs and fees.

On January 6, 2017, we repaid in full outstanding mortgage debt secured by the Hyatt House Scottsdale, AZ, the Hyatt House Pleasant Hill, CA, and the Hyatt House Pleasanton, which all matured on that date. These properties had a combined original principal balance of $51,428 and we incurred approximately $47 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $21,000 secured by the

Hilton Garden Inn, JFK Airport, New York, NY. The loan was due to mature on March 7, 2017, and we incurred approximately $37 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of $43,000 secured by the Mystic Marriott Hotel & Spa, Groton, CT. The loan was due to mature in August of 2018, and we incurred approximately $84 in expense related to unamortized deferred financing costs and fees.

On September 5, 2016, we repaid outstanding mortgage debt with an original principal balance of $55,000 secured by the Holiday Inn Express 29th Street, NY. The loan was due to mature on November 5, 2016, and we incurred approximately $42 in expense related to unamortized deferred financing costs and fees. We also recognized $133 of gain in unamortized original issue premiums related to the property.

On August 2, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $19,250 secured by the Hampton Inn Seaport, NY. The loan was due to mature on October 8, 2016, and we incurred approximately $67 in expense related to unamortized deferred financing costs and fees.

On August 2, 2016, we repaid in full outstanding mortgage debt with an original principal balance of $25,000 secured by the Courtyard Alexandria, VA. The loan was due to mature on October 5, 2016, and we incurred approximately $9 in expense related to unamortized deferred financing costs and fees.

We repaid in full the two mortgages related to the Hampton Inn Herald Square, NY and Hampton Inn Chelsea, NY, two properties contributed to the joint venture with Cindat. The mortgage debt secured by Hampton Inn Herald Square had an original balance of $26,500 and was due to mature on May 1, 2016. The mortgage debt secured by Hampton Inn Chelsea had an original balance of $36,000 and was due to mature on October 1, 2016. In addition, due to our contribution of certain of the borrowing base properties to the Cindat joint venture we were required to pay down $39,480 of the First Term Loan. We incurred a total of $1,049 in expense related to the payment of fees to extinguish debt and related to unamortized deferred financing costs associated with the mortgage debt and term loan repayments.

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.

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NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned TRS, 44 New England Management Company, 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 Hersha Hospitality Management Limited Partnership (“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 and nine months ended September 30, 2017 and 2016, base management fees incurred totaled $3,650, and $3,385, and $10,208 and $9,994, respectively, and are recorded as Hotel Operating Expenses. For the three and nine months ended September 30, 2017 and 2016, 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 and nine months ended September 30, 2017 and 2016 were $6,385 and $6,252, and $17,937 and $18,899, 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 and nine months ended September 30, 2017 and 2016, the Company incurred accounting fees of $326 and $341, and $998 and $1,088, respectively. For the three and nine months ended September 30, 2017 and 2016, the Company incurred information technology fees of $107 and $115, and $329 and $346 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 and nine months ended September 30, 2017 and 2016, we incurred fees of $140 and $307, and $781 and $1,036 respectively, which were capitalized with the cost of fixed asset additions.

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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 and nine months ended September 30, 2017 and 2016, we incurred charges for hotel supplies of $45 and $41, and $126 and $101, respectively. For the three and nine months ended September 30, 2017 and 2016, we incurred charges for capital expenditure purchases of $651 and $613, and $1,512 and $1,927, 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 $8 and $1 is included in accounts payable at September 30, 2017 and December 31, 2016, respectively.

Due From Related Parties

The due from related parties balance as of September 30, 2017 and December 31, 2016 was approximately $4,708 and $18,332, respectively. The balances primarily consisted of working capital deposits made to HHMLP and other entities owned, in part, by certain executives and trustees of the Company.

Due to Related Parties

The balance due to related parties as of September 30, 2017 and December 31, 2016 was $0.

Hotel Ground Rent

For the three and nine months ended September 30, 2017 and 2016, we incurred $892 and $891, and $2,593 and $2,676, respectively, of rent expense payable pursuant to ground leases related to certain hotel properties.

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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 September 30, 2017, 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 September 30, 2017 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.

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

Derivative Instruments

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates. The table on the following page presents our derivative instruments as of September 30, 2017 and December 31, 2016.

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

							Estimated Fair Value Asset / (Liability) Balance	
Hedged Debt	Type	Strike Rate	Index	Effective Date	Derivative Contract Maturity Date	Notional Amount	September 30, 2017	December 31, 2016
Term Loan Instruments:								
Third Term Loan	Swap	1.011%	1-Month LIBOR + 2.20%	November 3, 2016	October 3, 2019	150,000	$ 1,843	$ 1,773
Third Term Loan (1)	Swap	1.694%	1-Month LIBOR + 2.20%	April 3, 2017	October 3, 2019	50,000	(69)	-
Second Term Loan (2)	Swap	1.443%	1-Month LIBOR + 2.25%	August 10, 2017	August 10, 2020	300,000	(894)	-
Mortgages:								
Hyatt, Union Square, New York, NY	Cap	3.000%	1-Month LIBOR + 2.30%	June 10, 2015	June 10, 2019	55,750	5	54
Hilton Garden Inn 52nd Street, New York, NY (3)	Swap	1.600%	1-Month LIBOR + 2.90%	February 24, 2017	February 24, 2020	44,325	79	-

Courtyard, LA Westside, Culver City, CA (4)	Swap	1.683%	1-Month LIBOR + 2.75%	August 1, 2017	August 1, 2020	35,000	37	-
Duane Street Hotel, New York, NY	Swap	0.933%	1-Month LIBOR + 4.50%	February 1, 2014	February 1, 2017	-	-	(1)
Hilton Garden Inn 52nd Street, New York, NY (3)	Swap	1.152%	1-Month LIBOR + 2.90%	June 1, 2015	February 21, 2017	44,325	-	(26)
Courtyard, LA Westside, Culver City, CA (4)	Cap	3.000%	1-Month LIBOR + 3.00%	October 27, 2015	September 29, 2017	35,000	-	8
							$ 1,001	$ 1,808

(1) On March 14, 2017, we entered into an interest rate swap associated with our $50,000 of our $200,000 Third Term Loan, which became effective on April 3, 2017. This swap effectively fixes the interest rate of the Third Term Loan at 3.894%. This swap matures on October 3, 2019.

(2) On March 23, 2017, we entered into an interest rate swap associated with our $300,000 Second Term Loan, which became effective beginning on August 10, 2017. This swap effectively fixes the interest rate of the Second Term Loan at 3.6930% from the effective date through August 9, 2018. For the period from August 10, 2018 to August 11, 2019, the interest rate will be fixed at 4.1155%. For the period from August 12, 2019 through maturity, the interest rate will be fixed at 4.3925%. This swap matures on August 10, 2020.

(3) On February 24, 2017, we refinanced the debt associated with the Hilton Garden Inn 52nd Street, New York, NY. As a result, we entered into an interest rate swap with a strike rate of 1.60%. The interest rate swap designated as a hedge against the refinanced mortgage note matured on February 21, 2017.

(4) On August 1, 2017, we refinanced debt associated with the Courtyard, LA Westside, Culver City, CA. Concurrently, we entered into an interest rate swap with a strike rate of 1.683%. The interest rate cap designated as a hedge against the old refinanced mortgage note was due to mature on September 29, 2017 and was terminated upon the refinance.

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

The fair value of certain swaps and our interest rate caps with a positive balance is included in other assets at September 30, 2017 and December 31, 2016. The fair value of certain of our interest rate swaps with a negative balance is included in accounts payable, accrued expenses and other liabilities at September 30, 2017 and December 31, 2016.

The net change in fair value of derivative instruments designated as cash flow hedges was a gain of $467 and a gain of $153 for the three months ended September 30, 2017 and 2016, respectively, and a loss of $772 and a loss of $68 for the nine months ended September 30, 2017 and 2016, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate derivative. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of $144 and $110, and $424 and $428 of net unrealized gains/losses from accumulated other comprehensive income as an increase/decrease to interest expense for the three and nine months ended September 30, 2017 and 2016, respectively. For the next twelve months ending September 30, 2018, we estimate that an additional $65 will be reclassified as a decrease to interest expense.

Fair Value of Debt

We estimate the fair value of our fixed rate debt and the credit spreads over variable market rates on our 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 September 30, 2017, the carrying value and estimated fair value of our debt were $1,083,178 and $1,061,598 respectively. As of December 31, 2016, the carrying value and estimated fair value of our debt were $1,103,327 and $1,098,248, respectively.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 [UNAUDITED]

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

NOTE 8 – SHARE BASED PAYMENTS

We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to performance awards that are contingent upon market-based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period. As discussed in Note 1 forfeitures of share-based awards are expensed as they occur.

The Company established and our shareholders approved the Hersha Hospitality Trust 2012 Equity Incentive Plan, as amended, (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 10, 2017, the Compensation Committee approved the 2017 Annual Long Term Equity Incentive Program (“2017 Annual EIP”) for the executive officers, pursuant to which the executive officers are eligible to earn equity awards in the form of stock awards, LTIP Units, or performance share awards issuable pursuant to the 2012 Plan. These awards are earned under the 2017 Annual EIP based on achieving a threshold, target or maximum level of performance in the performance of RevPAR growth in certain defined areas. In addition, the Compensation

Committee provided the option to the executive officers to elect shares in lieu of cash payment under the 2017 annual cash incentive program (“2017 ACIP”). The Company accounts for these grants as performance awards for which the Company assesses the probability of achievement of the performance conditions at the end of each period. As of September 30, 2017, no shares or LTIP Units have been issued in accordance with the 2012 Plan to the executive officers in settlement of 2017 Annual EIP awards.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

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NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

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	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
March 28, 2017 (2016 Annual EIP)	122,727	3 years	25%/year (1)	30,680	-	$ 680	$ -
March 30, 2016 (2015 Annual EIP)	183,396	3 years	25%/year (1)	91,696	91,696	411	868
March 30, 2015 (2014 Annual EIP)	128,832	3 years	25%/year (1)	96,623	96,623	56	225
December 23, 2014	258,899	5 years	33% Year 3, 4, 5 (2)	258,899	172,599	-	457
	693,854			477,898	360,918	$ 1,147	$ 1,550

(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, which is a calendar year-end (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 on December 23, 2014. One-third of each award of LTIP Units vested or will vest on each of the third, fourth and fifth anniversaries of the original 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).

Stock based compensation expense related to the Annual Long Term Equity Incentive Programs and 2017 ACIP of $938 and $952 and, $3,044 and $3,314 was incurred during the three and nine months ended September 30, 2017 and 2016, respectively. Unearned compensation related to the Annual Long Term Equity Incentive Programs as of September 30, 2017 and December 31, 2016 was $1,147 and $1,550, respectively.

Unearned 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 10, 2017, the Compensation Committee approved the 2017 Multi-Year Long Term Equity Incentive Program ("2017 Multi-Year EIP"). This program has a three-year performance period which commenced on January 1, 2017 and ends December 31, 2019. As of September 30, 2017, no shares or LTIP Units have been issued to the executive officers in settlement of 2017 Multi-Year EIP awards.

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

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

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

				Units Vested		Unearned Compensation	
Compensation Committee Approval Date	LTIP Units Issued	LTIP Issuance Date	Performance Period	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
March 10, 2017 (2017 Multi-Year EIP)	-	N/A	1/1/2017 to 12/31/2019	-	-	$ 972	$ -
March 17, 2016 (2016 Multi-Year EIP)	-	N/A	1/1/2016 to 12/31/2018	-	-	666	888
March 18, 2015 (2015 Multi-Year EIP)	-	N/A	1/1/2015 to 12/31/2017	-	-	249	397
April 11, 2014 (2014 Multi-Year EIP)	61,057	3/28/2017	1/1/2014 to 12/31/2016	30,524	-	110	283
	61,057			30,524	-	$ 1,997	$ 1,568

The shares or LTIP Units issuable under the Multi-Year Long Term Incentive Programs, including the 2017 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 (RevPar) 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 $309 and $343 and, $1,289 and $1,527 was recorded for the three and nine months ended September 30, 2017 and 2016, respectively, for the Multi-Year Long Term Equity Incentive Programs. Unearned compensation related to the multi-year program as of September 30, 2017 and December 31, 2016, respectively, was $1,997, and $1,568.

Restricted Share Awards

In addition to share based compensation expense related to awards to executives under the Multi-Year and Annual Long Term Equity Incentive Programs, share based compensation expense related to restricted common shares issued to employees of the Company of $187 and $150 and, $473 and $407 was incurred during the three and nine months ended September 30, 2017 and 2016, respectively. Unearned compensation related to the restricted share awards as of September 30, 2017 and December 31, 2016 was $843 and $505, respectively. The following table is a summary of all unvested share awards issued to employees under the 2012 Plan and prior equity incentive plans:

					Shares Vested		Unearned Compensation	
Original Year of Issuance Date	Shares Issued	Range of Share Price on Date of Grant	Vesting Period	Vesting Schedule	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
2017	44,125	$ 18.47-18.53	2-4 years	25-50% /year	885	-	$ 644	$ -
2016	30,070	18.02-21.11	2-4 years	25-50% /year	18,160	497	141	348
2015	23,281	21.76-28.09	2-4 years	25-50% /year	20,815	13,733	58	157
Total	97,476				39,860	14,230	$ 843	$ 505

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NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Trustees

Board Fee Compensation

The Compensation Committee approved a program that allows the Company's trustees to make a voluntary election to receive any portion of their board fee compensation in the form of common equity valued at a 25% premium to the cash that would have been received. On December 30, 2016, we issued 4,395 shares which do not fully vest until December 31, 2017. Compensation expense incurred for the three and nine months ended September 30, 2017 and 2016 was $23 and $37 and, $71 and $74, respectively. The following table is a summary of all unvested share awards issued to trustees in lieu of board fee compensation:

					Unearned Compensation	
Original Issuance Date	Shares Issued	Share Price on Date of Grant	Vesting Period	Vesting Schedule	September 30, 2017	December 31, 2016
December 30, 2016	4,395	$ 21.50	12 months	100%	$ 24	$ 94

Multi-Year Long-Term Equity Incentives

Compensation expense for the Multi-Year Long Term Incentive Programs for the Company's trustees incurred for the three and nine months ended September 30, 2017 and 2016 was $20 and $15 and, $58 and $45, respectively. Unearned compensation related to the Multi-Year Long Term Equity Incentive Programs was $109 and $167 as of September 30, 2017 and December 31, 2016, respectively.

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

				Shares Vested		Unearned Compensation	
Original Issuance Date	Shares Issued	Vesting Period	Vesting Schedule	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
December 30, 2016	5,000	3 years	33% /year	-	-	$ 81	$ 108
March 30, 2016	2,500	3 years	33% /year	835	835	22	35
December 30, 2014	2,500	3 years	33% /year	1,670	1,670	6	24
				2,505	2,505	$ 109	$ 167

Share Awards

Compensation expense related to share awards issued to the Company's trustees of $322 and $319 was incurred during the nine months ended September 30, 2017 and 2016, respectively, and is recorded in general and administrative expense on the statement of operations. Share grants issued to the Company's trustees are immediately vested. On June 6, 2017, an aggregate of 17,074 shares were issued to the Company's trustees at a price per share on the date of grant of $18.86.

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

NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

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 $35 and $17 and, $211 and $107 for the three and nine months ended September 30, 2017 and 2016, respectively. Unearned compensation related to the restricted share awards as of September 30, 2017 and December 31, 2016 was $137 and $79, 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	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
March 28, 2017	15,000	$ 18.53	2 years	50% /year	7,625	-	$ 137	$ -
March 30, 2016	7,350	$ 21.11	2 years	50% /year	7,350	3,750	-	79
Total	22,350				14,975	3,750	$ 137	$ 79

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

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NOTE 9 – EARNINGS PER SHARE

The following table is a reconciliation of the income or loss (numerator) and the weighted average shares (denominator) used in the calculation of basic and diluted earnings per common share. The computation of basic and diluted earnings per share is presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NUMERATOR:				
Basic and Diluted*				
Net Income	$ 3,263	$ 8,205	$ 114,006	$ 114,745
Loss (Income) allocated to Noncontrolling Interests	90	(211)	(5,849)	(4,273)
Distributions to Preferred Shareholders	(6,040)	(4,417)	(18,124)	(12,006)
Dividends Paid on Unvested Restricted Shares and LTIP Units	(90)	(119)	(286)	(376)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	-	-	(4,021)
Net (Loss) Income attributable to Common Shareholders	$ (2,777)	$ 3,458	$ 89,747	$ 94,069
DENOMINATOR:				
Weighted average number of common shares - basic	41,721,425	42,309,044	41,725,159	43,368,153
Effect of dilutive securities:				
Restricted Stock Awards and LTIP Units (unvested)	-	241,771	195,645	227,572
Contingently Issued Shares and Units	-	195,049	304,434	273,568