HERSHA HOSPITALITY TRUST
Form 10-Q
October 29, 2015

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, 2015

OR

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

For the transition period from ____ to ____

COMMISSION FILE NUMBER: 001-14765

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Yes No

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

Yes No

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

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

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

Yes No

As of October 28, 2015, the number of Class A common shares of beneficial interest outstanding was 46,041,084 and there were no Class B common shares of beneficial interest outstanding.

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Hersha Hospitality Trust

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2015 (UNAUDITED) AND DECEMBER 31, 2014

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Assets: | | |
| Investment in Hotel Properties, Net of Accumulated Depreciation, Including Consolidation of Variable Interest Entity Assets of $83,159 and $84,247 | $ 1,790,077 | $ 1,745,483 |
| Investment in Unconsolidated Joint Ventures | 10,934 | 11,150 |
| Cash and Cash Equivalents | 29,304 | 21,675 |
| Escrow Deposits | 18,812 | 16,941 |
| Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of $92 and $39 | 11,601 | 9,363 |
| Deferred Financing Costs, Net of Accumulated Amortization of $7,370 and $6,938 | 9,607 | 8,605 |
| Due from Related Parties | 6,456 | 6,580 |
| Intangible Assets, Net of Accumulated Amortization of $3,828 and $3,514 | 13,513 | 7,316 |
| Other Assets | 31,734 | 28,426 |
| Total Assets | $ 1,922,038 | $ 1,855,539 |
| | | |
| Liabilities and Equity: | | |
| Line of Credit | $ - | $ - |
| Unsecured Term Loan | 495,000 | 250,000 |
| Unsecured Notes Payable | 51,548 | 51,548 |
| Mortgages Payable, including Net Unamortized Premium and Consolidation of Variable Interest Entity Debt of $52,923 and $54,132 | 543,559 | 617,375 |
| Accounts Payable, Accrued Expenses and Other Liabilities | 54,919 | 54,116 |
| Dividends and Distributions Payable | 17,026 | 17,909 |
| Due to Related Parties | 6,594 | 7,203 |
| Total Liabilities | $ 1,168,646 | $ 998,151 |
| | | |
| Equity: | | |
| Shareholders' Equity: | | |
| Preferred Shares: $.01 Par Value, 29,000,000 Shares Authorized, 4,600,000 Series B and 3,000,000 Series C Shares Issued and Outstanding at September 30, 2015 and December 31, 2014, with Liquidation Preferences of $25 Per Share (Note 1) | $ 76 | $ 76 |

| | | |
|---|---|---|
| Common Shares: Class A, $.01 Par Value, 300,000,000 Shares Authorized at September 30, 2015 and December 31, 2014, 46,338,046 and 49,708,771 Shares Issued and Outstanding at September 30, 2015 and December 31, 2014, respectively | 463 | 497 |
| Common Shares: Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at September 30, 2015 and December 31, 2014 | - | - |
| Accumulated Other Comprehensive Loss | (1,048) | (358) |
| Additional Paid-in Capital | 1,124,995 | 1,194,547 |
| Distributions in Excess of Net Income | (400,947) | (365,381) |
| Total Shareholders' Equity | 723,539 | 829,381 |
| | | |
| Noncontrolling Interests (Note 1): | | |
| Noncontrolling Interests - Common Units and LTIP Units | 31,449 | 29,082 |
| Noncontrolling Interests - Consolidated Variable Interest Entity | (1,596) | (1,075) |
| Total Noncontrolling Interests | 29,853 | 28,007 |
| | | |
| Total Equity | 753,392 | 857,388 |
| | | |
| Total Liabilities and Equity | $ 1,922,038 | $ 1,855,539 |

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, 2015 AND 2014 [UNAUDITED]

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue: | | | | |
| Hotel Operating Revenues | $ 124,488 | $ 112,927 | $ 347,176 | $ 304,331 |
| Other Revenues | 27 | 50 | 81 | 149 |
| Total Revenues | 124,515 | 112,977 | 347,257 | 304,480 |
| | | | | |
| Operating Expenses: | | | | |
| Hotel Operating Expenses | 66,373 | 60,648 | 187,862 | 166,372 |
| Insurance Recoveries | - | - | - | (4,602) |
| Hotel Ground Rent | 768 | 710 | 2,223 | 1,715 |
| Real Estate and Personal Property Taxes and Property Insurance | 9,099 | 8,034 | 25,591 | 22,020 |
| General and Administrative (including Share Based Payments of $1,411 and $1,595 and $4,605 and $4,156 for the three and nine months ended September 30, 2015 and 2014, respectively) | 4,796 | 5,670 | 14,566 | 14,310 |
| Acquisition and Terminated Transaction Costs | 146 | 338 | 454 | 2,144 |
| Depreciation and Amortization | 18,814 | 18,565 | 55,395 | 52,365 |
| Contingent Consideration Related to Acquisition of Hotel Property | - | 1,000 | - | 1,000 |
| Total Operating Expenses | 99,996 | 94,965 | 286,091 | 255,324 |
| | | | | |
| Operating Income | 24,519 | 18,012 | 61,166 | 49,156 |
| | | | | |
| Interest Income | 45 | 71 | 144 | 746 |
| Interest Expense | (11,067) | (11,456) | (32,390) | (32,249) |
| Other Expense | (9) | (346) | (334) | (476) |
| Gain on Disposition of Hotel Properties | - | - | - | 7,184 |
| Gain on Hotel Acquisitions, net | - | - | - | 13,594 |

| | | | | |
|---|---|---|---|---|
| Development Loan Recovery | - | - | - | 22,494 |
| Loss on Debt Extinguishment | (324) | - | (546) | (644) |
| Income Before Income (Loss) from Unconsolidated Joint Venture Investments, Income Taxes and Discontinued Operations | 13,164 | 6,281 | 28,040 | 59,805 |
| Income from Unconsolidated Joint Venture Investments | 608 | 607 | 860 | 606 |
| Income Before Income Taxes | 13,772 | 6,888 | 28,900 | 60,411 |
| Income Tax Benefit | 631 | 699 | 740 | 806 |
| Income from Continuing Operations | 14,403 | 7,587 | 29,640 | 61,217 |
| Discontinued Operations (Note 11): | | | | |
| Loss on Disposition of Discontinued Assets | - | - | - | (45) |
| Impairment of Discontinued Assets | - | - | - | (1,800) |
| Income from Discontinued Operations, Net of Income Taxes | - | - | - | 288 |
| Loss from Discontinued Operations | - | - | - | (1,557) |
| Net Income | 14,403 | 7,587 | 29,640 | 59,660 |
| (Income) Loss Allocated to Noncontrolling Interests | (244) | 49 | (206) | (1,100) |
| Preferred Distributions | (3,589) | (3,589) | (10,767) | (10,767) |
| Net Income Applicable to Common Shareholders | $ 10,570 | $ 4,047 | $ 18,667 | $ 47,793 |

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, 2015 AND 2014 [UNAUDITED]

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Earnings Per Share: | | | | |
| BASIC | | | | |
| Income from Continuing Operations Applicable to Common Shareholders | $ 0.22 | $ 0.08 | $ 0.38 | $ 0.98 |
| Loss from Discontinued Operations Applicable to Common Shareholders | 0.00 | 0.00 | 0.00 | (0.03) |
| Net Income Applicable to Common Shareholders | $ 0.22 | $ 0.08 | $ 0.38 | $ 0.95 |
| | | | | |
| DILUTED | | | | |
| Income from Continuing Operations Applicable to Common Shareholders | $ 0.22 | $ 0.08 | $ 0.37 | $ 0.97 |
| Loss from Discontinued Operations Applicable to Common Shareholders | 0.00 | 0.00 | 0.00 | (0.03) |
| Net Income Applicable to Common Shareholders | $ 0.22 | $ 0.08 | $ 0.37 | $ 0.94 |
| | | | | |
| Weighted Average Common Shares Outstanding: | | | | |
| Basic | 47,417,452 | 49,649,379 | 48,502,387 | 49,817,680 |
| Diluted* | 47,909,549 | 50,155,497 | 49,035,700 | 50,276,464 |

*Income (loss) allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and the Operating Partnership’s common units of limited

partnership interest ("Common Units") and the Operating Partnership's vested LTIP units ("Vested LTIP Units") have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these shares and units in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income (loss) from continuing operations applicable to common shareholders.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Common Units and Vested LTIP Units | 1,947,536 | 1,728,679 | 1,893,943 | 1,728,679 |
| Total Potentially Dilutive Securities Excluded from the Denominator | 1,947,536 | 1,728,679 | 1,893,943 | 1,728,679 |

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

[IN THOUSANDS]

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net Income | $ 14,403 | $ 7,587 | $ 29,640 | $ 59,660 |
| Other Comprehensive Income | | | | |
| Change in Fair Value of Derivative Instruments | 506 | 1,173 | 596 | 1,427 |
| Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income | (575) | (368) | (1,286) | (1,141) |
| | $ (69) | $ 805 | $ (690) | $ 286 |
| Comprehensive Income | 14,334 | 8,392 | 28,950 | 59,946 |
| Less: Comprehensive (Income) Loss Attributable to Noncontrolling Interests | (244) | 49 | (206) | (1,100) |
| Less: Preferred Distributions | (3,589) | (3,589) | (10,767) | (10,767) |
| Comprehensive Income Attributable to Common Shareholders | $ 10,501 | $ 4,852 | $ 17,977 | $ 48,079 |

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, 2015 AND 2014 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

| | | Shareholders' Equity | | | | | | | | No |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Shares | Class A Common Shares ($) | Class B Common Shares ($) | Preferred Shares | Preferred Shares ($) | Additional Paid-In Capital ($) | Accumulated Other Comprehensive Loss ($) | Distributions in Excess of Net Earnings ($) | Total Shareholders' Equity ($) | Co Ur LT Ur |
| Balance at December 31, 2014 | 49,708,771 | 497 | - | 7,600,000 | 76 | 1,194,547 | (358) | (365,381) | 829,381 | 2, |
| Unit Conversion | 8,975 | - | - | - | - | 132 | - | - | 132 | (8 |
| Repurchase of Common Shares | (3,420,938) | (34) | - | - | - | (71,223) | - | (14,060) | (85,317) | - |
| Dividends and Distributions declared: | | | | | | | | | | |
| Common Shares ($0.84 per share) | - | - | - | - | - | - | - | (40,173) | (40,173) | - |
| Preferred Shares | - | - | - | - | - | - | - | (10,767) | (10,767) | - |
| | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Common Units ($0.84 per share) | | | | | | | | | | |
| LTIP Units ($0.84 per share) | - | - | - | - | - | - | - | - | - | - |
| Dividend Reinvestment Plan | 1,370 | - | - | - | - | 35 | - | - | 35 | - |
| Share Based Compensation: | | | | | | | | | | |
| Grants | 39,868 | - | - | - | - | 457 | - | - | 457 | 12 |
| Amortization | - | - | - | - | - | 1,047 | - | - | 1,047 | - |
| Change in Fair Value of Derivative Instruments | - | - | - | - | - | - | (690) | - | (690) | - |
| Net Income | - | - | - | - | - | - | - | 29,434 | 29,434 | - |
| Balance at September 30, 2015 | 46,338,046 | 463 | - | 7,600,000 | 76 | 1,124,995 | (1,048) | (400,947) | 723,539 | 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 EQUITY (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

| | Shareholders' Equity | | | | | | | | | No |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Shares | Class A Common Shares ($) | Class B Common Shares ($) | Preferred Shares | Preferred Shares ($) | Additional Paid-In Capital ($) | Accumulated Other Comprehensive Loss ($) | Distributions in Excess of Net Earnings ($) | Total Shareholders' Equity ($) | Co Ur LT Ur |
| Balance at December 31, 2013 | 50,689,855 | 2,028 | - | 7,600,000 | 76 | 1,200,798 | (376) | (364,568) | 837,958 | 1,' |
| Repurchase of Common Shares | (656,714) | (26) | | | | (13,637) | | (1,621) | (15,284) | - |
| Dividends and Distributions declared: | | | | | | | | | | |
| Common Shares ($0.76 per share) | - | - | - | - | - | - | - | (38,171) | (38,171) | - |
| Preferred Shares | - | - | - | - | - | - | - | (10,767) | (10,767) | - |
| Common Units ($0.76 per share) | - | - | | - | | - | - | - | - | - |
| Dividend Reinvestment Plan | 1,531 | - | - | - | - | 34 | - | - | 34 | - |
| Share Based Compensation: | | | | | | | | | | |
| Grants | 147,810 | 6 | - | - | - | 403 | - | - | 409 | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Amortization | - | - | - | - | - | 4,326 | - | - | 4,326 | - |
| Change in Fair Value of Derivative Instruments | - | - | - | - | - | - | 286 | - | 286 | - |
| Net Income | - | - | - | - | - | - | - | 58,560 | 58,560 | - |
| Balance at September 30, 2014 | 50,182,482 | 2,008 | - | 7,600,000 | 76 | 1,191,924 | (90) | (356,567) | 837,351 | 1, |

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, 2015 AND 2014 [UNAUDITED]

[IN THOUSANDS]

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Operating Activities: | | |
| Net Income | $ 29,640 | $ 59,660 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Gain on Acquisition of Hotel Assets, Net | | |
| Gain on Hotel Acquisitions, Net | - | (13,594) |
| Contingent Consideration | - | 1,000 |
| Development Loan Recovery | - | (22,494) |
| Gain on Disposition of Hotel Properties | - | (7,139) |
| Impairment of Hotel Assets | - | 1,800 |
| Deferred Taxes | (740) | (806) |
| Depreciation | 55,087 | 52,056 |
| Amortization | 1,175 | 1,468 |
| Loss on Debt Extinguishment | 324 | 644 |
| Equity in Loss of Unconsolidated Joint Ventures | (860) | (606) |
| Distributions from Unconsolidated Joint Ventures | 958 | 911 |

| | | |
|---|---|---|
| Loss Recognized on Change in Fair Value of Derivative Instrument | 83 | 68 |
| Share Based Compensation Expense | 4,605 | 4,156 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Hotel Accounts Receivable | (2,034) | (1,624) |
| Escrows | (950) | (537) |
| Other Assets | (2,156) | (844) |
| Due from Related Parties | 124 | 4,321 |
| (Decrease) Increase in: | | |
| Due to Related Parties | (609) | (1,719) |
| Accounts Payable, Accrued Expenses and Other Liabilities | 2,740 | 1,782 |
| Net Cash Provided by Operating Activities | $ 87,387 | $ 78,503 |
| | | |
| Investing Activities: | | |
| Purchase of Hotel Property Assets | $ (61,415) | $ (175,309) |
| Deposits on Hotel Acquisitions | (1,000) | - |
| Capital Expenditures | (18,841) | (29,297) |
| Cash Paid for Hotel Development Projects | (420) | (3,375) |
| Proceeds from Disposition of Hotel Properties | - | 30,128 |
| Net Changes in Capital Expenditure Escrows | 549 | 3,282 |
| Proceeds from Insurance Claims | - | 1,881 |
| Distributions from Unconsolidated Joint Venture | 127 | 96 |
| Net Cash Used in Investing Activities | $ (81,000) | $ (172,594) |

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

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

[IN THOUSANDS]

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Financing Activities: | | |
| Proceeds from Borrowings Under Line of Credit, Net | $ - | $ 27,000 |
| Proceeds from Unsecured Term Loan Borrowing | 245,000 | 100,000 |
| Principal Repayment of Mortgages and Notes Payable | (182,684) | (18,775) |
| Proceeds from Mortgages and Notes Payable | 80,750 | 54,500 |
| Cash Paid for Deferred Financing Costs | (2,344) | (3,338) |
| Proceeds from Issuance of Preferred Shares, Net | - | (86) |
| Repurchase of Common Shares | (85,317) | (15,284) |
| Settlement of Interest Rate Cap | (430) | (8) |
| Dividends Paid on Common Shares | (41,042) | (36,251) |
| Dividends Paid on Preferred Shares | (10,767) | (10,767) |
| Distributions Paid on Common Units | (1,924) | (1,245) |
| Net Cash Provided by Financing Activities | $ 1,242 | $ 95,746 |
| | | |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ 7,629 | $ 1,655 |
| Cash and Cash Equivalents - Beginning of Period | 21,675 | 36,213 |
| | | |
| Cash and Cash Equivalents - End of Period | $ 29,304 | $ 37,868 |

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, 2015 AND 2014 [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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 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, 2014, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as certain footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted from this report pursuant to the rules of the Securities and Exchange Commission.

We are a self-administered Maryland real estate investment trust that was organized in May 1998 and completed our initial public offering in January 1999. Our common shares are traded on the New York Stock Exchange (the "NYSE") under the symbol "HT." We own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership ("HHLP"), for which we serve as the sole general partner. As of September 30, 2015, we owned an approximate 95.2% partnership interest in HHLP, including a 1.0% general partnership interest.

### Noncontrolling Interest

We classify the noncontrolling interests of our consolidated variable interest entity and common units and LTIP units of limited partnership interest in HHLP ("Common Units") as equity. LTIP units are a special class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units totaled $31,449 as of September 30, 2015 and $29,082 as of December 31, 2014. As of September 30, 2015, there were 2,319,301 Common Units outstanding with a fair market value of

$52,555, based on the price per share of our common shares on the NYSE on such date. In accordance with the partnership agreement of HHLP, holders of these units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying cash.

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

Shareholders' Equity

Terms of the Series B and Series C Preferred Shares outstanding at September 30, 2015 and December 31, 2014 are summarized as follows:

| | Shares Outstanding | | | | Dividend Per Share Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|
| Series | September 30, 2015 | December 31, 2014 | Aggregate Liquidation Preference | Distribution Rate | 2015 | 2014 |
| Series B | 4,600,000 | 4,600,000 | $ 115,000 | 8.000% | $ 1.5000 | $ 1.5000 |
| Series C | 3,000,000 | 3,000,000 | 75,000 | 6.875% | 1.2891 | 1.2891 |
| Total | 7,600,000 | 7,600,000 | | | | |

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

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NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

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

In February 2015, our Board of Trustees authorized us to repurchase from time to time up to an aggregate of $100,000 of our outstanding common shares through December 31, 2015. For the nine months ended September 30, 2015, the Company repurchased 3,420,938 common shares for an aggregate purchase price of $85,317. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In October 2015, our Board of Trustees authorized us to repurchase from time to time up to an aggregate of $100,000 of our outstanding common shares. This new program is in addition to the existing $100,000 program authorized in February 2015 and will commence upon completion of the existing $100,000 common share repurchase program, and will expire on December 31, 2016. As of October 28, 2015, we have not repurchased any common shares pursuant to the new program as our existing repurchase agreement is still in effect.

New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or

services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted, but not prior to the original effective date of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On February 18, 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity (VIE) and voting interest entity (VOE) consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard is effective for the Company on January 1, 2016. The Company does not expect ASU No. 2015-02 to have a significant impact on its consolidated financial statements and related disclosures.

On April 17, 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Currently, debt issuance costs are recorded as an asset and amortization of these deferred financing costs is recorded in interest expense. Under the new standard, debt issuance costs will continued to be amortized over the life of the debt instrument and amortization will continue to be recorded in interest expense. The new standard is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. The Company is currently evaluating ASU 2015-03, and anticipates a change in our presentation only because the standard does not alter the accounting for amortization of debt issuance costs.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at September 30, 2015 and December 31, 2014:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Land | $ 463,304 | $ 439,540 |
| Buildings and Improvements | 1,485,736 | 1,424,842 |
| Furniture, Fixtures and Equipment | 218,047 | 203,275 |
| | 2,167,087 | 2,067,657 |
| Less Accumulated Depreciation | (377,010) | (322,174) |
| Total Investment in Hotel Properties | $ 1,790,077 | $ 1,745,483 |

Acquisitions

We have acquired the following properties during the nine months ended September 30, 2015:

| Hotel | Acquisition Date | Land | Buildings and Improvements | Furniture Fixtures and Equipment | Other Intangibles | | Loan Costs | Total Purchase Price | Assumpt of Debt |
|---|---|---|---|---|---|---|---|---|---|
| St. Gregory Hotel, Washington, DC | 6/16/2015 | $ 23,764 | $ 33,005 | $ 3,240 | $ 45 | | $ 978 | $ 61,032 | $ 28,902 |
| TownePlace Suites, Sunnyvale, CA | 8/25/2015 | $ - | $ 18,999 | $ 2,348 | $ 6,453 | ** | $ - | $ 27,800 | $ - |
| TOTAL | | $ 23,764 | $ 52,004 | $ 5,588 | $ 6,498 | | $ 978 | $ 88,832 | $ 28,902 |

*Includes a $3,050 premium as we determined that the stated rate of interest on the assumed mortgage debt was above market.

**Acquired ground lease asset of $6,353 with purchase of the property.

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 nine months ended September 30, 2015, we paid $160 in acquisition costs related to the above acquired assets.

Included in the consolidated statement of operations for the three and nine months ended September 30, 2015 are total revenues of $2,902 and $3,397, and total net loss of $39 and $36 for the hotels we acquired during the nine months ended September 30, 2015 and consolidated since the date of acquisition of the hotels.

Purchase and Sale Agreement

In October 2015, we entered into a purchase and sale agreement to purchase the Sanctuary Beach Resort in Monterey, CA from an unaffiliated buyer for a total purchase price of $39,500. The proposed transaction is expected to close in the first quarter of 2016, and is subject to a variety of closing conditions, completion of due diligence and the receipt of lender consent. As a result, there can be no assurance that we will be able to consummate the acquisition on the schedule or on the terms described.

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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, 2015 and 2014, are presented as if the hotels acquired by the Company in 2015 had been acquired as of January 1, 2014, and the hotels acquired by the Company in 2014 had been acquired as of January 1, 2013. The condensed pro forma financial data is 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, 2014 and January 1, 2013, nor do they purport to represent the results of operations for future periods.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Pro Forma Total Revenues | $ 125,345 | 116,512 | 352,375 | 322,791 |
| | | | | |
| Pro Forma Income from Continuing Operations | $ 14,753 | 7,889 | 30,322 | 65,340 |
| Loss from Discontinued Operations | - | - | - | (1,557) |
| Pro Forma Net Income | 14,753 | 7,889 | 30,322 | 63,783 |
| (Loss) Income Allocated to Noncontrolling Interest | (258) | 39 | (232) | (1,238) |
| Preferred Distributions | (3,589) | (3,589) | (10,767) | (10,767) |
| Pro Forma Net Income Applicable to Common Shareholders | $ 10,906 | $ 4,339 | $ 19,323 | $ 51,778 |
| | | | | |
| Pro Forma Income Applicable to Common Shareholders per Common Share | | | | |
| Basic | $ 0.23 | $ 0.09 | $ 0.40 | $ 1.04 |

| | | | | |
|---|---|---|---|---|
| Diluted | $ 0.23 | $ 0.09 | $ 0.39 | $ 1.03 |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | 47,417,452 | 49,649,379 | 48,502,387 | 49,817,680 |
| Diluted | 47,909,549 | 50,155,497 | 49,035,700 | 50,276,464 |

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of September 30, 2015 and December 31, 2014, our investment in unconsolidated joint ventures consisted of the following:

| Joint Venture | Hotel Properties | Percent Owned | Preferred Return | September 30, 2015 | December 31, 2014 |
|---|---|---|---|---|---|
| SB Partners, LLC | Holiday Inn Express, South Boston, MA | 50.0% | N/A | $ 983 | $ 913 |
| Hiren Boston, LLC | Courtyard by Marriott, South Boston, MA | 50.0% | N/A | 4,753 | 4,680 |
| Mystic Partners, LLC | Hilton and Marriott branded hotels in CT | 8.8%-66.7% | 8.5% non-cumulative | 5,198 | 5,556 |
| | | | | $ 10,934 | $ 11,150 |

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

Income recognized during the three and nine months ended September 30, 2015 and 2014, for our investments in unconsolidated joint ventures is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| SB Partners, LLC | $ 297 | $ 238 | $ 494 | $ 322 |
| Hiren Boston, LLC | 391 | 332 | 598 | 480 |
| Mystic Partners, LLC | (80) | 37 | (232) | (196) |
| Income from Unconsolidated Joint Venture Investments | $ 608 | $ 607 | $ 860 | $ 606 |

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company’s share, related to the unconsolidated joint ventures discussed above as of September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014.

Balance Sheets

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Assets | | |
| Investment in Hotel Properties, Net | $ 105,483 | $ 106,430 |
| Other Assets | 20,232 | 19,032 |
| Total Assets | $ 125,715 | $ 125,462 |
| | | |
| Liabilities and Equity | | |
| Mortgages and Notes Payable | $ 113,976 | $ 115,446 |
| Other Liabilities | 33,215 | 30,832 |
| Equity: | | |
| Hersha Hospitality Trust | 23,193 | 23,060 |
| Joint Venture Partner(s) | (44,669) | (43,876) |
| Total Equity | (21,476) | (20,816) |
| | | |
| Total Liabilities and Equity | $ 125,715 | $ 125,462 |

Statements of Operations

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Room Revenue | $ 16,069 | $ 16,952 | $ 44,690 | $ 45,489 |
| Other Revenue | 4,911 | 4,860 | 16,110 | 15,532 |
| Operating Expenses | (14,107) | (14,188) | (41,613) | (41,357) |
| Lease Expense | (288) | (270) | (839) | (793) |
| Property Taxes and Insurance | (779) | (723) | (2,254) | (2,222) |
| General and Administrative | (1,402) | (1,493) | (4,140) | (4,385) |
| Depreciation and Amortization | (1,709) | (1,655) | (4,848) | (4,849) |
| Interest Expense | (1,693) | (1,742) | (4,950) | (5,273) |
| Debt Extinguishment and Gain on Debt Forgiveness | - | 3,027 | - | (2,057) |
| Gain (Loss) allocated to Noncontrolling Interests | 5 | (27) | (80) | 149 |
| Net Income | $ 1,007 | $ 4,741 | $ 2,076 | $ 234 |

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

The following table is a reconciliation of the Company’s share in the unconsolidated joint ventures’ equity to the Company’s investment in the unconsolidated joint ventures as presented on the Company’s balance sheets as of September 30, 2015 and December 31, 2014.

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Company's share of equity recorded on the joint ventures' financial statements | $ 23,193 | $ 23,060 |
| Adjustment to reconcile the Company's share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1) | (12,259) | (11,910) |
| Investment in Unconsolidated Joint Ventures | $ 10,934 | $ 11,150 |

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

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

consolidated statement of operations).

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## NOTE 4 – OTHER ASSETS

### Other Assets

Other Assets consisted of the following at September 30, 2015 and December 31, 2014:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Investment in Statutory Trusts | 1,548 | 1,548 |
| Prepaid Expenses | 10,157 | 7,883 |
| Deferred Tax Asset, Net of Valuation Allowance of $804 | 12,189 | 11,448 |
| Other | 7,840 | 7,547 |
| | $ 31,734 | $ 28,426 |

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

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

Deferred Tax Asset - We have approximately $12,189 of net deferred tax assets as of September 30, 2015. 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 $12,189 of net deferred tax assets in the future.

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NOTE 5 – DEBT

Mortgages

We had total mortgages payable at September 30, 2015 and December 31, 2014 of $543,559 and $617,375, respectively. These balances consisted of mortgages with fixed and variable interest rates, which ranged from 2.44% to 6.50% as of September 30, 2015. Included in these balances are net premiums of $3,851 and $1,584 as of September 30, 2015 and December 31, 2014, respectively, which are amortized over the remaining life of the loans. Aggregate interest expense incurred under the mortgage loans payable totaled $6,404 and $7,908 and $20,372 and $23,428 during the three and nine months ended September 30, 2015 and 2014, respectively.

Our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, non-recourse financing arrangements. Our mortgage loans payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that certain debt service coverage ratio covenants contained in the loan agreements securing two of our hotel properties were not met as of September 30, 2015. Pursuant to these loan agreements, the lender has elected to escrow the operating cash flow for a number of these properties. However, these covenants do not constitute an event of default for these loan agreements.

As of September 30, 2015, the maturity dates for the outstanding mortgage loans ranged from May 2016 to April 2023.

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 weighted average interest rate on our two junior subordinated notes payable was 3.36% and 3.30% and 3.31% and 3.26% during the three and nine months ended September 30, 2015 and 2014, respectively. Interest expense in the amount of $434 and $426 and $1,278 and $1,264 was recorded for the three and nine months ended September 30, 2015 and 2014, respectively.

Credit Facilities

On August 10, 2015, we entered into a $300,000 senior unsecured term loan agreement with Citigroup Global Markets Inc. and various other lenders. The term loan expires on August 10, 2020. At the time of the closing, we advanced $210,000 as a single draw and have, subject to operating and borrowing base limitations, the ability to draw the remaining $90,000 over the following 360 days. As of September 30, 2015, we drew an additional $35,000 on the term loan. This new term loan expands our senior unsecured borrowing capacity from $500,000 to $800,000.

On February 28, 2014, we entered into a senior unsecured credit agreement with Citigroup Global Markets Inc. and various other lenders. The credit agreement provides for a $500,000 senior unsecured credit facility consisting of a $250,000 senior unsecured revolving line of credit, and a $250,000 senior unsecured term loan. This new facility amended and restated the existing $400,000 senior unsecured credit facility. The $500,000 unsecured credit facility expires on February 28, 2018, and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one-year period. The credit facility is also expandable to $850,000 at our request, subject to the satisfaction of certain conditions.

Prior to February 28, 2014, we maintained a senior unsecured credit agreement with Citigroup Global Markets Inc. and various other lenders. The credit agreement provided for a $400,000 senior unsecured credit facility consisting of a $250,000 senior unsecured revolving line of credit, and a $150,000 senior unsecured term loan.

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NOTE 5 – DEBT (CONTINUED)

The amount that we can borrow at any given time on our $500,000 unsecured credit facility and $300,000 unsecured term loan is governed by certain operating metrics of designated unencumbered hotel properties known as borrowing base assets. As of September 30, 2015, the following hotel properties were borrowing base assets:

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

The interest rate for the $500,000 unsecured credit facility is based on a pricing grid with a range of one month U.S. LIBOR plus 1.70% to 2.45% for the revolving line of credit and 1.60% to 2.35% for the unsecured term loan. The $300,000 unsecured term loan's interest rate is based on a pricing grid with a range of one month U.S. LIBOR plus 1.50% to 2.25%. As noted above, we refinanced our credit facility during the nine months ended September 30, 2014. Prior to this refinancing, the pricing grid for the revolving line of credit and unsecured term loan was U.S. LIBOR plus 1.75% to 2.65%.

As of September 30, 2015, we had borrowed $250,000 in unsecured term loans under the $500,000 unsecured credit facility, $150,000 for which we had entered into interest rate swaps which effectively fix the interest rate on these term loans at a blended rate of 2.914%. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information. As of September 30, 2015, we had borrowed $245,000 under the $300,000 unsecured term loan.

As of September 30, 2015, we had no balance outstanding on the revolving line of credit. As of December 31, 2014, the outstanding unsecured $250,000 term loan under the $500,000 unsecured credit facility was fully drawn and the $250,000 revolving line of credit had no balance outstanding.

The credit agreements providing for the $500,000 unsecured credit facility and $300,000 unsecured term loan include certain financial covenants and require that we maintain: (1) a minimum tangible net worth of $900,000, plus an amount equal to 75% of the net cash proceeds of all issuances and primary sales of equity interests of the parent guarantor or any of its subsidiaries consummated following the closing date; (2) annual distributions not to exceed 95% of adjusted funds from operations; and (3) certain financial ratios, including the following:

- a fixed charge coverage ratio of not less than 1.45 to 1.00, which increases to 1.50 to 1.00 as of January 1, 2016;
- a maximum leverage ratio of not more than 60%; and
- a maximum secured debt leverage ratio of 50%, which decreases to 45% as of January 1, 2016.

The Company is in compliance with each of the covenants listed above as of September 30, 2015. As of September 30, 2015, our remaining borrowing capacity under the $500,000 unsecured credit facility was $245,745 and under the $300,000 unsecured term loan was $55,000 based on the borrowing base assets at September 30, 2015.

The Company recorded interest expense of $2,844 and $1,809 and $6,824 and $4,461 related to borrowings drawn on each of the aforementioned credit facilities for the three and nine months ended September 30, 2015 and 2014, respectively. The weighted average interest rate on our credit facilities was 2.66% and 2.73% and 2.72% and 2.85% for the three and nine months ended September 30, 2015 and 2014, respectively.

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NOTE 5 – DEBT (CONTINUED)

Capitalized Interest

We utilize cash, mortgage debt and our unsecured credit facility to finance on-going capital improvement projects at our hotels. Interest incurred on mortgages and the unsecured credit facility 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, 2015 and 2014, we capitalized $0 and $0 and $0 and $458, respectively, of interest expense related to these projects.

Deferred Financing Costs

Costs associated with entering into mortgages and notes payable and our credit facilities are deferred and amortized over the life of the debt instruments. Amortization of deferred financing costs is recorded in interest expense. As of September 30, 2015, deferred costs were $9,607, net of accumulated amortization of $7,370. Amortization of deferred costs for the three and nine months ended September 30, 2015 and 2014 was $619 and $710 and $1,996 and $2,064, respectively.

New Debt/Refinance

On August 10, 2015, we repaid in full outstanding mortgage debt with an original principal balance of $60,000 secured by the Courtyard by Marriott, Miami, FL. In connection with this transaction, we terminated the interest rate swap associated with the mortgage on this property. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information on this transaction. The loan was due to mature on July 1, 2016, and we incurred approximately $324 in expense in unamortized deferred financing costs and fees.

On June 10, 2015, we refinanced the outstanding mortgage debt with an original principal balance of $55,000 secured by the Hyatt Union Square, NY and simultaneously entered into a new mortgage obligation of $55,750, incurring a loss on debt extinguishment of approximately $212. The new mortgage debt bears interest at a variable rate of one month U.S dollar LIBOR plus 2.30% and matures on June 10, 2019. Also on June 10, 2015, we entered into an interest rate cap that matures June 10, 2016 that effectively limits the interest at 3.00% per annum. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information on the interest rate cap.

On April 10, 2015, we refinanced the outstanding mortgage debt with an original principal balance of $38,913 secured by the Courtyard by Marriott, Brookline, MA. The loan was due to mature in July 2015, and we incurred approximately $10 in expense in unamortized deferred financing costs and fees.

On January 30, 2015, we repaid in full outstanding mortgage debt with an original principal balance of $27,500 secured by the Capitol Hill Hotel, Washington, DC and simultaneously entered into a new mortgage obligation of $25,000. The new mortgage debt bears interest at a variable rate of one month U.S. dollar LIBOR plus 2.25% and matures on January 30, 2018. The loan was due to mature in January 2015, and we incurred no loss on debt extinguishment in paying off the loan. We had previously entered into an interest rate swap with respect to the $27,500 mortgage loan that matured on February 1, 2015. In connection with this transaction, we did not enter into a new derivative instrument to fix or cap the rate of interest payable on the $25,000 mortgage loan. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information on this transaction.

On February 28, 2014, we refinanced our previous $400,000 unsecured credit facility with a $500,000 unsecured credit facility with Citigroup Global Markets Inc. and various other lenders. As a result of this refinancing, we expensed $579 in unamortized deferred financing costs and fees during the nine months ended September 30, 2014.

On January 31, 2014, we paid down $5,175 of the outstanding debt and modified the mortgage loan on the Duane Street Hotel, New York, NY. In connection with this refinancing, we entered into a $9,500 mortgage loan with a maturity date of February 1, 2017. The modified mortgage loan bears interest at a variable rate of one month U.S. dollar LIBOR plus 4.50%. The modification also includes an interest rate swap, which effectively fixes the interest rate at 5.433%. See “Note 7 – Fair Value Measurements and Derivative Instruments” for more information on the interest rate swap. As a result of this modification, we expensed $65 in unamortized deferred financial costs and fees during the nine months ended September 30, 2014.

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NOTE 6 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned taxable REIT subsidiary ("TRS"), 44 New England, and certain of our joint venture entities engage eligible independent contractors in accordance with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, including HHMLP, as the property managers for hotels it leases from us pursuant to management agreements. HHMLP is owned, in part, by certain executives and trustees of the Company. Our management agreements with HHMLP provide for five-year terms and are subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, HHMLP must qualify as an “eligible independent contractor” during the term of the management agreements. Under the management agreements, HHMLP generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by HHMLP in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. HHMLP is not obligated to advance any of its own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee and, if a hotel exceeds certain thresholds, an incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of gross revenues associated with each hotel managed for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotels. For the three and nine months ended September 30, 2015 and 2014, base management fees incurred totaled $3,710 and $3,271 and $10,086 and $8,998, respectively, and are recorded as Hotel Operating Expenses. For the three and nine months ended September 30, 2015 and 2014, 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, 2015 and 2014 were $7,528 and $7,041 and $20,760 and $19,033, 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, 2015 and 2014, the Company incurred accounting fees of $379 and $354 and $1,100, and $1,056, respectively. For the three and nine months ended September 30, 2015 and 2014, the Company incurred information technology fees of $114 and $104 and $326 and $312, 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, 2015 and 2014, we incurred fees of $224 and $119 and $607 and $565, 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, 2015 and 2014, we incurred charges for hotel supplies of $49, $57, $142 and $166, respectively. For the three and nine months ended September 30, 2015 and 2014, we incurred charges for capital expenditure purchases of $820 and $2,818 and $3,614 and $8,342, 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 $1 and $2 is included in accounts payable at September 30, 2015 and December 31, 2014, respectively.

Due From Related Parties

The due from related parties balance as of September 30, 2015 and December 31, 2014 was approximately $6,456 and $6,580, respectively. The balances primarily consisted of working capital deposits made to HHMLP and related party service providers..

Due to Related Parties

The balance due to related parties as of September 30, 2015 and December 31, 2014 was approximately $6,594 and $7,203, respectively. The balances consisted of amounts payable to HHMLP and related party service providers for administrative, management, and benefit related fees.

Hotel Ground Rent

For the three and nine months ended September 30, 2015 and 2014, we incurred $768 and $710 and $2,223 and $1,715, respectively, of rent expense payable pursuant to ground leases related to certain hotel properties.

Contingent Liability

The purchase agreement for the acquisition of the Parrot Key Resort in Key West, FL, which we acquired in the second quarter of 2014, contained a provision that entitled the seller to additional consideration of $2,000 contingent upon the hotel achieving certain net operating income thresholds within twelve months of acquisition. At the time of acquisition, no liability was recorded as the fair market value of the contingent consideration was determined to be $0. Upon remeasurement at the twelve months after acquisition, it was determined that the hotel achieved a net operating income within the agreed upon threshold and the liability of the contingent consideration was determined to be $2,000; and thus was paid to the seller in June 2015.

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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, 2015, 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, 2015 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

| | | | | | | | Estimated Fair Value | |
|---|---|---|---|---|---|---|---|---|
| Hedged Debt | Type | Strike Rate | Index | Effective Date | Maturity Date | Notional Amount | September 30, 2015 | December 31, 2014 |
| Capitol Hill Hotel, Washington, DC* | Swap | 0.540% | 1-Month LIBOR + 3.25% | February 1, 2012 | February 1, 2015 | $ - | $ - | $ (8) |
| Hilton Garden Inn 52nd Street, New York, NY | Cap | 1.100% | 1-Month LIBOR + 2.90% | May 27, 2014 | June 1, 2015 | 45,000 | - | - |
| Courtyard, LA Westside, Culver City, LA | Swap | 1.097% | 1-Month LIBOR + 3.85% | September 29, 2011 | September 29, 2015 | 28,500 | - | (174) |
| Hyatt, Union Square, New York, NY | Cap | 2.000% | 1-Month LIBOR + 4.19% | April 9, 2013 | April 9, 2016 | 55,000 | - | 9 |
| Courtyard, Miami, FL*** | Swap | 0.820% | 1-Month LIBOR + 3.50% | July 2, 2012 | July 1, 2016 | - | - | (218) |
| Unsecured Term Loan | Swap | 0.545% | 1-Month LIBOR + 2.35% | November 5, 2012 | November 5, 2016 | 100,000 | (137) | 272 |
| | Swap | 0.600% | | | | 50,000 | (99) | 85 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Unsecured Term Loan | | | 1-Month LIBOR + 2.35% | December 18, 2012 | November 5, 2016 | | | |
| Duane Street Hotel, New York, NY | Swap | 0.933% | 1-Month LIBOR + 4.50% | February 1, 2014 | February 1, 2017 | 9,214 | (55) | (29) |
| Hilton Garden Inn 52nd Street, New York, NY | Swap | 1.152% | 1-Month LIBOR + 2.90% | June 1, 2015 | February 21, 2017 | 45,000 | (410) | (149) |
| Hyatt, Union Square, New York, NY** | Cap | 3.000% | 1-Month LIBOR + 2.30% | June 10, 2015 | June 10, 2019 | 55,750 | 145 | - |
| | | | | | | | $ (556) | $ (212) |

*On February 1, 2015, the interest rate swap associated with Capitol Hill Hotel matured, and we refinanced the debt on this property. See “Note 5 – Debt” for more information regarding this refinance.

** On June 10, 2015, we refinanced the debt associated with Hyatt Union Square. As a result, we entered into an interest rate cap with a strike rate of 3.000%. The original interest rate cap will mature on April 9, 2016. See “Note 5 – Debt” for more information regarding this refinance.

*** On August 10, 2015, we paid off the debt associated with Courtyard, Miami, FL, and therefore, terminated the interest rate swap associated with the mortgage on this property. As a result of this termination, we expensed $190 in fees. See “Note 5 – Debt” for more information regarding this pay-off.

The fair value of certain swaps and our interest rate caps is included in other assets at September 30, 2015 and December 31, 2014 and the fair value of certain of our interest rate swaps is included in accounts payable, accrued expenses and other liabilities at September 30, 2015 and December 31, 2014.

The net change in fair value of derivative instruments designated as cash flow hedges was a loss of $69 and a gain of $805 for the three months ended September 30, 2015 and 2014, respectively, and a loss of $690 and a gain of $286 for the nine months ended September 30, 2015 and 2014, respectively. These unrealized losses/gains were reflected on our consolidated balance sheet in accumulated other comprehensive loss/gain.

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 $575 and $368,  and $1,286 and $1,141 of net unrealized gains/losses from accumulated other comprehensive income as an increase to interest expense for the three and nine months ended Septeber 30, 2015 and 2014, respectively. For the next twelve months ending September 30, 2016, the Company estimates that an additional $710 will be reclassified as an increase to interest expense.

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

Fair Value of Debt

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy.  As of September 30, 2015, the carrying value and estimated fair value of the Company's debt were $1,090,107 and $1,084,450, respectively.  As of December 31, 2014, the carrying value and estimated fair value of the Company's debt was $918,923 and $916,877, respectively.

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## NOTE 8 – SHARE BASED PAYMENTS

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

### Executives & Employees

#### Annual Long Term Equity Incentive Programs

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

On March 18, 2015, the Compensation Committee approved the 2015 Annual Long Term Equity Incentive Program (“2015 Annual EIP”) for the executive officers, pursuant to which the executive officers are eligible to earn equity awards in the form of stock awards or performance share awards issuable pursuant to the 2012 Plan (“LTIP Units”).  LTIP Units are earned under the 2015 Annual EIP based on achieving a threshold, target or maximum level of performance in the performance of RevPAR growth in certain defined areas.  The Company accounts for these grants as performance awards for which the Company assesses the probable achievement of the performance conditions at the end of each period. As of Sepember 30, 2015, no shares or LTIP Units have been issued in accordance with the 2012 Plan to the executive officers in settlement of 2015 Annual EIP awards.

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

| | | | | Units Vested | | Unearned Compensation | |
|---|---|---|---|---|---|---|---|
| Issuance Date | LTIP Units Issued | Vesting Period | Vesting Schedule | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| March 30, 2015 (2014 Annual EIP) | 128,832 | 3 years | 25%/year (1) | 32,207 | - | $ 1,012 | $ - |
| December 23, 2014 (2013 Annual EIP) (3) | 83,993 | 3 years | 25%/year (1) | 55,994 | 27,998 | 276 | 582 |
| December 23, 2014 (2012 Annual EIP) (3) | 97,381 | 3 years | 25%/year (1) | 146,071 | 48,690 | 77 | 309 |
| December 23, 2014 (3) | 258,899 | 5 years | 33% Year 3, 4, 5 (2) | 86,299 | - | 1,827 | 2,650 |
| | 569,105 | | | 320,571 | 76,688 | $ 3,192 | $ 3,541 |

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

(2) On April 18, 2012, the Company entered into amended and restated employment agreements with the Company's executive officers. To induce the executives to agree to the substantial reduction in benefits upon certain terminations following a change of control as described in the agreements, the Company awarded an aggregate of 258,899 restricted common shares to the executives pursuant to the 2012 Plan, which were subsequently forfeited and replaced with LTIP Units. None of these LTIP Units will vest prior to the third anniversary of the date of issuance. Thereafter, 33.3% of each award of LTIP Units will vest on each of the third, fourth and fifth anniversaries of the date of issuance. Vesting will accelerate upon a change of control or if the relevant executive's employment with the Company were to terminate for any reason other than for cause (as defined in the employment agreements).

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NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

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

Stock based compensation expense related to the Annual Long Term Equity Incentive Program of $1,001 and $1,215 and $3,132 and $2,740 was incurred during the three and nine months ended September 30, 2015 and 2014, respectively. Unearned compensation related to the Annual Long Term Equity Incentive Program as of September 30, 2015 and December 31, 2014 was $3,192 and $3,541, respectively.

Compensation related to the 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 18, 2015, the Compensation Committee approved the 2015 Multi-Year Long Term Equity Incentive Program (“2015 Multi-Year EIP”). The shares or LTIP Units issuable under this program are based on the Company’s achievement of a certain level of (1) absolute total shareholder return (37.50% of the award), (2) relative total shareholder return as compared to the Company’s peer group (37.50% of the award), and (3) relative growth in revenue per available room compared to the Company’s peer group (25% of the award). This program has a three-year performance period which commenced on January 1, 2015 and ends December 31, 2017. As of September 30, 2015, no shares or LTIP Units have been issued to the executive officers in settlement of 2015 Multi-Year EIP awards.

On April 11, 2014, the Compensation Committee approved the 2014 Multi-Year Long Term Equity Incentive Program ("2014 Multi-Year EIP"). The common shares issuable under this program are based on the Company's achievement of a certain level of (1) absolute total shareholder return (37.50% of the award), (2) relative total shareholder return as compared to the Company's peer group (37.50% of the award), and (3) relative growth in revenue per available room compared to the Company's peer group (25% of the award). This program has a three-year performance period which commenced on January 1, 2014 and ends December 31, 2016. As of September 30, 2015, no common shares have been issued to the executive officers in settlement of 2014 Multi-Year EIP awards.

On April 15, 2013, the Compensation Committee approved the 2013 Multi-Year Long Term Equity Incentive Plan ("2013 Multi-Year EIP"). The common shares issuable under this program are based on the Company's achievement of a certain level of (1) absolute total shareholder return (50% of the award), (2) relative total shareholder return as compared to the Company's peer group (25% of the award), and (3) relative growth in revenue per available room compared to the Company's peer group (25% of the award). This program has a three-year performance period which commenced on January 1, 2013 and ends December 31, 2015. As of September 30, 2015, no common shares have been issued to the executive officers in settlement of 2013 Multi-Year EIP awards.

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 $217 and $167 and $601 and $431 was recorded for the three and nine months ended September 30, 2015 and 2014, respectively, for the Multi-Year Long Term Equity Incentive Programs. Unearned compensation related to the multi-year program as of September 30, 2015 and December 31, 2014, respectively, was $1,764 and $1,621.

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NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Restricted Share Awards

In addition to stock based compensation expense related to awards to executives under the Multi-Year and Annual Long Term Equity Incentive Programs, stock based compensation expense related to restricted common shares issued to employees of the Company of $135 and $120 and $330 and $294 was incurred during the three and nine months ended September 30, 2015 and 2014, respectively. Unearned compensation related to the restricted share awards as of September 30, 2015 and December 31, 2014 was $599 and $322, respectively. The following table is a summary of all unvested share awards issued to executives under the 2012 Plan and prior to equity incentive plans:

| | | | | | Shares Vested | | Unearned Compensation | |
|---|---|---|---|---|---|---|---|---|
| Original Issuance Date | Original Shares Issued | Share Price on Date of Grant* | Vesting Period | Vesting Schedule | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| July 14, 2015 | 15,817 | $ 28.09 | 2-4 years | 25-50% /year | - | - | $ 382 | $ - |
| June 1, 2015 | 1,651 | 25.92 | 2 years | 50% /year | - | - | 36 | - |
| March 27, 2015 | 5,208 | 25.88 | 2 years | 50% /year | 600 | - | 66 | - |
| July 15, 2014 | 10,352 | 27.00 | 2 years | 50% /year | 6,069 | 1,532 | 77 | 177 |
| June 23, 2014 | 1,103 | 26.00 | 2 years | 50% /year | 550 | - | 10 | 20 |
| March 24, 2014 | 2,046 | 22.76 | 2 years | 50% /year | 2,046 | 1,023 | - | 10 |
| February 13, 2014 | 462 | 21.76 | 2 years | 50% /year | 462 | 231 | - | 2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| June 28, 2013 | 11,899 | 22.56 | 2-4 years | 25-50% /year | 11,199 | 5,724 | 11 | 69 |
| June 29, 2012 | 13,646 | 21.12 | 2-4 years | 25-50% /year | 12,445 | 11,242 | 17 | 36 |
| June 30, 2011 | 4,423 | 22.28 | 2-4 years | 25-50% /year | 4,423 | 3,451 | - | 8 |
| Total | 66,607 | | | | 37,794 | 23,203 | $ 599 | $ 322 |

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

Trustees

Annual Retainer

The Compensation Committee approved a program that allows the Company’s trustees to make a voluntary election to receive any portion of the annual cash retainer in the form of common equity valued at a 25% premium to the cash that would have been received. On December 30, 2014, we issued 3,215 shares which do not fully vest until December 31, 2015. Compensation expense incurred for the three and nine months ended September 30, 2015 and 2014, respectively, was $23 and $55 and $70 and $165. The following table is a summary of all unvested share awards issued to trustees in lieu of annual cash retainer:

| | | | | | Unearned Compensation | |
|---|---|---|---|---|---|---|
| Original Issuance Date | Shares Issued | Share Price on Date of Grant* | Vesting Period | Vesting Schedule | September 30, 2015 | December 31, 2014 |
| December 30, 2014 | 3,215 | $ 29.00 | 1 year | 100% | $ 23 | $ 93 |

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

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NOTE 8 – SHARE BASED PAYMENTS (CONTINUED)

Multi-Year Long-Term Equity Incentives

Compensation expense for the multi-year long term incentive plans for the Company's trustees incurred for the three and nine months ended September 30, 2015 and 2014, respectively, was $15 and $15 and $45 and $45. Unearned compensation related to the multi-year long term equity incentives was $81 and $127 as of September 30, 2015 and December 31, 2014, respectively.

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

| | | | | Shares Vested | | Unearned Compensation | |
|---|---|---|---|---|---|---|---|
| Original Issuance Date | Shares Issued | Vesting Period | Vesting Schedule | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| December 30, 2014 | 2,500 | 3 years | 33% /year | - | - | $ 54 | $ 73 |
| December 27, 2013 | 3,000 | 3 years | 33% /year | 1,335 | 1,334 | 23 | 38 |
| December 28, 2012 | 3,000 | 3 years | 33% /year | 2,170 | 2,168 | 4 | 16 |
| | | | | 3,505 | 3,502 | $ 81 | $ 127 |

Share Awards

Compensation expense related to share awards issued to the Board of Trustees of $271 and $309 was incurred during the nine months ended September 30, 2015 and 2014, respectively, and is recorded in general and administrative expense on the statement of operations. Share grants issued to the Board of Trustees are immediately vested. On June 1, 2015, an aggregate of 10,442 shares were issued to the Board of Trustees at a price per share on the date of grant of $25.92.

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 $20 and $23 and $156 and $172 for the three and nine months ended September 30, 2015, respectively. Unearned compensation related to the restricted share awards as of September 30, 2015 and December 31, 2014 was $95 and $81, respectively. The following table is a summary of all unvested share awards issued to non-employees under the Company's 2012 Equity Incentive Plan:

| | | | | | Shares Vested | | Unearned Compensation | |
|---|---|---|---|---|---|---|---|---|
| Original Issuance Date | Shares Issued | Share Price on Date of Grant* | Vesting Period | Vesting Schedule | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| March 27, 2015 | 7,438 | $ 25.88 | 2 years | 50% /year | 3,762 | - | $ 95 | $ - |
| March 24, 2014 | 7,219 | $ 22.76 | 2 years | 50% /year | 7,219 | 3,750 | - | 81 |
| Total | 14,657 | | | | 10,981 | 3,750 | $ 95 | $ 81 |

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

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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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| NUMERATOR: | | | | |
| Basic and Diluted* | | | | |
| Income from Continuing Operations | $ 14,403 | $ 7,587 | $ 29,640 | $ 61,217 |
| (Income) Loss from Continuing Operations allocated to Noncontrolling Interests | (244) | 49 | (206) | (1,152) |
| Distributions to Preferred Shareholders | (3,589) | (3,589) | (10,767) | (10,767) |
| Dividends Paid on Unvested Restricted Shares and LTIP Units | (116) | (149) | (369) | (403) |
| Income from Continuing Operations attributable to Common Shareholders | 10,454 | 3,898 | 18,298 | 48,895 |
| | | | | |
| Discontinued Operations | | | | |
| Loss from Discontinued Operations | - | - | - | (1,557) |
| Loss from Discontinued Operations allocated to Noncontrolling Interests | - | - | - | 52 |
| Loss from Discontinued Operations attributable to Common Shareholders | - | - | - | (1,505) |
| | | | | |
| Net Income attributable to Common Shareholders | $ 10,454 | $ 3,898 | $ 18,298 | $ 47,390 |

| | | | | |
|---|---|---|---|---|
| DENOMINATOR: | | | | |
| Weighted average number of common shares - basic | 47,417,452 | 49,649,379 | 48,502,387 | 49,817,680 |
| Effect of dilutive securities: | | | | |
| Restricted Stock Awards and LTIP Units (unvested) | 259,008 | 346,866 | 276,486 | 301,347 |
| Contingently Issued Shares | 233,089 | 159,252 | 256,827 | 157,437 |
| Weighted average number of common shares - diluted | 47,909,549 | 50,155,497 | 49,035,700 | 50,276,464 |

*Income (loss) allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units and vested LTIP Units have been omitted from the denominator for the purpose of computing diluted earnings per share since including these amounts in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income (loss) from continuing operations applicable to common shareholders.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Common Units and Vested LTIP Units | 1,947,536 | 1,728,679 | 1,893,943 | 1,728,679 |
| Total potentially dilutive securities excluded from the denominator | 1,947,536 | 1,728,679 | 1,893,943 | 1,728,679 |

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

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

NOTE 10 – CASH FLOW DISCLOSURES AND NON CASH INVESTING AND FINANCING ACTIVITIES

Interest paid during the nine months ended September 30, 2015 and 2014 totaled $29,976 and $30,538, respectively. The following non-cash investing and financing activities occurred during 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Common Shares issued as part of the Dividend Reinvestment Plan | $ 35 | $ 34 |
| Acquisition of hotel properties: | | |
| Debt assumed, including premium | 28,902 | 24,924 |
| Settlement of development loan receivable principal and accrued interest revenue receivable | - | 22,494 |
| Disposition of hotel properties: | | |
| Debt assumed by purchaser | - | 45,710 |

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014 [UNAUDITED]

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

NOTE 11 – HOTEL DISPOSITIONS

Effective January 1, 2014, we adopted ASU Update No. 2014-08 concerning the classification and reporting of discontinued operations.  This amendment defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. As a result of the adoption of ASU Update No. 2014-08, we anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

For transactions that have been classified as held for sale or as discontinued operations for periods prior to our adoption of ASU Update No. 2014-08, we continued to present the operating results as discontinued operations in the statements of operations for all applicable periods presented.

Disposed Assets

On April 30, 2014, the Company closed on the sale of Hotel 373, New York, NY to an unaffiliated buyer for a total sales price of $37,000 with a gain on sale of approximately $7,227 and reduction of the Company’s mortgage debt by $18,356. This hotel was acquired by the Company in June 2007. The operating results for this hotel are included in income from continuing operations as shown in the consolidated statements of operations for the nine months ended September 30, 2014 as disposition of this hotel does not represent a strategic shift in our business. The operations from this property included income of $17 and a loss of $133 for the nine months ended September 30, 2014, respectively.

On September 20, 2013, the Company entered into a purchase and sale agreement to dispose of a portfolio of 16 non-core hotel properties, for an aggregate purchase price of approximately $217,000. The 16 non-core hotel properties in the portfolio were acquired by the Company between 1999 and 2010. On December 20, 2013, the Company closed on the sale of 12 of these non-core hotel properties and closed on the remaining four properties in February 2014. The operating results for these four assets were reclassified to discontinued operations in the statement

of operations for nine months ended September 30, 2014. As we entered into a purchase and sale agreement for this portfolio prior to the adoption of ASU Update No. 2014-08, we recorded $288 of income for discontinued operations during the nine months ended September 30, 2014. In addition, we recorded an impairment loss of $1,800 in the first quarter of 2014, as the proceeds did not exceed the carrying value for certain of these properties. Lastly, we recorded a loss of $45 during the nine months ended September 30, 2014 in connection with the closing of these four hotels.

As of September 30, 2015 and December 31, 2014, we had no assets or liabilities related to assets held for sale.

The following table sets forth the components of discontinued operations for the nine months ended September 30, 2014. We did not record income or loss from discontinued operations for the three months ended September 30, 2014.

| | | Nine Months Ended September 30, 2014 |
|---|---|---|
| Revenue: | | |
| Hotel Operating Revenues | $ | 1,940 |
| Total Revenues | | 1,940 |
| Expenses: | | |
| Hotel Operating Expenses | | 1,148 |
| Gain on Insurance Settlements | | 74 |
| Real Estate and Personal Property Taxes and Property Insurance | | 91 |
| General and Administrative | | (15) |
| Interest Expense | | 354 |
| Total Expenses | | 1,652 |
| Income from Discontinued Operations | $ | 288 |

We allocate to income or loss from discontinued operations interest expense related to debt that is to be assumed or that is required to be repaid as a result of the disposal transaction.

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Item 2.Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words, “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” a of similar import. Such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this and other reports filed by us with the SEC, including, but not limited to those discussed in the section entitled “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2014, that could cause actual results to differ. Statements regarding the following subjects are forward-looking by their nature:

- our business or investment strategy;
- our projected operating results;
- our distribution policy;
- our liquidity;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on our beliefs, assumptions and expectations, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Readers should not place undue reliance on forward-looking

statements. The following factors could cause actual results to vary from our forward-looking statements:

general volatility of the capital markets and the market price of our common shares;

changes in our business or investment strategy;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in our industry and the market in which we operate, interest rates, or the general economy;

the degree and nature of our competition;

financing risks, including the risk of leverage and the corresponding risk of default on our mortgage loans and other debt and potential inability to refinance or extend the maturity of existing indebtedness;

levels of spending in the business, travel and leisure industries, as well as consumer confidence;

declines in occupancy, average daily rate and RevPAR and other hotel operating metrics;

hostilities, including future terrorist attacks, or fear of hostilities that affect travel;

financial condition of, and our relationships with, our joint venture partners, third-party property managers, franchisors and hospitality joint venture partners;

increased interest rates and operating costs;

ability to complete development and redevelopment projects;

risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;

availability of and our ability to retain qualified personnel;

our failure to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended;

environmental uncertainties and risks related to natural disasters;

changes in real estate and zoning laws and increases in real property tax rates; and

the factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 under the heading “Risk Factors” and in other reports we file with the SEC from time to time.

These factors are not necessarily all of the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors, many of which are beyond our control, also could harm our results, performance or achievements.

All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

## BACKGROUND

As of September 30, 2015, we owned interests in 53 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles and Miami, including 48 wholly-owned hotels and interests in five hotels owned through unconsolidated joint ventures. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of September 30, 2015, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. The TRS directly receives all revenue from, and funds all expenses relating to, hotel operations. The TRS is also subject to income tax on its earnings.

## OVERVIEW

We believe the improvements in our equity and debt capitalization and repositioning of our portfolio better enables us to capitalize on further improvement in lodging fundamentals. During 2015 thus far, we continued to see improvements in ADR, RevPAR and operating margins, led by hotels in most of our major locations. We continue to seek acquisition opportunities in urban centers and central business districts. In addition, we will continue to look for attractive opportunities to divest of properties at favorable prices, potentially redeploying that capital in our focus markets or opportunistically repurchasing our common shares. We do not expect to actively pursue investments in joint ventures in the near term; however, we may seek to buy out, or sell our joint venture interests to select existing joint venture partners.

We expect continued stabilization and improvement in consumer and commercial spending and lodging demand during the second half of 2015. Industry wide occupancy has surpassed peak occupancy from the previous cycle which should allow hotel operators to increase ADR across the United States (“U.S.”). International visitation to the U.S. is expected to grow at a compound annual growth rate of 4.0% through 2019, according to the National Travel and Tourism Office. However, the manner in which the economy will continue to grow, if at all, is not predictable. In addition, the availability of hotel-level financing for the acquisition of new hotels is not within our control. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Factors that might contribute to less-than-anticipated performance include those described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and other documents that we may file with the SEC in the future. We will continue to cautiously monitor lodging demand and rates, our third-party hotel managers, and our performance generally.

SUMMARY OF OPERATING RESULTS

The following table outlines operating results for the Company’s portfolio of wholly owned hotels and those owned through joint venture interests (excluding hotel assets classified as discontinued operations) that are consolidated in our financial statements for the three and nine months ended September 30, 2015 and 2014.

CONSOLIDATED HOTELS:

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Variance | 2015 | 2014 | % Variance |
| Occupancy | 87.4% | 86.2% | 1.2% | 84.8% | 83.1% | 1.7% |
| Average Daily Rate (ADR) | $ 199.45 | $ 189.47 | 5.3% | $ 195.06 | $ 184.21 | 5.9% |
| Revenue Per Available Room (RevPAR) | $ 174.38 | $ 163.35 | 6.8% | $ 165.36 | $ 153.03 | 8.1% |
| Room Revenues | $ 113,645 | $ 103,546 | 9.8% | $ 314,395 | $ 278,163 | 13.0% |
| Total Revenues | $ 124,488 | $ 112,927 | 10.2% | $ 347,176 | $ 304,331 | 14.1% |

RevPAR for the three and nine months ended September 30, 2015 increased 6.8% and 8.1%, respectively, for our consolidated hotels when compared to the same period in 2014. This increase represents a continued growth trend in RevPAR, which is primarily due to the improving economic conditions since September 30, 2014 and the acquisition of hotel properties consummated in 2014 and 2015 that are accretive to RevPAR. The increase, as noted in the table above, was the result of increases in both occupancy and ADR. Contributing to this increase were our Boston, West Coast, and South Florida markets, in which each of these markets posted RevPAR growth in excess of 10.0% versus the same period in 2014.

The following table outlines operating results for hotels we own through an unconsolidated joint venture interest. These operating results reflect 100% of the operating results of the property including our interest and the interests of our joint venture partners and other noncontrolling interest holders.

UNCONSOLIDATED JOINT VENTURES:

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Variance | 2015 | 2014 | % Variance |
| Occupancy | 70.2% | 73.4% | -3.2% | 69.6% | 68.0% | 1.6% |
| Average Daily Rate (ADR) | $ 181.78 | $ 170.44 | 6.7% | $ 171.69 | $ 163.43 | 5.1% |
| Revenue Per Available Room (RevPAR) | $ 127.59 | $ 125.05 | 2.0% | $ 119.58 | $ 111.13 | 7.6% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Room Revenues | $ 16,069 | $ 16,952 | -5.2% | $ 44,690 | $ 45,489 | -1.8% |
| Total Revenues | $ 20,980 | $ 21,812 | -3.8% | $ 60,800 | $ 61,021 | -0.4% |

For our unconsolidated joint venture hotels, RevPAR increased 2.0% and 7.6% for the three and nine months ended September 30, 2015, respectively. Results for the three and nine months ended September 30, 2015 versus 2014 reflect the overall condition of the market in which our unconsolidated joint venture hotels operate, particularly Boston, where in particular our Holiday Inn Express, South Boston owned through a joint venture posted RevPAR growth of 10.6% and 14.8% for the three and nine months ended September 30, 2015 versus 2014. In addition, the Courtyard Norwich, CT is included in the results for the three and nine months ended September 30, 2014 but not included in the results for the three and nine months ended September 30, 2015 as the owner of the property, Mystic Partners, LLC, transferred the title of the property to the lender during the fourth quarter of 2014. This property had occupancy of 70.4%, ADR of $103.67 and RevPAR of $73.00 for the three months ended September 30, 2014, and occupancy of 61.2%, ADR of $104.43 and RevPAR of $63.94 for the nine months ended September 30, 2014 which was the lowest operating statistics for the Mystic Partners, LLC portfolio.

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We define a same store consolidated hotel as one that is currently consolidated, that we have owned in whole or in part for the entirety of the periods being presented, and is deemed fully operational. Based on this definition, for the three and nine months ended September 30, 2015 and 2014 there are 43 and 42 same store hotels, respectively. The following table outlines operating results for the three and nine months ended September 30, 2015 and 2014, for our same store consolidated hotels:

| SAME STORE CONSOLIDATED HOTELS: | (includes 43 hotels in both years) Three Months Ended September 30 | | | (includes 42 hotels in both years) Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Variance | 2015 | 2014 | % Variance |
| Occupancy | 87.6% | 86.2% | 1.4% | 84.3% | 82.7% | 1.6% |
| Average Daily Rate (ADR) | $ 200.17 | $ 189.47 | 5.6% | $ 191.36 | $ 182.05 | 5.1% |
| Revenue Per Available Room (RevPAR) | $ 175.31 | $ 163.35 | 7.3% | $ 161.38 | $ 150.57 | 7.2% |
| Room Revenues | $ 111,140 | $ 103,546 | 7.3% | $ 279,050 | $ 260,157 | 7.3% |
| Total Revenues | $ 121,527 | $ 112,893 | 7.6% | $ 308,014 | $ 284,315 | 8.3% |

Driven by strong performance in our Boston, West Coast, South Florida and Philadelphia markets, RevPAR for our same store consolidated hotels increased 7.3% and 7.2% during the three and nine months ended September 30, 2015, respectively, when compared to the same period in 2014.

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(dollars in thousands, except ADR, RevPAR, and per share data)

Revenue

Our total revenues for the three months ended September 30, 2015 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 100% of total revenues for the three months ended September 30, 2015 and 2014. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenues increased $11,561, or 10.2%, to $124,488 for the three months ended September 30, 2015 compared to $112,927 for the same period in 2014. This increase in hotel operating revenues was primarily attributable to the acquisition of hotel properties consummated during or subsequent to the nine months ended

September 30, 2014 and the continued growth and stabilization of our existing assets.

Since September 30, 2014, we have acquired interests in two consolidated hotels. These hotels contributed the following operating revenues for the three months ended September 30, 2015.

| Brand | Location | Acquisition Date | Rooms | | Three Months Ended September 30, 2015 |
|---|---|---|---|---|---|
| St. Gregory Hotel | Washington, DC | June 16, 2015 | 155 | $ | 2,342 |
| TownePlace Suites | Sunnyvale, CA | August 25, 2015 | 94 | | 560 |
| | | | 249 | $ | 2,902 |

Expenses

Total hotel operating expenses increased 9.4% to approximately $66,373 for the three months ended September 30, 2015 from $60,648 for the three months ended September 30, 2014. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since September 30, 2014, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 1.3%, or $249, to $18,814 for the three months ended September 30, 2015 from $18,565 for the three months ended September 30, 2014. Real estate and personal property tax and property insurance increased $1,065 or 13.3%, for the three months ended September 30, 2015 when compared to the same period in 2014. This increase is due to our acquisitions consummated since September 30, as well as an overall increase in tax assessments and tax rates as the economy improves, but was partially offset by reductions resulting from our rigorous management of this expense.

General and administrative expense decreased 15.4% by approximately $874 from $5,670 in the three months ended September 30, 2014 to $4,796 for the same period in 2015. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Expense related to share based compensation decreased $184 when comparing the three months ended September 30, 2015 to the same period in 2014. This decrease in share based compensation expense is primarily related to the expense accrual recorded during the three months ended September 30, 2015 related to the 2015 Annual-Year EIP as compared to the expense accrual recorded during the three months ended September 30, 2014 related to the 2014 Annual Year EIP. Please refer to "Note 8 – Share Based Payments" of the notes to the consolidated financial statements for more information about our stock based compensation.

Amounts recorded on our consolidated statement of operations for acquisition and terminated transaction costs will fluctuate from period to period based on our acquisition activities. Acquisition and terminated transaction costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Acquisition and terminated transaction costs decreased $192 from $338 for the three months ended September 30, 2014 to $146 for the same period in 2015. The costs incurred in 2014 were primarily related to our acquisition of the Hilton Garden Inn 52nd Street in New York, NY and Parrot Key Resort in Key West, FL, while the costs incurred in 2015 primarily related to our acquisitions of St. Gregory Hotel in Washington, DC and TownePlace Suites in Sunnyvale, CA. Also included in acquisition and terminated transactions costs are charges related to transactions that were terminated during the period.

Operating Income

Operating income for the three months ended September 30, 2015 was $24,519 compared to operating income of $18,012 during the same period in 2014. Operating income was positively impacted by the improved operating results of our hotels as discussed above.

Interest Expense

Interest expense decreased $389 from $11,456 for the three months ended September 30, 2014 to $11,067 for the three months ended September 30, 2015. While our borrowings have increased in total since September 30, 2014, we have repaid several secured mortgage indebtedness with draws from our unsecured $250,000 revolving line of credit and $300,000 unsecured term loan, which bears a lower interest rate than the debt which was repaid.

Unconsolidated Joint Venture Investments

The income from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures increased by $1 to $608 for the three months ended September 30, 2015 compared to income of $607 during the same period in 2014.

Income Tax Benefit

During the three months ended September 30, 2015, the Company recorded an income tax benefit of $631 compared to an income tax benefit of $699 for the three months ended September 30, 2014.

Net Income Applicable to Common Shareholders

Net income applicable to common shareholders for the three months ended September 30, 2015 was $10,570 compared to income of $4,047 during the same period in 2014. Net income applicable to common shareholders increased by approximately $6,523 for the three months ended September 30, 2015 as compared the same period in 2014. This increase was primarily attributable to acquisitions consummating during 2015 and improved operating results of our remaining portfolio.

Comprehensive income Attributable to Common Shareholders

Comprehensive income attributable to common shareholders for the three months ended September 30, 2015 was $10,501 compared to comprehensive income of $4,852 for the same period in 2014. For the three months ended September 30, 2015, we recorded other comprehensive loss of $69 compared to $805 of other comprehensive income for the three months ended September 30, 2014. The decrease in other comprehensive income was primarily due to the decrease in fair value of our interest rate swaps and caps used as cash flow hedges. The decrease in fair value of these instruments is attributed to changes in the forecasted LIBOR rates from period to period, as interest rates continue to be forecasted at historic lows.

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COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(dollars in thousands, except ADR, RevPAR, and per share data)

Revenue

Our total revenues for the nine months ended September 30, 2015 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 100% of total revenues for the nine months ended September 30, 2015 and 2014. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenues increased $42,845, or 14.1%, to $347,176 for the nine months ended September 30, 2015 compared to $304,331 for the same period in 2014. This increase in hotel operating revenues was primarily attributable to the acquisition of hotel properties consummated during or subsequent to the nine months ended September 30, 2014 and the continued growth and stabilization of our existing assets.

Since September 30, 2014, we have acquired interests in two consolidated hotels. These hotels contributed the following operating revenues for the nine months ended September 30, 2015.

| Brand | Location | Acquisition Date | Rooms | | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|---|
| St. Gregory Hotel | Washington, DC | June 16, 2015 | 155 | $ | 2,838 |
| TownePlace Suites | Sunnyvale, CA | August 25, 2015 | 94 | | 559 |
| | | | 249 | $ | 3,397 |

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the nine months ended September 30, 2015 included revenues for a full nine months related to the four hotels that were purchased or opened during the nine months ended September 30, 2014. We acquired interests in the following three consolidated hotels and opened the Hampton Inn Pearl Street during the nine months ended September 30, 2014:

| Brand | Location | Acquisition Date | Rooms | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|---|---|---|
| Hotel Milo | Santa Barbara, CA | February 28, 2014 | 122 | $ 7,303 | $ 6,576 |
| Parrot Key Resort | Key West, FL | May 7, 2014 | 148 | 11,363 | 5,411 |
| Hilton Garden Inn 52nd Street | New York, NY | May 30, 2014* | 205 | 12,857 | 5,430 |
| Hampton Inn Pearl Street | New York, NY | June 23, 2014* | 81 | 4,048 | 1,372 |
| | | | 556 | $ 35,571 | $ 18,789 |

*Date the hotel began operations.

Expenses

Total hotel operating expenses increased 12.9% to approximately $187,862 for the nine months ended September 30, 2015 from $166,372 for the nine months ended September 30, 2014. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since January 1, 2014, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 5.8%, or $3,030, to $55,395 for the nine months ended September 30, 2015 from $52,365 for the nine months ended September 30, 2014. Real estate and personal property tax and property insurance increased $3,571 or 16.2%, for the nine months ended September 30, 2015 when compared to the same period in 2014. This increase is due to our acquisitions since September 30, 2014 as well as an overall increase in tax assessments and tax rates as the economy improves, but was partially offset by reductions resulting from our rigorous management of this expense.

General and administrative expense increased 1.8% by approximately $256 from $14,310 in the nine months ended September 30, 2014 to $14,566 for the same period in 2015. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company’s trustees, executives, and employees. Expense related to share based compensation increased $449 when comparing the nine months ended September 30, 2015 to the same period in 2014. This increase in share based compensation expense is due primarily related to the larger number of share awards issued under the 2014 Annual EIP for the nine months ended September 30, 2015 compared to the number of share awards issued under the 2013 Annual EIP during the nine months ended September 30, 2014. Please refer to “Note 8 – Share Based Payments” of the notes to the consolidated financial statements for more information about our stock based compensation.

Amounts recorded on our consolidated statement of operations for acquisition and terminated transaction costs will fluctuate from period to period based on our acquisition activities. Acquisition and terminated transaction costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Acquisition and terminated transaction costs decreased $1,690 from $2,144 for the nine months ended September 30, 2014 to $454 for the same period in 2015. The costs incurred in 2014 were primarily related to our acquisition of the Hotel Milo in Santa Barbara, CA, Hilton Garden Inn 52nd Street in New York, NY and Parrot Key Resort in Key West, FL, while the costs incurred in 2015 primarily related to our acquisitions of St. Gregory Hotel in Washington, DC and TownePlace Suites in Sunnyvale, CA. Also included in acquisition and terminated transactions costs are charges related to transactions that were terminated during the period.

Operating Income

Operating income for the nine months ended September 30, 2015 was $61,166 compared to operating income of $49,156 during the same period in 2014. Operating income was positively impacted by the improved operating results of our hotels as discussed above. Offsetting this increase was insurance recoveries of approximately $4,602 recognized during the nine months ended September 30, 2014 related to the settlement of insurance claims from Hurricane Sandy. A similar event did not occur during the nine months ended September 30, 2015.

Interest Expense

Interest expense increased $141 from $32,249 for the nine months ended September 30, 2014 to $32,390 for the nine months ended September 30, 2015. Our borrowings have increased in total since January 1, 2014, largely in part because of increased borrowings drawn on our unsecured credit facility and unsecured term loan. However, these borrowings were used to repay several secured mortgage indebtedness in the nine months ended September 30, 2015. The borrowings on our unsecured credit facility and unsecured term loan bear interest at a lower interest rate than the mortgage loans in which the proceeds were used to repay, thereby compressing the increase in interest expense for the nine months ended September 30, 2015 as compared to the same period in 2014. During 2014, we entered into a new credit facility which allowed for an additional $100,000 in unsecured term loan, which we drew during the second quarter of 2014. On August 10, 2015, we entered into a $300,000 senior unsecured term loan with Citigroup Global Markets Inc. and various other lenders, from which we drew $210,000 at closing. Subsequent to this closing, we drew an additional $35,000 prior to September 30, 2015.

Gain on Disposition of Hotel Properties

During the nine months ended September 30, 2014, the Company recorded a gain of $7,184 related to its sale of Hotel 373 in Manhattan.

Gain on Hotel Acquisitions, net

During the nine months ended September 30, 2014, the Company recorded a gain of $13,594 related primarily to its purchase of the Hilton Garden Inn on 52nd Street in Manhattan as the purchase price of the asset was less than the appraised fair value as of the closing date.

Development Loan Recovery

Consideration given in exchange for the Hilton Garden Inn 52nd Street included cash to the seller and our reinstatement and cancellation of a development loan receivable in the original principal amount of $10,000 and $12,494 of accrued interest and late fees. This development loan receivable had previously been fully impaired in 2009, but was recovered as part of this acquisition. As a result, we recognized a gain of $22,494 on the recovery of the previously impaired development loan.

Unconsolidated Joint Venture Investments

The income from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures increased by $254 to $860 for the nine months ended September 30, 2015 compared to an income of $606 during the same period in 2014, driven by improvements in the markets of the hotels owned by our unconsolidated joint venture investments, particularly the Boston market where two of these hotels are located.

Income Tax Benefit

During the nine months ended September 30, 2015, the Company recorded an income tax benefit of $740 compared to an income tax benefit of $806 for the nine months ended September 30, 2014.

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Discontinued Operations

Effective January 1, 2014, we adopted ASU Update No. 2014-08 concerning the classification and reporting of discontinued operations. This amendment defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of the adoption of ASU Update No. 2014-08, we anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

For the nine months ended September 30, 2014, we recorded a loss of $45 in connection with the closing of four hotels which were part of a portfolio of 16 non-core hotels. As we entered into a purchase and sale agreement for this portfolio prior to the adoption of ASU Update No. 2014-08, we recorded $288 of income for discontinued operations during the nine months ended September 30, 2014. In addition, we recorded an impairment loss of $1,800 in the first quarter of 2014, as the proceeds did not exceed the carrying value for certain of these properties.

Net Income Applicable to Common Shareholders

Net income applicable to common shareholders for the nine months ended September 30, 2015 was $18,667 compared to income of $47,793 during the same period in 2014. Excluding the one-time gains discussed above which occurred during the nine months ended September 30, 2014, net income applicable to common shareholders increased by approximately $18,748 for the nine months ended September 30, 2015 as compared the same period in 2014. This increase was primarily attributable to acquisitions consummating during the nine months ended September 30, 2014 and improved operating results of our remaining portfolio.

Comprehensive Income Attributable to Common Shareholders

Comprehensive income attributable to common shareholders for the nine months ended September 30, 2015 was $17,977 compared to comprehensive income of $48,079 for the same period in 2014. This amount was primarily attributable to net income offset by one-time gains as more fully described above. For the nine months ended September 30, 2015, we recorded other comprehensive loss of $690 compared to $286 of other comprehensive income for the nine months ended September 30, 2014. The decrease in other comprehensive income was primarily due to the decrease in fair value of our interest rate swaps and caps used as cash flow hedges. The decrease in fair value of these instruments is attributed to changes in the forecasted LIBOR rates from period to period, as interest rates continue to be forecasted at historic lows.

LIQUIDITY, CAPITAL RESOURCES, AND EQUITY OFFERINGS

(dollars in thousands, except per share data)

Potential Sources of Capital

Our organizational documents do not limit the amount of indebtedness that we may incur. Our ability to incur additional debt is dependent upon a number of factors, including the current state of the overall credit markets, our degree of leverage and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, capital market volatility, risk tolerance of investors, general market conditions for REITs and market perceptions related to the Company's ability to generate cash flow and positive returns on its investments.

In addition, our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, nonrecourse financing arrangements. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that certain debt service coverage ratio covenants contained in the loan agreements securing a number of our hotel properties were not met as of September 30, 2015. Pursuant to the loan agreements, certain lenders have elected to escrow the operating cash flow for these properties. However, these covenants do not constitute an event of default for these loans. Future deterioration in market conditions could cause restrictions in our access to the cash flow of additional properties.

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We maintain a senior unsecured credit agreement with Citigroup Global Markets Inc. and various other lenders. The credit agreement provides for a $500,000 senior unsecured credit facility consisting of a $250,000 senior unsecured revolving line of credit and a $250,000 senior unsecured term loan. This new facility amended and restated the existing $400,000 senior secured credit facility. The $500,000 unsecured credit facility expires on February 28, 2018 and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one-year period. The credit facility is also expandable to $850,000 at our request, subject to the satisfaction of certain conditions.  On August 10, 2015, we entered into a $300,000 senior unsecured term loan agreement with Citigroup Global Markets Inc. and various other lenders. At the time of the closing, we advanced $210,000 as a single draw and have, subject to operating and borrowing base limitations, the ability to draw the remaining $90,000 over the following 360 days.  This new term loan expands our senior unsecured borrowing capacity from $500,000 to $800,000.

As of September 30, 2015, the outstanding unsecured term loan balance under the $500,000 senior unsecured credit facility was $250,000 and we had no outstanding borrowings under the $250,000 revolving line of credit.  As of September 30, 2015, the outstanding unsecured term loan balance under the $300,000 unsecured term loan was $245,000.  As of September 30, 2015, our remaining borrowing capacity under the $500,000 unsecured credit facility's revolving line of credit was $245,745, and our remaining borrowing capacity under the $300,000 unsecured term loan was $55,000, which is based on certain operating metrics of unencumbered hotel properties designated as borrowing base assets. As of October 28, 2015, we had drawn $260,000 on the unsecured $300,000 term loan.  We intend to repay indebtedness incurred under the $500,000 unsecured credit facility and the $300,000 unsecured term loan from time to time, for acquisitions or otherwise, out of cash flow and from the proceeds of issuances of additional common and preferred shares and potentially other securities.

We will continue to monitor our debt maturities to manage our liquidity needs. However, no assurances can be given that we will be successful in refinancing all or a portion of our future debt obligations due to factors beyond our control or that, if refinanced, the terms of such debt will not vary from the existing terms. As of September 30, 2015, we have $1,595 of indebtedness maturing on or before December 31, 2015. We currently expect that cash requirements for all debt that is not refinanced by our existing lenders for which the maturity date is not extended will be met through a combination of cash on hand, refinancing the existing debt with new lenders, draws on the $250,000 revolving line of credit portion of our $500,000 credit facility and the issuance of our securities.

Common Share Repurchase Plan

In February 2015, our Board of Trustees authorized us to repurchase from time to time up to an aggregate of $100,000 of our outstanding common shares.  For the nine months ended September 30, 2015, the Company repurchased 3,420,938 common shares for an aggregate purchase price of $85,317. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In October 2015, our Board of Trustees authorized us to repurchase from time to time up to an aggregate of $100,000 of our outstanding common shares. This new program is in addition to the existing $100,000 program authorized in February 2015 and will commence upon completion of the existing $100,000 common share repurchase program, and will expire on December 31, 2016. As of October 28, 2015, we have not repurchased any common shares pursuant to the new program, as our existing repurchase program is still in effect.

Acquisitions

During the nine months ended September 30, 2015, we acquired the following wholly-owned hotel properties:

| Hotel | Acquisition Date | Land | Buildings and Improvements | Furniture Fixtures and Equipment | Other Intangibles | | Loan Costs | Total Purchase Price | Assumpt of Debt |
|---|---|---|---|---|---|---|---|---|---|
| St. Gregory Hotel, Washington, DC | 6/16/2015 | $ 23,764 | $ 33,005 | $ 3,240 | $ 45 | | $ 978 | $ 61,032 | $ 28,902 |
| TownePlace Suites, Sunnyvale, CA | 8/25/2015 | $ - | $ 18,999 | $ 2,348 | $ 6,453 | ** | $ - | $ 27,800 | $ - |
| TOTAL | | $ 23,764 | $ 52,004 | $ 5,588 | $ 6,498 | | $ 978 | $ 88,832 | $ 28,902 |

*Includes a $3,050 premium as we determined that the stated rate of interest on the assumed mortgage debt was above market.

**Acquired ground lease asset of $6,353 with purchase of the property.

We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in hotels will depend upon and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of common or preferred shares, proceeds from the sale of assets, issuances of Common Units, issuances of preferred units or other securities or borrowings secured by hotel assets and under our credit facility.

Operating Liquidity and Capital Expenditures

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under the $250,000 unsecured revolving line of credit portion of our $500,000 unsecured credit facility. We believe that the net cash provided by operations in the coming year and borrowings drawn on the $250,000 revolving line of credit portion of our $500,000 unsecured credit facility will be adequate to fund the Company’s operating requirements, monthly recurring debt service and the payment of dividends in accordance with REIT requirements of the Internal Revenue Code of 1986, as amended.

To qualify as a REIT, we must distribute annually at least 90% of our taxable income. This distribution requirement limits our ability to retain earnings and requires us to raise additional capital in order to grow our business and acquire additional hotel properties. However, there is no assurance that we will be able to borrow funds or raise additional equity capital on terms acceptable to us, if at all. In addition, we cannot guarantee that we will continue to make distributions to our shareholders at the current rate or at all. Due to the seasonality of our business, cash provided by operating activities fluctuates significantly from quarter to quarter. However, we believe that, based on our current estimates, which include the addition of cash from operations provided by hotels acquired during 2015, our cash provided by operating activities will be sufficient over the next 12 months to fund the payment of our dividend at its current level. However, our Board of Trustees continues to evaluate the dividend policy in the context of our overall liquidity and market conditions and may elect to reduce or suspend these distributions. Net cash provided by operating activities for the nine months ended September 30, 2015 was $87,387 and cash used for the payment of distributions and dividends for the nine months ended September 30, 2015 was $53,733.

We also project that our operating cash flow and available borrowings under the $250,000 revolving line of credit portion of our $500,000 unsecured credit facility will be sufficient to satisfy our liquidity and other capital needs over the next twelve to eighteen months. In addition, based on the borrowing base and other limitations in place as of October 28, 2015, we believe the remaining $55,000 under the $300,000 unsecured term loan will continue to be available on a delayed draw basis up to August 2016.

Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovation and other non-recurring capital expenditures that need to be made periodically with respect to hotel properties and scheduled debt repayments. We will seek to satisfy these long-term liquidity requirements through various sources of

capital, including borrowings under the $250,000 revolving line of credit portion of our $500,000 unsecured credit facility and through secured, non-recourse mortgage financings with respect to our unencumbered hotel properties. In addition, we may seek to raise capital through public or private offerings of our securities. Certain factors may have a material adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties and borrowing restrictions imposed by lenders or franchisors. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but financing may not be consistently available to us on terms that are attractive, or at all.

Spending on capital improvements during the nine months ended September 30, 2015 decreased when compared to spending on capital improvements during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we spent $18,841 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to $29,297 during the same period in 2014. These capital expenditures were undertaken to comply with brand mandated improvements and to initiate projects that we believe will generate a return on investment to take advantage of the continuing recovery in the lodging sector.

In addition to capital reserves required under certain loan agreements and capital expenditures to renovate, improve or replace assets at our hotels, we have opportunistically engaged in hotel development projects. During the nine months ended September 30, 2015, we spent $420 on hotel development projects compared to $3,375 during the same period of 2014. Costs incurred during the nine months ended September 30, 2014 related to the tower construction at Courtyard Miami Beach and re-development project at Hampton Inn Pearl Street hotels, both of which were completed in 2014. While the tower at Courtyard Miami Beach and Hampton Inn Pearl Street opened during 2014, it is customary to continue to expend funds for a period of time after the project is deemed complete due to timing of billing. Projects such as these require significant capital, which we expect to fund with various sources of capital, including available borrowings under the $250,000 revolving line of credit portion of our $500,000 senior unsecured credit facility and through secured, non-recourse mortgage financings. In addition, we may seek to raise capital through public or private offerings of our securities to fund these capital improvements.

We may spend additional amounts, if necessary, to comply with the reasonable requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be in our best interests. We are also obligated to fund the cost of certain capital improvements to our hotels. We expect to use operating cash flow, borrowings under the $250,000 revolving line of credit portion of our credit facility, and proceeds from issuances of our securities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above.

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CASH FLOW ANALYSIS

(dollars in thousands, except per share data)

Comparison of the Nine Months Ended September 30, 2015 and 2014

Net cash provided by operating activities increased $8,884 from $78,503 for the nine months ended September 30, 2014 to $87,387 for the comparable period in 2015. Net income, adjusted for non-cash items reflected in the statement of cash flows for the nine months ended September 30, 2015 and 2014, improved by $13,148 for the nine months ended September 30, 2015 when compared to 2014. Further, a net decrease in working capital assets provided additional cash from operating activities.

Net cash used in investing activities for the nine months ended September 30, 2015 decreased $91,594, from $172,594 for the nine months ended September 30, 2014 compared to $81,000 for 2015. During the nine months ended September 30, 2014, we acquired three hotels and completed one development project as compared to the acquisition of two hotels during the nine months ended September 30, 2015. During the nine months ended September 30, 2014 we received $30,128 in proceeds from the disposition of properties, compared to the nine months ended September 30, 2015 where we did not have a disposition.

Net cash provided by financing activities for the nine months ended September 30, 2015 was $1,242 compared to net cash used in financing activities for the nine months ended September 30, 2014 of $95,746. This is primarily due to an increase of $118,000 in net proceeds under our unsecured term loans for the nine months ended September 30, 2015 as compared to the same period in 2014. In addition, net payments from mortgages and notes payable were $137,659 higher during the nine months ended September 30, 2015, when compared to the same period in 2014. During the nine months ended September 30, 2015, we used $85,317 for the repurchase of common shares, compared to $15,284 used in the nine months ended September 30, 2014. Offsetting these net uses of cash were dividends and distributions payable which increased $5,470 during the nine months ended September 30, 2015, compared to 2014, due to the increase in our dividend paid on common shares which increased from $.76 to $.84 per share. This was partially offset by the reduction of dividends paid on common shares due to our common share repurchases.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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FUNDS FROM OPERATIONS

(in thousands, except share data)

The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Common Units in accordance with the April 2002 National Policy Bulletin of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated assets, plus certain non-cash items, such as loss from impairment of assets and depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our interpretation of the NAREIT definition is that noncontrolling interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shareholders, includes loss from the impairment of certain depreciable assets, our investment in unconsolidated joint ventures and land, depreciation and amortization expenses, gains or losses on property sales, noncontrolling interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations. We determined that the loss from the impairment of certain depreciable assets including investments in unconsolidated joint ventures and land, was driven by a measurable decrease in the fair value of certain hotel properties and other assets as determined by our analysis of those assets in accordance with applicable GAAP. As such, these impairments have been eliminated from net loss to determine FFO.

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Common Units because our Common Units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Common Units.

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The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods (dollars in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net income applicable to common shareholders | $ 10,570 | $ 4,047 | $ 18,667 | $ 47,793 |
| Income (loss) allocated to noncontrolling interest | 244 | (49) | 206 | 1,100 |
| (Income) loss from unconsolidated joint ventures | (608) | (607) | (860) | (606) |
| Gain on hotel acquisition | - | - | - | (13,594) |
| Development loan recovery | - | - | - | (22,494) |
| Gain on disposition of hotel properties | - | - | - | (7,139) |
| Loss from impairment of depreciable assets | - | - | - | 1,800 |
| Depreciation and amortization | 18,814 | 18,565 | 55,395 | 52,365 |
| Funds from consolidated hotel operations applicable to common shareholders and Common Units | 29,020 | 21,956 | 73,408 | 59,225 |
| | | | | |
| Income (loss) from unconsolidated joint ventures | 608 | 607 | 860 | 606 |
| Depreciation and amortization of purchase price in excess of historical cost (1) | 119 | 132 | 360 | 427 |
| Interest in depreciation and amortization of unconsolidated joint ventures (2) | 1,022 | 1,797 | 3,795 | 4,304 |
| Funds from unconsolidated joint ventures operations applicable to common shareholders and Common Units | 1,749 | 2,536 | 5,015 | 5,337 |
| | | | | |
| Funds from Operations applicable to common shareholders and Common Units | $ 30,769 | $ 24,492 | $ 78,423 | $ 64,562 |
| | | | | |
| Weighted Average Common Shares and Common Units | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | 47,417,452 | 49,649,379 | 48,502,387 | 49,817,680 |
| Diluted | 49,857,085 | 51,884,176 | 50,929,643 | 52,005,143 |

(1)Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.

(2)Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures. Allocation of depreciation and amortization is consistent with allocation of income and loss.

Certain amounts related to depreciation and amortization and depreciation and amortization from discontinued operations in the prior year FFO reconciliation have been recast to conform to the current year presentation. In addition, based on guidance provided by NAREIT, we have eliminated loss from the impairment of certain depreciable assets, including investments in unconsolidated joint ventures and land, from net loss to arrive at FFO in each year presented.

INFLATION

Operators of hotel properties, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2015 and 2014 and none of the estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods. See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014 for a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements.

Investment in Hotel Properties

Investments in hotel properties are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of up to 40 years for buildings and improvements, two to seven years for furniture, fixtures and equipment. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in hotel properties. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in hotel properties we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Most identifiable assets, liabilities, noncontrolling interests, and goodwill related to hotel properties acquired in a business combination are recorded at full fair value. Estimating techniques and assumptions used in determining fair values involve significant estimates and judgments. These estimates and judgments have a direct impact on the carrying value of our assets and liabilities which can directly impact the amount of depreciation expense recorded on an annual basis and could have an impact on our assessment of potential impairment of our investment in hotel properties.

The operations related to properties that have been sold are presented as discontinued operations in the statement of operations for all periods presented, and properties intended to be sold are designated as “held for sale” on the balance sheet.

Based on the occurrence of certain events or changes in circumstances, we review the recoverability of the property’s carrying value. Such events or changes in circumstances include the following:

·a significant decrease in the market price of a long-lived asset;

·a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;

·a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;

·an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;

·a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; and

·a current expectation that, it is more likely than not that, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We review our portfolio on an on-going basis to evaluate the existence of any of the aforementioned events or changes in circumstances that would require us to test for recoverability. In general, our review of recoverability is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value expected, as well as the effects of hotel demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in hotel properties.

As of September 30, 2015, based on our analysis, we have determined that the future cash flow of each of the properties in our portfolio is sufficient to recover its carrying value.

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Investment in Joint Ventures

Properties owned in joint ventures are 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 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 VIE 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. This evaluation requires significant judgment.

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to nominal ownership percentages due to specified preferred return rate thresholds.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances exist indicating impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. Subsequent changes in estimates could impact the determination of whether impairment exists. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.  The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective.  The new standard is effective for the Company on January 1, 2018.  Early adoption is permitted, but not prior to the original effective date of January 1, 2017.  The standard permits the use of either the retrospective

or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On February 18, 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity (VIE) and voting interest entity (VOE) consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard is effective for the Company on January 1, 2016. The Company does not expect ASU No. 2015-02 to have a significant impact on its consolidated financial statements and related disclosures.

On April 17, 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Currently, debt issuance costs are recorded as an asset and amortization of these deferred financing costs is recorded in interest expense. Under the new standard, debt issuance costs will continued to be amortized over the life of the debt instrument and amortization will continue to be recorded in interest expense. The new standard is effective for the Company on January 1, 2016 and will be applied on a retrospective basis. The Company is currently evaluating ASU 2015-03, and anticipates a change in our presentation only since the standard does not alter the accounting for debt issuance costs.

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## Item 3.Quantitative and Qualitative Disclosures About Market Risk (in thousands, except per share data)

Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of September 30, 2015, we are exposed to interest rate risk with respect to variable rate borrowings under our $500,000 credit facility and $300,000 unsecured term loan and certain variable rate mortgages and notes payable. As of September 30, 2015, we had total variable rate debt outstanding of $523,798 with a weighted average interest rate of 2.55%. The effect of a 100 basis point increase or decrease in the interest rate on our variable rate debt outstanding as of September 30, 2015 would be an increase or decrease in our interest expense for the three and nine months ended September 30, 2015 of $1,168 and $2,850, respectively.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We have also entered into derivative financial instruments such as interest rate swaps or caps, and in the future may enter into treasury options or locks, to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. As of September 30, 2015, we have an interest rate cap related to debt on the Hyatt Union Square, New York, NY, and we have four interest rate swaps related to debt on the Duane Street Hotel, New York, NY, Hilton Garden Inn, 52nd Street, New York, NY and our unsecured credit facility. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

As of September 30, 2015, approximately 57% of our outstanding consolidated long-term indebtedness is subject to fixed rates or effectively capped, while 43% of our outstanding long term indebtedness is subject to floating rates, including borrowings under our revolving credit facility.

Changes in market interest rates on our fixed-rate debt impact the fair value of the debt, but such changes have no impact on interest expense incurred. If interest rates rise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their September 30, 2015 levels, with all other variables held constant. A 100 basis point increase in market interest rates would cause the fair value of our fixed-rate debt outstanding at September 30, 2015 to be approximately $1,071,522 and a 100 basis point decrease in market interest rates would cause the fair value of our fixed-rate debt outstanding at September 30, 2015 to be approximately $1,097,863.

We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. For debt obligations outstanding as of September 30, 2015, the following table presents expected principal repayments and related weighted average interest rates by expected maturity dates:

| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate Debt | $ 1,595 | $ 159,115 | $ 203,487 | $ 822 | $ 150,866 | $ 46,573 | $ 562,458 |
| Weighted Average Interest Rate | 4.87% | 4.31% | 3.51% | 3.51% | 5.39% | 5.39% | 4.50% |
| Floating Rate Debt | $ - | $ - | $ 1,047 | $ 26,073 | $ 200,129 | $ 296,549 | $ 523,798 |
| Weighted Average Interest Rate | 2.54% | 2.54% | 2.54% | 2.55% | 2.57% | 2.57% | 2.55% |
| | $ 1,595 | $ 159,115 | $ 204,534 | $ 26,895 | $ 350,995 | $ 343,122 | $ 1,086,256 |
| Line of Credit Facility | $ - | $ - | $ - | $ 0 | $ - | $ - | $ 0 |
| Weighted Average Interest Rate | - | - | - | 2.64% | - | - | 2.64% |
| | $ 1,595 | $ 159,115 | $ 204,534 | $ 26,895 | $ 350,995 | $ 343,122 | $ 1,086,256 |

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## Item 4.Controls and Procedures

Based on the most recent evaluation, the Company’s Chief Executive Officer and Chief Financial Officer believe the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of September 30, 2015.

There were no changes to the Company’s internal controls over financial reporting during the three months ended September 30, 2015, that materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1.Legal Proceedings.

None.

### Item 1A.Risk Factors.

None.

### Item 2.Unregistered Sales of Equity Securities and Use of Proceeds.

A summary of our common share repurchases (in millions, except average price per share) during the nine months ended September 30, 2015 under the $100 million repurchase program authorized by our Board of Trustees in December 2012 and reauthorized in February 2015 is set forth in the table below. All such common shares were repurchased pursuant to open market transactions.

In October 2015, our Board of Trustees authorized us to repurchase from time to time up to an aggregate of $100,000 of our outstanding common shares. This new program is in addition to the existing $100,000 program authorized in February 2015 and will commence upon completion of the existing $100,000 common share repurchase program, and will expire on December 31, 2016. As of October 28, 2015, we have not repurchased any common shares pursuant to the new program.

In May 2015, our Board of Trustees approved a reverse share split of our issued and outstanding common shares at a ratio of 1-for-4. This reverse share split converted every four issued and outstanding common shares into one common share. The reverse share split was effective as of 5:00 PM Eastern time on June 22, 2015. All common share and per share data shown below have been updated to reflect this share split as if it occurred on January 1, 2015.

Issuer Purchases of Common Stock

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands) |
| --- | --- | --- | --- | --- |
| January 1 to January 31, 2015 | - | N/A | N/A | - |
| February 1 to February 28, 2015 | - | N/A | N/A | - |
| March 1 to March 31, 2015 | 494,441 | $ 25.44 | 494,441 | $ 87,413 |
| April 1 to April 30, 2015 | 160,167 | 25.56 | 654,608 | 83,317 |
| May 1 to May 31, 2015 | 1,002,970 | 25.68 | 1,657,578 | 57,568 |
| June 1 to June 30, 2015 | 306,573 | 25.36 | 1,964,151 | 49,971 |
| July 1 to July 31, 2015 | - | N/A | 1,964,151 | 49,971 |
| August 1 to August 31, 2015 | 643,334 | 24.38 | 2,607,485 | 34,290 |
| September 1 to September 30, 2015 | 813,453 | 23.57 | 3,420,938 | 15,120 |

Item 3.Defaults Upon Senior Securities.

None.

Item 4.Mine Safety Disclosures.

Not Applicable.

Item 5.Other Information.

None.



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Item 6.Exhibits.

| Exhibit No. | |
|---|---|
| 10.1 | Term Loan Agreement, dated as of August 10, 2015, among Hersha Hospitality Limited Partnership, as borrower, Hersha Hospitality Trust, as parent guarantor, the guarantors named therein, as guarantors, the initial lenders named therein, as initial lenders, Citibank, N.A., as administrative agent, Wells Fargo Bank, N.A., as syndication agent, and Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as joint lead arrangers and joint book running managers (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 12, 2015). |
| 10.2 | Amendment No. 1 to the Amended and Restated Credit Agreement, dated as of August 10, 2015, among Hersha Hospitality Limited Partnership, as borrower, Hersha Hospitality Trust, as the parent REIT and a guarantor, certain direct or indirect subsidiaries of the borrower, as guarantors, Citibank, N.A., as administrative agent, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 12, 2015). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

| | |
|---|---|
| | HERSHA<br>HOSPITALITY TRUST |
| October 29, 2015 | /s/ Ashish R. Parikh<br>Ashish R. Parikh<br>Chief Financial Officer |