

HERSHA HOSPITALITY TRUST  
Form 10-K  
February 17, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

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(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Shares of Beneficial Interest, par value \$.01 per share	New York Stock Exchange
Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$.01 per share	New York Stock Exchange
Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the outstanding Class A common shares held by nonaffiliates of the registrant, computed by reference to the closing sale price at which Class A common shares were last sold on June 30, 2015, was approximately \$1.2 billion.

As of February 16, 2016, the number of Class A common shares outstanding was 44,458,231 and there were no Class B common shares outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's last fiscal year pursuant to Regulation 14A, are incorporated herein by reference into Part II, Item 5 and Part III.

HERSHA HOSPITALITY TRUST

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## CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Unless the context otherwise requires, references in this report to: (1) “we,” “us,” “our,” the “Company” and “Hersha” mean Hersha Hospitality Trust and its consolidated subsidiaries, including Hersha Hospitality Limited Partnership, taken as a whole; (2) “HHLP” and “our operating partnership” mean Hersha Hospitality Limited Partnership; and (3) “common shares” mean our Class A common shares of beneficial interest, \$0.01 par value per share.

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 (“Exchange Act”), as amended, including, without limitation, statements containing the words, “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should” and words 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 report including, but not limited to those discussed in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” 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 (including the ability to close the recently announced joint venture for seven hotel assets, see “Item 1 – Business” for more information);

our ability to raise capital in light of current volatility in the U.S. equity markets;

our ability to obtain future financing arrangements or refinance or extend the maturity of existing financing arrangements as they come due;

our intent to repurchase shares from time to time;

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;

the degree and nature of our competition;

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 or the Code, as amended;



environmental uncertainties and risks related to natural disasters;

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

the factors discussed in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2015 under the heading “Risk Factors” and in other reports we file with the U.S. Securities and Exchange Commission (“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.

## PART I

### Item 1. Business

#### OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the New York Stock Exchange under the symbol “HT.” We invest primarily in institutional grade hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, South Florida and select markets on the West Coast. Our primary strategy is to continue to own and acquire high quality, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers to entry and independent boutique hotels in markets with similar characteristics. We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes.

We aim to create value through our ability to source capital and identify high growth acquisition targets. We seek acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel’s ability to attract key demand segments, enhance hotel operations and increase long-term value. To drive sustainable shareholder value, we also seek to recycle capital from stabilized assets, as evidenced by our recently announced joint venture for seven hotel assets (see “Dispositions” below for more information) and our sales of non-core hotels in secondary and tertiary markets. Capital from these types of transactions is intended to be redeployed into high growth acquisitions and share buybacks.

As of December 31, 2015, our portfolio consisted of 49 wholly owned limited and full service properties with a total of 7,225 rooms and interests in five limited and full service properties owned through joint venture investments with a total of 1,369 rooms. These 54 properties, with a total of 8,594 rooms, are located in Arizona, California, Connecticut, Delaware, District of Columbia, Florida, Maryland, Massachusetts, New York, Pennsylvania, and Virginia and operate under leading brands, owned by Marriott International, Inc. (“Marriott”), Hilton Worldwide, Inc. (“Hilton”), InterContinental Hotels Group (“IHG”), Hyatt Corporation (“Hyatt”), or Starwood Hotels and Resorts Worldwide, Inc. (“Starwood”). In addition, some of our hotels operate as independent boutique hotels or with other brands.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership, for which we serve as the sole general partner. As of December 31, 2015, we owned an approximate 95.0% partnership interest in our operating partnership including all general partnership interest.

The majority of our wholly-owned hotels are managed by Hersha Hospitality Management, L.P. (“HHMLP”), a privately held, qualified management company owned by certain of our trustees and executive officers and other unaffiliated third party investors. Third party qualified management companies manage the hotels that we own through joint venture interests. We lease our wholly-owned hotels to 44 New England Management Company (“44 New England”), our wholly-owned taxable REIT subsidiary (“TRS”). Each of the hotels that we own through a joint venture investment is leased to another TRS that is owned by the respective joint venture or an entity owned in part by 44 New England.

Our principal executive office is located at 44 Hersha Drive, Harrisburg, Pennsylvania 17102. Our telephone number is (717) 236-4400. Our website address is [www.hersha.com](http://www.hersha.com). The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report.

#### AVAILABLE INFORMATION

We make available free of charge through our website ([www.hersha.com](http://www.hersha.com)) our code of ethics, corporate governance guidelines and the charters of the committees of our Board of Trustees (Acquisition Committee, Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Sub-Committee of the Audit Committee). We also make available through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. All reports that we have filed with the SEC including this annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can also be obtained free of charge from the SEC’s website at [www.sec.gov](http://www.sec.gov). In addition, all reports filed with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Further information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. The information available on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

## INVESTMENT IN HOTEL PROPERTIES

Our operating strategy focuses on increasing hotel performance for our portfolio. The key elements of this strategy are:

working together with our hotel management companies to increase revenue per available room, or RevPAR, and to maximize the average daily rate, or ADR, and occupancy levels at each of our hotels through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and

maximizing our hotel-level earnings by managing hotel-level costs and positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale, mid-scale and extended-stay lodging segments, which we believe can be expected to follow from improving economic conditions, and maximizing our operating margins.

## ACQUISITIONS

We selectively acquire high quality branded upper-upscale, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers-to-entry and independent boutique hotels in similar markets. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value. In executing our disciplined acquisition program, we will consider acquiring hotels that meet the following additional criteria:

nationally-franchised hotels operating under popular brands, such as Ritz-Carlton, Marriott, Residence Inn by Marriott, Courtyard by Marriott, Hilton Hotels, Hilton Garden Inn, Hampton Inn, Holiday Inn, Holiday Inn Express, Holiday Inn Express and Suites, Candlewood Suites, Hyatt House, Hyatt Place, Hyatt and Sheraton Hotels;

hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes;

hotels in our target markets where we can realize operating efficiencies and economies of scale; and

independent boutique hotels in similar markets

Since our initial public offering in January 1999 and through December 31, 2015, we have acquired, wholly or through joint ventures, a total of 110 hotels, including 28 hotels acquired from entities controlled by certain of our trustees and executive officers. Of the 28 acquisitions from entities controlled by certain of our trustees and executive officers, 25 were newly constructed or substantially renovated by these entities prior to our acquisition. We take

advantage of our relationships with entities that are developing or substantially renovating hotels, including entities controlled by certain of our trustees and executive officers, to identify future hotel acquisitions that we believe may be attractive to us. We intend to continue to acquire hotels from entities controlled by certain of our trustees and executive officers if approved by a majority of our independent trustees in accordance with our related party transaction policy.

## DISPOSITIONS

We evaluate our hotels and the markets in which they operate on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management's forecast and review of the cash flow potential of each hotel and re-deploy the proceeds into debt reduction, acquisitions of hotels and share buybacks. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management's forecast of the strength of each hotel's cash flows, its ability to remain accretive to our portfolio, and the expectations for the market in which the hotel operates. Our decision to sell a hotel is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by the Acquisition Committee of our Board of Trustees, which committee consists solely of independent trustees. During the time since our initial public offering in 1999 through December 31, 2015, we have sold a total of 62 hotels.

In accordance with our strategy, on February 2, 2016, we entered into asset purchase and contribution agreements (collectively, the "Contribution Agreements") to make an equity investment in a joint venture (the "Owner JV") with Cindat Manhattan Hotel Portfolio (US) LLC ("Cindat"). The Owner JV, through its direct subsidiaries, will own seven hotels currently in the Company's NYC Urban portfolio (collectively, the "Cindat JV Properties"). The Contribution Agreements value the Cindat JV Properties at approximately \$543.5 million in the aggregate (subject to working capital and similar adjustments). The total purchase price, including closing costs, is expected to be approximately \$574.1 million.

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The Company intends to hold the proceeds of sale in escrow pending reinvestment in replacement properties to be identified and acquired in 2016 in transactions qualifying for deferral of federal income taxes as permitted by the Code.

For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and Note 2, “Investment in Hotel Properties”.

### FINANCING

We intend to finance our long-term growth with common and preferred equity issuances and debt financing having staggered maturities. Our debt includes unsecured debt provided primarily under our \$500 million unsecured credit facility which provides for a \$250 million unsecured term loan and a \$250 million unsecured revolving credit facility and secured mortgage debt in our hotel properties. In August 2015, we entered into a senior unsecured term loan for \$300 million. This expands our senior unsecured borrowing capacity from \$500 million to \$800 million. We intend to use our loan capacity and the undrawn portion of our \$500 million senior unsecured credit facility to pay down mortgage debt, repurchase common shares, fund future acquisitions, as well as for capital improvements and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under the revolving line of credit portion of our credit facility from time to time with proceeds from periodic common and preferred equity issuances, long-term debt financings and cash flows from operations. When purchasing hotel properties, we may issue common and preferred limited partnership interests in our operating partnership as full or partial consideration to sellers.

### FRANCHISE AGREEMENTS

We believe that the public’s perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchises
Marriott International	Ritz-Carlton, Marriott, Residence Inn by Marriott, Courtyard by Marriott, TownePlace Suites
Hilton Hotels Corporation	Hilton Hotels, Hilton Garden Inn, Hampton Inn
IHG	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites, Candlewood Suites
Hyatt Hotels Corporation	Hyatt House, Hyatt Place, Hyatt
Starwood Hotels	Sheraton Hotels

We anticipate that most of the hotels in which we invest will be operated pursuant to franchise licenses.

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses generally obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of such hotel's revenues annually.

## PROPERTY MANAGEMENT

We work closely with our hotel management companies to operate our hotels and increase same hotel performance for our portfolio.

Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels, as of December 31, 2015:

Manager	Wholly Owned		Joint Ventures		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Hersha Hospitality Management, L.P.	48	7,139	1	285	49	7,424
Waterford Hotel Group, Inc.	-	-	2	802	2	802
South Bay Boston Management, Inc.	-	-	2	282	2	282
Marriott Management	1	86	-	-	1	86
Total	49	7,225	5	1,369	54	8,594

Each management agreement provides for a set term and is subject to early termination upon the occurrence of



defaults and certain other events described therein. As required under the REIT qualification rules, all managers, including HHMLP, must qualify as an “eligible independent contractor” during the term of the management agreements.

Under the management agreements, the manager generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by the manager in performing its authorized duties are reimbursed or borne by our applicable TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. Our managers are not obligated to advance any of their own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel.

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. For the year ended December 31, 2015, these thresholds were not met and incentive management fees were not earned. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

#### CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

Under certain loan agreements, we have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective requirements. These capital reserves typically range from 3% to 4% of each hotel’s gross revenues. In addition, we may upgrade hotels in our portfolio in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses in the Consolidated Statements of Operations.

#### OPERATING PRACTICES

Our hotel managers utilize centralized accounting and data processing systems, which facilitate financial statement and budget preparation, payroll management, quality control and other support functions for the on-site hotel management team. Our hotel managers also provide centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

#### DISTRIBUTIONS

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We have made 68 consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders as approved by our Board of Trustees.

The following table sets forth distribution information for the last two calendar years.

Common Shares

Quarter to which Distribution Relates 2015	Record Date	Payment Date	Class A Common Shares and Common Units Per Share and Per Unit Distribution Amount	
Fourth Quarter	1/4/2016	1/15/2016	\$ 0.28	
Third Quarter	9/30/2015	10/15/2015	\$ 0.28	
Second Quarter	6/30/2015	7/15/2015	\$ 0.28	
First Quarter	3/31/2015	4/15/2015	\$ 0.28	*
2014				
Fourth Quarter	1/5/2015	1/15/2015	\$ 0.28	*
Third Quarter	10/2/2014	10/15/2014	\$ 0.28	*
Second Quarter	6/30/2014	7/15/2014	\$ 0.24	*
First Quarter	3/31/2014	4/15/2014	\$ 0.24	*

\*Per share and per unit amounts adjusted for reverse 4-for-1 share split effective as of June 22, 2015.

## Preferred Shares

Quarter to which Distribution Relates 2015	Record Date	Payment Date	Series B Preferred Per Share Distribution Amount	Series C Preferred Per Share Distribution Amount
Fourth Quarter	1/1/2016	1/15/2016	\$ 0.50	\$ 0.43
Third Quarter	10/1/2015	10/15/2015	\$ 0.50	\$ 0.43
Second Quarter	7/1/2015	7/15/2015	\$ 0.50	\$ 0.43
First Quarter	4/1/2015	4/15/2015	\$ 0.50	\$ 0.43
2014				
Fourth Quarter	1/1/2015	1/15/2015	\$ 0.50	\$ 0.43
Third Quarter	10/1/2014	10/15/2014	\$ 0.50	\$ 0.43
Second Quarter	7/1/2014	7/15/2014	\$ 0.50	\$ 0.43
First Quarter	4/1/2014	4/15/2014	\$ 0.50	\$ 0.43

Our Board of Trustees will determine the amount of our future distributions in its sole discretion and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on the profitability of and cash flow available from our hotels. There can be no assurance we will continue to pay distributions at the rates above or any other rate. Additionally, we may, if necessary and allowable, pay taxable distributions of our shares or debt securities to meet the distribution requirements. There are no assurances we will be able to continue to make quarterly distributions at the current rate.

## SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting higher revenues and occupancy rates during the second and third quarters. This seasonality causes fluctuations in our quarterly operating revenues, profitability, and cash flow.

## COMPETITION

The U.S. hotel industry is highly competitive. Our hotels compete with other hotels for guests in each of their markets on the basis of several factors, including, among others, location, quality of accommodations, convenience, brand affiliation, room rates, service levels and amenities, and level of customer service. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels operated under premium brands in the focused-service and full-service segments. We believe

that hotels, such as our hotels, that are affiliated with leading national brands, such as the Marriott, Hilton, Hyatt, IHG or Starwood brands, will enjoy the competitive advantages associated with operating under such brands. Increased competition could harm our occupancy and revenues and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may materially and adversely affect our operating results and liquidity.

The upper-upscale, upscale and mid-scale, limited service segments of the hotel business are highly competitive. There are many competitors in our market segments and new hotels are routinely being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours. We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources and access to capital than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us, increase the bargaining power of property owners seeking to sell to us and decrease the attractiveness of the terms on which we may acquire our targeted hotel investments, including the cost thereof, making it more difficult for us to acquire new properties on attractive terms.

## EMPLOYEES

As of December 31, 2015, we had 51 employees who were principally engaged in managing the affairs of the Company unrelated to property operations. We believe that our relations with our employees are satisfactory.

## TAX STATUS

We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on the portion of our income that is currently distributed to our shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates. Additionally, we will generally be unable to qualify as a REIT for four years following the year in which qualification is lost. Even if we qualify for taxation as a REIT, we will be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

We own interests in several TRSs. We may own up to 100% of the stock of a TRS. A TRS is a taxable corporation that may lease hotels from our operating partnership and its subsidiaries under certain circumstances. Overall, no more than 25% (or 20% for taxable years beginning after December 31, 2017) of the value of our assets may consist of securities of one or more TRSs. In addition, no more than 25% of our gross income for any year may consist of dividends from one or more TRSs and income from certain non-real estate related sources.

A TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager that qualifies as an "eligible independent contractor." To qualify for that treatment, the manager must satisfy the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating "qualified lodging facilities" for any person unrelated to us and the TRS;
2. such manager does not own, directly or indirectly, more than 35% of our shares;
3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and
4. we do not, directly or indirectly, derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation. A 100% excise tax is imposed on transactions between a TRS and us that are not on an arm's-length basis.

## REGULATION

### General

Our hotels are subject to various U.S. federal, state and local laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of our hotels has the necessary permits and approvals to operate its business.

### Americans with Disabilities Act

Our hotels must comply with applicable provisions of the Americans with Disabilities Act of 1993, or ADA, to the extent that such hotels are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our hotels where such removal is readily achievable. We believe that our hotels are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, non-compliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect.

## Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator (including tenants) of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up such contamination at that property or emanating from that property. These costs could be substantial and liability under these laws may attach without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our hotels may expose us to third-party liability or materially and adversely affect our ability to sell, lease or develop the real estate or to incur debt using the real estate as collateral.

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew and waste management. Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance.

Environmental laws require that owners or operators of buildings with asbestos-containing building materials properly manage and maintain these materials, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

Some of our hotels may contain or develop harmful mold or suffer from other adverse conditions, which could lead to liability for adverse health effects and costs of remediation. The presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected hotel or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from guests or employees at our hotels and others if property damage or health concerns arise.

## INSURANCE

We require comprehensive insurance to be maintained by our hotel management companies, including HHMLP, on each of our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds

received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

#### FINANCIAL INFORMATION ABOUT SEGMENTS

We are in the business of acquiring equity interests in hotels, and we manage our hotels as individual operating segments that meet the aggregation criteria and are therefore disclosed as one reportable segment. See “Note 1 - Organization and Summary of Significant Accounting Policies” in Item 8 of this Annual Report on Form 10-K for segment financial information.

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Item 1A. Risk Factors

You should carefully consider the following risks, together with the other information included in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our securities could decline, and you may lose all or part of any investment you have in our securities.

Risks Related to the Economy and Credit Markets

Difficult economic conditions may continue to adversely affect the hotel industry.

The performance of the hotel industry has historically been linked to key macroeconomic indicators, such as GDP growth, employment, corporate earnings and investment, and travel demand. If the U.S. economy should falter for any reason, including the recent decline in the price of oil, and there is an extended period of economic weakness, a recession or depression, our revenues and profitability could be adversely affected.

A recession could result in declines in our average daily room rates, occupancy and RevPAR, and thereby have a material adverse effect on our results of operations.

The performance of the hotel industry has traditionally been closely linked with the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. While operating results have subsequently improved, there can be no assurance that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower growth in the economy, changes in unemployment, underemployment and changes in travel patterns. A stall in the economic recovery or a resurgent recession would have a material adverse effect on our results of operations. While we believe the U.S. economy continues on a trajectory of slow, steady growth, other economies around the world, including Europe, Canada, Japan and China, have demonstrated sluggish, stagnant or slowing growth in recent quarters. It remains to be seen what effect, if any, the slowing in these economies will have on us. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we would be required to spend additional funds for that property's operating expenses.

In addition, if operating results decline at our hotels secured by mortgage debt, there may not be sufficient operating profit from the hotel to cover the debt service on the mortgage. In such a case, we may be forced to choose from a number of unfavorable options, including using corporate cash, drawing on our revolving credit facility, selling the hotel on disadvantageous terms, including an unattractive price, or defaulting on the mortgage debt and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our shareholders.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs, including expansion, acquisition and other activities, on favorable terms or at all, which could materially and adversely affect us.

In the recession of 2008 and 2009 and some recent years, the U.S. stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing, even for companies which otherwise are qualified to obtain financing. Continued volatility and uncertainty in the stock and credit markets in the U.S. and abroad may negatively impact our ability to access additional financing for our capital needs, including expansion, acquisition activities and other purposes, on favorable terms or at all, which may negatively affect our business. Additionally, due to this uncertainty, we may in the future be unable to refinance or extend our debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. If we are not successful in refinancing our debt when it becomes due, we may be forced to dispose of hotels on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity capital or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

## RISKS RELATED TO THE HOTEL INDUSTRY

Our hotels are subject to general hotel industry operating risks, which may impact our ability to make distributions to shareholders.

Our hotels are subject to all operating risks common to the hotel industry. The hotel industry has experienced volatility in the past, as have our hotels, and there can be no assurance that such volatility will not occur in the future. These risks include, among other things: competition from other hotels; over-building in the hotel industry that could adversely affect hotel revenues and hotel values; increases in operating costs due to inflation and other factors, which may not be offset by increased room rates; reduction in business and commercial travel and tourism; strikes and other labor disturbances of hotel employees; increases in energy costs and other expenses of travel; adverse effects of general and local economic conditions; and adverse political conditions. These factors could reduce revenues of the hotels and adversely affect our ability to make distributions to our shareholders.

The value of our hotels depends on conditions beyond our control.

Our hotels are subject to varying degrees of risk generally incident to the ownership of hotels. The underlying value of our hotels, our income and ability to make distributions to our shareholders are dependent upon the operation of the hotels in a manner sufficient to maintain or increase revenues in excess of operating expenses. Hotel revenues may be adversely affected by adverse changes in national economic conditions, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, competition from other hotels, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate tax rates and other operating expenses, adverse changes in governmental rules and fiscal policies, civil unrest, acts of terrorism, acts of God, including earthquakes, hurricanes and other natural disasters, acts of war, adverse changes in zoning laws, and other factors that are beyond our control. In particular, general and local economic conditions may be adversely affected by terrorist incidents, such as those in New York, Washington, D.C. and Boston. Our management is unable to determine the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide, on the U.S. economy, on us or our hotels or on the market price of our common shares.

Our investments are concentrated in a single segment of the hotel industry.

Our primary business strategy is to continue to acquire high quality, upper-upscale, upscale and mid-scale limited service and extended-stay hotels in metropolitan markets with high barriers to entry including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles, Miami and other markets and other markets with similar characteristics. We are subject to risks inherent in concentrating investments in a single industry and in a specific market segment within that industry. The adverse effect on amounts available for distribution to shareholders resulting from a downturn in the hotel industry in general or the mid-scale segment in particular could be more pronounced than

if we had diversified our investments outside of the hotel industry or in additional hotel market segments.

Operating costs and capital expenditures for hotel renovation may be greater than anticipated and may adversely impact distributions to shareholders.

Hotels generally have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement of furniture, fixtures and equipment. Under the terms of our management agreements, we generally are obligated to pay the cost of expenditures for items that are classified as capital items under GAAP that are necessary for the continued operation of our hotels.

If these expenses exceed our expectations, the additional cost could have an adverse effect on amounts available for distribution to shareholders. In addition, we may acquire hotels in the future that require significant renovation. Renovation of hotels involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from hotels.

The hotel industry is highly competitive.

The hotel industry is highly competitive. Our hotels compete with other existing and new hotels in their geographic markets. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Many of our competitors have substantially greater marketing and financial resources than we do. Effective marketing by our competitors may reduce our hotel revenue and adversely impact our ability to make distributions to our shareholders.

Risks of operating hotels under franchise licenses, which may be terminated or not renewed, may impact our ability to make distributions to shareholders.

The continuation of our franchise licenses is subject to specified operating standards and other terms and conditions. All of the franchisors of our hotels periodically inspect our hotels to confirm adherence to their operating standards. The failure to maintain such standards or to adhere to such other terms and conditions could result in the loss or cancellation of the applicable franchise license. It is possible that a franchisor could condition the continuation of a franchise license on the completion of capital improvements that our trustees determine are too expensive or otherwise not economically feasible in light of general economic conditions, the operating results or prospects of the affected hotel. In that event, our trustees may elect to allow the franchise license to lapse or be terminated.

There can be no assurance that a franchisor will renew a franchise license at each option period. If a franchisor terminates a franchise license, we may be unable to obtain a suitable replacement franchise, or to successfully operate the hotel independent of a franchise license. The loss of a franchise license could have a material adverse effect upon the operations or the underlying value of the related hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. Our loss of a franchise license for one or more of the hotels could have a material adverse effect on our partnership's revenues and our amounts available for distribution to shareholders.

The hotel industry is seasonal in nature.

The hotel industry is seasonal in nature. Generally, in certain markets we operate, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. Our hotels' operations historically reflect this trend in these markets. As a result, our results of operations may vary on a quarterly basis, impairing comparability of operating data and financial performance on a quarter to quarter basis.

The cyclical nature of the hotel industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The hotel industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the hotel industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

The increasing use of Internet travel intermediaries by consumers may materially and adversely affect our profitability.

Although a majority of rooms sold on the Internet are sold through websites maintained by the hotel franchisors and managers, some of our hotel rooms will be booked through Internet travel intermediaries. These Internet travel intermediaries may purchase rooms at a negotiated discount from participating hotels, which could result in lower room rates than the franchisor or manager otherwise could have obtained. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and any hotel management companies that we engage. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality, such as "three-star downtown hotel," at the expense of brand identification or quality of product or service. If consumers develop brand loyalties to Internet reservations systems rather than to the brands under which our hotels are franchised, the value of our hotels could deteriorate and our business could be materially and adversely affected. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

Future terrorist attacks or changes in terror alert levels could adversely affect travel and hotel demand.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. The impact that terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined but any such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

The outbreak of widespread contagious disease could reduce travel and adversely affect hotel demand.

The widespread outbreak of infectious or contagious disease, such as influenza, mumps and Zika virus, in the U.S. could reduce travel and adversely affect the hotel industry generally and our business in particular.

## RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We face risks associated with the use of debt, including refinancing risk.

At December 31, 2015, we had outstanding long-term debt of \$1.2 billion. We may borrow additional amounts from the same or other lenders in the future. Any future repurchases of our own shares may require additional borrowings. Some of these additional borrowings may be secured by our hotels. Our declaration of trust (as amended and restated, our "Declaration of Trust") does not limit the amount of indebtedness we may incur. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our hotels to foreclosure. Our indebtedness contains various financial and non-financial events of default covenants customarily found in financing arrangements. Our mortgages 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 from the applicable hotels.

There is also a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of properties, we may be forced to use operating income to repay such indebtedness, which would have a material adverse effect on our cash available for distribution in years when significant “balloon” payments come due. In some such cases, we may lose the applicable hotels to foreclosure. This risk is particularly significant. See Item 7A of this Annual Report on Form 10-K for a detailed schedule of debt principal repayments.

We face high levels of competition for the acquisition of hotel properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We face competition for investment opportunities in high quality, upper-upscale, upscale and mid-scale limited service and extended-stay hotels from entities organized for purposes substantially similar to our objectives, as well as other purchasers of hotels. We compete for such investment opportunities with entities that have substantially greater financial resources than we do, including access to capital or better relationships with franchisors, sellers or lenders. Our competitors may generally be able to accept more risk than we can manage prudently and may be able to borrow the funds needed to acquire hotels on more favorable terms. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell.



We do not operate our hotels and, as a result, we do not have complete control over implementation of our strategic decisions.

In order for us to satisfy certain REIT qualification rules, we cannot directly or indirectly operate or manage any of our hotels. Instead, we must engage an independent management company to operate our hotels. As of December 31, 2015, our TRSs and our joint venture partnerships have engaged independent management companies as the property managers for all of our wholly owned hotels leased to our TRSs and the respective hotels for the joint ventures, as required by the REIT qualification rules. The management companies operating the hotels make and implement strategic business decisions with respect to these hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by the management companies operating the hotels may not be in the best interests of a particular hotel or of the Company. Accordingly, we cannot assure you that the management companies will operate our hotels in a manner that is in our best interests. In addition, the financial condition of the management companies could impact their future ability to operate our hotels.

Our acquisitions may not achieve expected performance, which may harm our financial condition and operating results.

We anticipate that acquisitions will largely be financed with the net proceeds of securities offerings and through externally generated funds such as borrowings under our revolving credit facility and other secured and unsecured debt financing. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that estimates of the cost of improvements necessary to acquire and market properties will prove inaccurate, as well as general investment risks associated with any new real estate investment. As a result, we may not be able to generate enough cash from these hotels to make debt service payments or pay operating expenses.

Acquisition of hotels with limited operating history may not achieve desired results.

Many of our recent acquisitions are newly-developed hotels. Newly-developed or newly-renovated hotels do not have the operating history that would allow our management to make pricing decisions in acquiring these hotels based on historical performance. The purchase prices of these hotels are based upon management's expectations as to the operating results of such hotels, subjecting us to risks that such hotels may not achieve anticipated operating results or may not achieve these results within anticipated time frames. As a result, we may not be able to generate enough cash flow from these hotels to make debt payments or pay operating expenses. In addition, room revenues may be less than that required to provide us with our anticipated return on investment. In either case, the amounts available for distribution to our shareholders could be reduced.

We may be unable to integrate acquired hotels into our operations or otherwise manage our planned growth, which may adversely affect our operating results.

We cannot assure you that we or our management companies will be able to adapt our management, administrative, accounting and operational systems and arrangements, or hire and retain sufficient operational staff to successfully integrate these investments into our portfolio and manage any future acquisitions of additional assets without operational disruptions or unanticipated costs. Acquisition of hotels generates additional operating expenses that we will be required to pay. As we acquire additional hotels, we will be subject to the operational risks associated with owning new lodging properties. Our failure to integrate successfully any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to shareholders or make other payments in respect of securities issued by us.

There can be no assurance that we will be able to close the equity investment in a joint-venture with Cindat on the terms contemplated by the Contribution Agreements, or at all, or that we will be able to realize the anticipated benefits of such transaction.

On February 2, 2016, we entered into the Contribution Agreements to make an equity investment in a joint venture with Cindat. The joint venture, through its direct subsidiaries, will own seven hotels currently in the Company's NYC Urban portfolio, with these properties valued at approximately \$543.5 million in the aggregate (subject to working capital and similar adjustments). The purchase price for this transaction is expected to be \$571.4 million including closing costs. The closing of this transaction is contingent on obtaining financing on the terms specified by the Contribution Agreements and other closing conditions, including the approval of Cindat's investment by the Chinese government. There can be no assurance that the transaction will close on the terms contemplated, in accordance with the anticipated timing or at all, or that the conditions to closing will be satisfied. Furthermore, even if we are able to consummate the transaction, there can be no assurance that we will realize the anticipated benefits to us of such transaction, including a decrease in our concentration risk relating to the New York City market.

Most of our hotels are located in the Eastern United States and many are located in the area from Washington, DC to Boston, MA, which may increase the effect of any regional or local economic conditions.

Most of our hotels are located in the area from Washington, DC to Boston, MA. As a result, regional or localized adverse events or conditions, such as an economic recession, could have a significant adverse effect on our operations, and ultimately on the amounts available for distribution to shareholders.

Our ownership of hotels in the New York City market exposes us to concentration risk, which may lead to increased volatility in our results of operations.

As of December 31, 2015, our consolidated portfolio of hotels in New York City have accounted for approximately 47% of our hotel operating revenues. The operations of our consolidated portfolio of hotels in New York City will have a material impact on our overall results of operations. Concentration risk with respect to our ownership of hotels in the New York City market may lead to increased volatility in our overall results of operations. Our overall results of operations may be adversely affected and our ability to pay distributions to our shareholders could be negatively impacted in the event:

- downturns in lodging fundamentals are more severe or prolonged in New York City compared to the United States as a whole;

- negative economic conditions are more severe or prolonged in New York City compared to other areas, due to concentration of the financial industry in New York or otherwise;

- as new hotel supply enters the New York City market, this could impact our ability to grow ADR and RevPar as a result of the new supply;

- we adopt an unsuccessful strategy to ramp up and stabilize operations at our newly acquired New York hotels; or

- New York City is impacted by other unforeseen events beyond our control, including, among others, terrorist attacks and travel related health concerns including pandemics and epidemics.

We own a limited number of hotels and significant adverse changes at one hotel may impact our ability to make distributions to shareholders.

As of December 31, 2015, our portfolio consisted of 49 wholly-owned limited and full service properties and joint venture investments in five hotels with a total of 8,594 rooms. However, certain larger hotels or hotels in certain locations disproportionately impact our performance. Accordingly, significant adverse changes in the operations of any one of these hotels could have a material adverse effect on our financial performance and on our ability to make expected distributions to our shareholders.

We focus on acquiring hotels operating under a limited number of franchise brands, which creates greater risk as the investments are more concentrated.

We place particular emphasis in our acquisition strategy on hotels similar to our current hotels. We invest in hotels operating under a few select franchises and therefore will be subject to risks inherent in concentrating investments in a particular franchise brand, which could have an adverse effect on amounts available for distribution to shareholders. These risks include, among others, the risk of a reduction in hotel revenues following any adverse publicity related to a specific franchise brand or the failure of the franchisor to maintain a certain brand.

We depend on key personnel.

We depend on the services of our existing senior management team, including Jay H. Shah, Neil H. Shah, Ashish R. Parikh and Michael R. Gillespie, to carry out our business and investment strategies. As we expand, we will continue to need to attract and retain qualified additional senior management. We have employment agreements with certain of our senior management; however, the employment agreements may be terminated under certain circumstances. The termination of an employment agreement and the loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial conditions and disputes between us and our co-venturers.

As of December 31, 2015, we had several joint ventures in which we shared ownership and decision-making power with one or more parties. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility: that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Our joint venture partners must agree in order for the applicable joint venture to take, or in some cases, may have control over whether the applicable joint venture will take, specific major actions, such as budget approvals, acquisitions, sales of assets, debt financing, executing lease agreements, and vendor approvals. Under these joint venture arrangements, any disagreements between us and our partners may result in delayed decisions. Our inability to take unilateral actions that we believe are in our best interests may result in missed opportunities and an ineffective allocation of resources and could have an adverse effect on the financial performance of the joint venture and our operating results.

We engage in hedging transactions to limit our exposure to fluctuations in interest rates, which can limit our gains and increase exposure to losses.

We enter into hedging transactions intended to protect us from the effects of interest rate fluctuations on floating rate debt and also intended to protect our portfolio of mortgage assets from interest rate and prepayment rate fluctuations. Our hedging transactions may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. No hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates. Moreover, interest rate hedging could fail to protect us or could adversely affect our operating results because, among other things:

Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

The duration of the hedge may not match the duration of the related liability;

The party at risk in the hedging transaction may default on its obligation to pay;

The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value.

Hedging transactions may reduce our shareholders' equity.

Hedging involves risk and typically involves costs, including transaction costs, which may reduce returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distribution to shareholders. The REIT qualification rules may also limit our ability to enter into hedging transactions. We generally intend to hedge as much of our interest rate risk as our management determines is in our best interests given the cost of such hedging transactions and the requirements applicable to REITs. If we are unable to hedge effectively because of the cost of such hedging transactions or the limitations imposed by the REIT rules, we will face greater interest risk exposure than may be commercially prudent.

We and our hotel managers rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. We and our hotel managers purchase some of our information technology from vendors, on whom our systems depend. We and our hotel managers rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we and our hotel managers have taken steps we believe are necessary to protect the security of our information systems and the data maintained in those systems, it is possible that the safety and security measures taken will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

#### RISKS RELATED TO REAL ESTATE INVESTMENT GENERALLY

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in operating, economic and other conditions will be limited. No assurances can be given that the fair market value of any of our hotels will not decrease in the future.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

We require comprehensive insurance to be maintained on each of the our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

Real estate is subject to property taxes.

Each hotel is subject to real and personal property taxes. The real and personal property taxes on hotel properties in which we invest may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. Many state and local governments are facing budget deficits that have led many of them, and may in the future lead others to, increase assessments and/or taxes. If property taxes increase, our operating results may be negatively affected.

Environmental matters could adversely affect our results.

Operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to shareholders. Phase I environmental assessments have been obtained on all of our hotels. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.



Our hotel properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of mold to which hotel guests or employees could be exposed at any of our properties could require us to undertake a remediation program to contain or remove the mold from the affected property, which could be costly. In addition, exposure to mold by guests or employees, management company employees or others could expose us to liability if property damage or health concerns arise.

Costs associated with complying with the ADA may adversely affect our financial condition and operating results.

Under the ADA, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While we believe that our hotels are substantially in compliance with these requirements, a determination that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies affecting the use and operation of the hotels, including changes to building codes and fire and life-safety codes, may occur. If we were required to make substantial modifications at the hotels to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

## RISKS RELATED TO CONFLICTS OF INTEREST

Due to conflicts of interest, many of our existing agreements may not have been negotiated on an arm's-length basis and may not be in our best interest.

Some of our officers and trustees have ownership interests in HHMLP and in entities with which we have entered into transactions, including hotel acquisitions and dispositions and certain financings. Consequently, the terms of our agreements with those entities, including hotel contribution or purchase agreements, the Option Agreement (as defined below) between our operating partnership and some of the trustees and officers and our property management agreements with HHMLP, while intended to be negotiated on an arm's-length basis, may not have been and may not be in the best interest of all our shareholders. We have policies in place to encourage agreements to be negotiated on an arm's-length basis. Transactions with related persons must be approved by a majority of the Company's independent trustees. The Board of Trustee's policy requires any independent trustee with a direct or indirect interest in the transaction to excuse himself from any consideration of the related person transaction in which he has an interest.

Conflicts of interest with HHMLP may result in decisions that do not reflect our best interests.

We have entered into an option agreement (as amended, the "Option Agreement") with each of our officers and certain 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.

The following officers and trustees own collectively approximately 27% of HHMLP: Hasu P. Shah, Jay H. Shah, and Neil H. Shah. Conflicts of interest may arise with respect to the ongoing operation of our hotels including, but not limited to, the enforcement of the contribution and purchase agreements, the Option Agreement and our property management agreements with HHMLP. These officers and trustees also make decisions for our company with respect to property management. Consequently, these officers and trustees may not act solely in the best interests of our shareholders relating to property management by HHMLP.

Conflicts of interest relating to sales or refinancing of hotels acquired from some of our trustees and officers may lead to decisions that are not in our best interest.

Some of our non-independent trustees and officers have unrealized gains associated with their interests in the hotels we have acquired from them and, as a result, any sale of these hotels or refinancing or prepayment of principal on the indebtedness assumed by us in purchasing these hotels may cause adverse tax consequences to such trustees and

officers. Therefore, our interests and the interests of these individuals may be different in connection with the disposition or refinancing of these hotels.

Hotels owned or acquired by some of our trustees and officers may hinder these individuals from spending adequate time on our business.

Some of our trustees and officers own hotels and may develop or acquire new hotels, subject to certain limitations. Such ownership, development or acquisition activities may materially affect the amount of time these officers and trustees devote to our affairs. Some of our trustees and officers operate hotels that are not owned by us, which may materially affect the amount of time that they devote to managing our hotels. Pursuant to the Option Agreement we have an option to acquire any hotels developed by our officers and trustees.

#### RISKS RELATING TO OUR STRUCTURE

There are no assurances of our ability to make distributions in the future.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. However, our ability to pay dividends may be adversely affected by the risk factors described in this annual report. All distributions will be made at the discretion of our Board of Trustees and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Trustees may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend or interest rate on our securities or seek securities paying higher dividends or interest. The market price of our common shares likely will be based primarily on the earnings and return that we derive from our investments and income with respect to our properties and our related distributions to shareholders, and not from the market value or underlying appraised value of the properties or investments themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common shares could decrease because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

Holder of our outstanding preferred shares have dividend, liquidation and other rights that are senior to the rights of the holders of our common shares.

Our Board of Trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2015, 4,600,000 Series B Preferred Shares and 3,000,000 Series C Preferred Shares were issued and outstanding. Holders of our outstanding preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of our preferred shares are entitled to receive a liquidation preference of \$25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of our preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Future offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of equity securities, including classes of preferred or common shares. Upon liquidation, holders of our preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common shares and

diluting their share holdings in us.

We may change our distribution policy in the future.

In the past we have reduced the quarterly distributions paid to our shareholders, and we may reduce or eliminate the quarterly distribution paid to our shareholders in the future. The decision to declare and pay distributions on our common shares in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our board of trustees and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness and preferred shares, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of trustees deems relevant. Any change in our distribution policy could have a material adverse effect on the market price of our common shares.

The market price of our securities could be volatile and could decline, resulting in a substantial or complete loss of your investment in our securities.

The stock markets have experienced significant price and volume fluctuations in the recent past. As a result, the market price of our securities has been and could be similarly volatile in the future, and investors in our securities may experience a decrease in the value of their investments, including decreases unrelated to our operating performance or prospects. The market price of our securities could be subject to wide fluctuations in response to a number of factors, including:

our operating performance and the performance of other similar companies;

actual or anticipated differences in our operating results;

changes in our revenues or earnings estimates or recommendations by securities analysts; publication of research reports about us or our industry by securities analysts;

additions and departures of key personnel;

strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;

the passage of legislation or other regulatory developments that adversely affect us or our industry;

speculation in the press or investment community; actions by institutional shareholders;

changes in accounting principles;

terrorist acts; and

general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Future sales of our common shares or securities convertible into or exchangeable or exercisable for our common shares could depress the market price of our common shares.

We cannot predict whether future sales of our common shares or securities convertible into or exchangeable or exercisable for our common shares or the availability of these securities for resale in the open market will decrease the market price of our common shares. Sales of a substantial number of these securities in the public market,

including sales upon the redemption of Common Units held by the limited partners of our operating partnership, (other than us and our subsidiaries) or the perception that these sales might occur, may cause the market price of our common shares to decline and you could lose all or a portion of your investment.

Future issuances of our common shares or other securities convertible into or exchangeable or exercisable for our common shares, including, without limitation, common units of beneficial interest in our Operating Partnership (“Common Units”), in connection with property, portfolio or business acquisitions and issuances of equity-based awards to participants in our equity incentive plans, could have an adverse effect on the market price of our common shares. Future issuances of these securities also could adversely affect the terms upon which we obtain additional capital through the sale of equity securities. In addition, future sales or issuances of our common shares may be dilutive to existing shareholders.

Our Board of Trustees may authorize the issuance of additional shares that may cause dilution or prevent a transaction that is in the best interests of our shareholders.

Our Declaration of Trust authorizes the Board of Trustees, without shareholder approval, to:

amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have the authority to issue;

cause us to issue additional authorized but unissued common shares or preferred shares; or

classify or reclassify any unissued common or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including the issuance of additional common shares or preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters.

Any one of these events could cause dilution to our common shareholders, delay, deter or prevent a transaction or a change in control that might involve a premium price for the common shares or otherwise not be in the best interest of holders of common shares.

Our Declaration of Trust contains a provision that creates staggered terms for our Board of Trustees.

Our Board of Trustees is divided into two classes, the terms of which expire every two years. Trustees of each class are elected for two-year terms upon the expiration of their current terms and each year one class of trustees will be elected by the shareholders. The staggered terms of trustees may delay, deter or prevent a tender offer, a change in control of us or other transaction, even though such a transaction might be in the best interest of the shareholders.

Certain provisions of Maryland law may discourage a third party from acquiring us.

Under the Maryland General Corporation Law, as amended (MGCL), as applicable to REITs, certain “business combinations” (including certain issuances of equity securities) between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust’s shares, or an affiliate thereof, are prohibited for five years after the most recent date on which such shareholder acquired at least ten percent of the voting power of the trust’s shares. Thereafter, any such business combination must be approved by two super-majority shareholder votes unless, among other conditions, the trust’s common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. These provisions could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests. Although our bylaws contain a provision exempting acquisitions of our shares from the control share acquisition legislation referenced above, there can be no assurance that this provision will not be amended or eliminated at any time in the future.

Our Board of Trustees may change our investment and operational policies without a vote of the common shareholders.

Our major policies, including our policies with respect to acquisitions, financing, growth, operations, debt limitation and distributions, are determined by our Board of Trustees. The Trustees may amend or revise these and other policies from time to time without a vote of the holders of the common shares.

Our Board of Trustees and management make decisions on our behalf, and shareholders have limited management rights.

Our shareholders have no right or power to take part in our management except through the exercise of voting rights on certain specified matters. The Board of Trustees is responsible for our management and strategic business direction, and our management is responsible for our day-to-day operations. Certain policies of our Board of Trustees may not be consistent with the immediate best interests of our shareholders.



## RISKS RELATED TO OUR TAX STATUS

If we fail to qualify as a REIT, our dividends will not be deductible to us, and our income will be subject to taxation, which would reduce the cash available for distribution to our shareholders.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing REITs are limited. Our continued qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding shares of beneficial interest, the nature of our assets, the sources of our income, and the amount of our distributions to our shareholders. Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year and did not qualify for certain statutory relief provisions, we would not be allowed a deduction for distributions to our shareholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of, and trading prices for, our shares. Unless entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, amounts available for distribution to shareholders would be reduced for each of the years involved. Although we currently intend to continue to operate in a manner so as to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Trustees, with the consent of holders of two-thirds of the outstanding shares, to revoke our REIT election.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our shareholders.

In order to qualify as a REIT, each year we must distribute to our shareholders at least 90% of our REIT taxable income determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our actual distributions in any year are less than the sum of:

85% of our REIT ordinary income for that year;

95% of our REIT capital gain net income for that year; and

100% of our undistributed taxable income required to be distributed from prior years.

We have distributed, and intend to continue to distribute, our taxable income to our shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year. In the past we have borrowed, and in the future we may borrow, to pay distributions to our shareholders and the limited partners of our operating partnership. Such borrowings subject us to risks from borrowing as described herein. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

If the leases of our hotels to our TRSs are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as “rents from real property.” Rents paid to our operating partnership by our TRSs pursuant to the lease of our hotels constitute substantially all of our gross income. In order for such rent to qualify as “rents from real property” for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

Our ownership of our TRSs is limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotel operations pursuant to hotel management contracts. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (or 20% for taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable federal, foreign, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRSs is and will continue to be less than 25% of the value of our total assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above.

If our hotel managers do not qualify as “eligible independent contractors,” we would fail to qualify as a REIT.

Rent paid by a lessee that is a “related party tenant” of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease our hotels to our TRSs. A TRS will not be treated as a “related party tenant,” and will not be treated as directly operating a lodging facility, which is prohibited, to the extent the TRS leases properties from us that are managed by an “eligible independent contractor.”

We believe that the rent paid by our TRSs is qualifying income for purposes of the REIT gross income tests and that our TRSs qualify to be treated as taxable REIT subsidiaries for federal income tax purposes, but there can be no assurance that the Internal Revenue Service, or the IRS, will not challenge this treatment or that a court would not sustain such a challenge. If the IRS successfully challenged this treatment, we would likely fail to satisfy the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to satisfy either the asset or gross income tests, we would likely lose our REIT qualification for federal income tax purposes, unless certain relief provisions applied.

If our hotel managers do not qualify as “eligible independent contractors,” we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with our TRSs must qualify as an “eligible independent contractor” under the REIT rules in order for the rent paid to us by our TRSs to be qualifying income for our REIT income test requirements. Among other requirements, in order to qualify as an eligible independent contractor a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to continue to monitor ownership of our shares by our hotel managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

The federal income tax laws governing REITs are complex.

We intend to continue to operate in a manner that will qualify us as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so we can continue to qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

Complying with REIT requirements may force us to sell otherwise attractive investments.

To qualify as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. If we fail to comply with these requirements at the end of any calendar quarter, and the failure exceeds a de minimis threshold, we may be able to preserve our REIT status if (a) the failure was due to reasonable cause and not to willful neglect, (b) we dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, (c) we file a schedule with the IRS, describing each asset that caused the failure, and (d) we pay an additional tax of the greater of \$50,000 or the product of the highest applicable tax rate multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

We may pay taxable dividends partly in shares and partly in cash, in which case shareholders may sell our shares to pay tax on such dividends, placing downward pressure on the market price of our shares.

We may make taxable dividends that are payable partly in cash and partly in shares. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by the taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS issued a revenue procedure creating a temporary safe harbor that authorized publicly traded REITs to make elective cash/stock dividends, but that temporary safe harbor has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. If in the future we choose to pay dividends in our own shares, our shareholders may be required to pay tax in excess of the cash that they receive. If a U.S. shareholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares. If we pay dividends in our own shares and a significant number of our shareholders determine to sell our shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our shares.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The tax rate applicable to “qualified dividend income” payable to domestic stockholders taxed at individual rates may be 20% or lower. Dividends payable by REITs, however, generally are not eligible for the reduced rates or qualified dividend income. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

Our share ownership limitation may prevent certain transfers of our shares.

In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). Our Declaration of Trust prohibits direct or indirect ownership (taking into account applicable ownership provisions of the Code) of more than (a) 9.9% of the aggregate number of outstanding common shares of any class or series or (b) 9.9% of the aggregate number of outstanding preferred shares of any class or series of outstanding preferred shares by any shareholder or group, or the Ownership Limitation. Generally, the shares of beneficial interest owned by related owners will be aggregated for purposes of the Ownership Limitation. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests. Any transfer of shares of beneficial interest that would violate the

Ownership Limitation, cause us to have fewer than 100 shareholders, cause us to be “closely held” within the meaning of Section 856(h) of the Code or cause us to own, directly or indirectly, 10% or more of the ownership interest in any tenant (other than a TRS) will be void, the intended transferee of such shares will be deemed never to have had an interest in such shares, and such shares will be designated “shares-in-trust.” Further, we will be deemed to have been offered shares-in-trust for purchase at the lesser of the market price (as defined in the Declaration of Trust) on the date we accept the offer and the price per share in the transaction that created such shares-in-trust (or, in the case of a gift, devise or non-transfer event (as defined in the Declaration of Trust), the market price on the date of such gift, devise or non-transfer event). Therefore, the holder of shares of beneficial interest in excess of the Ownership Limitation will experience a financial loss when such shares are purchased by us, if the market price falls between the date of purchase and the date of redemption.

We have, in limited instances from time to time, permitted certain owners to own shares in excess of the Ownership Limitation. The Board of Trustees has waived the Ownership Limitation for such owners after following procedures set out in our Declaration of Trust, under which the owners requesting the waivers provided certain information and our counsel provided certain legal opinions. These waivers established levels of permissible share ownership for the owners requesting the waivers that are higher than the Ownership Limitation. If the owners acquire shares in excess of the higher limits, those shares are subject to the risks described above in the absence of further waivers. The Board of Trustees is not obligated to grant such waivers and has no current intention to do so with respect to any owners who (individually or aggregated as the Declaration of Trust requires) do not currently own shares in excess of the Ownership Limitation.

Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

The following table sets forth certain information with respect to the 49 hotels we wholly owned as of December 31, 2015, all of which are consolidated on the Company's financial statements.

Market	Name	Location	Year Opened	Number of Rooms
Boston Urban and Metro	Courtyard	Brookline/Boston, MA*	2003	188
	The Boxer	Boston, MA	2004	80
	Holiday Inn Express	Cambridge, MA	1997	112
	Residence Inn	Framingham, MA	2000	125
	Residence Inn	Norwood, MA	2006	96
	Hawthorn Suites by Wyndham	Franklin, MA	1999	100
	California - Arizona	Courtyard	San Diego, CA	1999
Courtyard		Los Angeles, CA	2008	260
Hyatt House		Pleasant Hill, CA	2003	142
Hyatt House		Pleasanton, CA	1998	128
Hyatt House		Scottsdale, AZ	1999	164
Hotel Milo		Santa Barbara, CA*	2001	122
TownePlace Suites		Sunnyvale, CA*	2003	94
South Florida	Blue Moon	Miami, FL	2013	75
	Courtyard	Miami, FL	2004	357
	Residence Inn	Coconut Grove, FL	2000	140
	Winter Haven	Miami, FL	2013	70
	Parrot Key Hotel & Resort	Key West, FL	2013	148
NYC Urban	Candlewood Suites	Times Square, NY	2009	188
	Duane Street	TriBeCa, NY	2008	43
	Hampton Inn	Chelsea/Manhattan, NY	2003	144
	Hampton Inn	Herald Square, Manhattan, NY	2005	136
	Hampton Inn	Seaport, NY	2006	65
	Hampton Inn	Times Square, NY	2009	184
	Hampton Inn	Pearl Street, Manhattan, NY	2012	81
	Hilton Garden Inn	JFK Airport, NY*	2005	192

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	Hilton Garden Inn	TriBeCa, NY	2009	151
	Holiday Inn	Wall Street, NY	2010	113
	Holiday Inn Express	Times Square, NY	2009	210
	Holiday Inn Express	Water Street, Manhattan, NY	2010	112
		Madison Square Garden,		
	Holiday Inn Express	Manhattan, NY	2006	228
	Hyatt	Union Square, NY	2013	178
	Nu Hotel	Brooklyn, NY	2008	93
	Sheraton Hotel	JFK Airport, NY*	2008	150
	Hilton Garden Inn	Midtown East, Manhattan, NY	2014	205
NY-NJ Metro	Holiday Inn Express	Chester, NY	2006	80
	Hyatt House	White Plains, NY	2000	159

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Market	Name	Location	Year Opened	Number of Rooms
Philadelphia	Hampton Inn	Philadelphia, PA	2001	250
	Hyatt Place	King of Prussia, PA	2010	129
	Sheraton Hotel	New Castle, DE	2011	192
	The Rittenhouse Hotel	Philadelphia, PA	2004	116
Washington D.C.	Ritz Carlton	Georgetown, DC	2014	86
	Courtyard	Alexandria, VA	2006	203
	Hampton Inn	Washington, DC	2005	228
	Hyatt House	Gaithersburg, MD	1998	140
	Residence Inn	Tysons Corner, VA	1984	96
	Residence Inn	Greenbelt, MD	2002	120
	The Capitol Hill Hotel	Washington, DC	2007	152
	St. Gregory Hotel	Washington, DC	2014	155

TOTAL ROOMS 7,225

\*Our interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreement. These ground lease agreements typically have initial terms of 99 years and all have a remaining term of at least 85 years.

The following table sets forth certain information with respect to the five hotels we owned through unconsolidated joint ventures with third parties as of December 31, 2015.

Market	Name	Location	Year Opened	Number of Rooms	HHLP Ownership in Asset	HHLP Preferred Return
Boston	Courtyard	South Boston, MA**	2005	164	50.0%	N/A
	Holiday Inn Express	South Boston, MA**	1998	118	50.0%	N/A
Connecticut	Hilton	Hartford, CT	2005	393	8.8%	8.5%

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Marriott	Mystic, CT	2001	285	66.7%	8.5%
Marriott	Hartford, CT	2005	409	15.0%	8.5%
	TOTAL ROOMS		1,369		

\*\*The joint ventures interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreements. These ground lease agreements typically have terms of 60 years and all have a remaining term of at least 47 years.

Item 3. Legal Proceedings

We are not presently subject to any material litigation nor, to our knowledge, is any other litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or business or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## MARKET INFORMATION

Our common shares trade on the New York Stock Exchange under the symbol "HT." As of February 16, 2016, the last reported closing price per common share on the New York Stock Exchange was \$18.92. The following table sets forth the high and low sales price per common share reported on the New York Stock Exchange as traded and the dividends paid on the common shares for each of the quarters indicated.

Year Ended December 31, 2015	High	Low	Dividend Per Common Share	
Fourth Quarter	\$ 25.63	\$ 21.47	\$ 0.28	
Third Quarter	\$ 28.60	\$ 22.20	\$ 0.28	
Second Quarter	\$ 26.92	\$ 25.04	\$ 0.28	
First Quarter	\$ 28.84	\$ 25.12	\$ 0.28	*

Year Ended December 31, 2014	High	Low	Dividend Per Common Share	
Fourth Quarter	\$ 29.96	\$ 24.60	\$ 0.28	*
Third Quarter	\$ 27.80	\$ 25.41	\$ 0.28	*
Second Quarter	\$ 26.96	\$ 22.08	\$ 0.24	*
First Quarter	\$ 24.20	\$ 20.72	\$ 0.24	*

\*Adjusted for 4-for-1 reverse share split effective as of June 22, 2015.

## SHAREHOLDER INFORMATION

At December 31, 2015 we had approximately 123 shareholders of record of our common shares. Common Units (which are redeemable by holders for cash or, at our option, for common shares on a one for one basis, subject to certain limitations) were held by approximately 32 entities and persons, including our company.

Our Declaration of Trust, subject to certain exceptions, provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.9% of the number of outstanding common shares of any class or series of common shares or the number of outstanding preferred shares of any class or series of preferred shares. For this purpose, a person includes a “group” and a “beneficial owner” as those terms are used for purposes of Section 13(d)(3) of the Exchange Act. Any transfer of common or preferred shares that would result in any person owning, directly or indirectly, common or preferred shares in excess of the ownership limitation, result in the common and preferred shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), result in our being “closely held” within the meaning of Section 856(h) of the Code, or cause us to own, actually or constructively, 10% or more of the ownership interests in a tenant (other than a TRS) of our or our operating partnership’s real property, within the meaning of Section 856(d)(2)(B) of the Code, will be null and void, and the intended transferee will acquire no rights in such common or preferred shares.

Any person who acquires or attempts to acquire common or preferred shares in violation of the foregoing restrictions, or any person who owned common or preferred shares that were transferred to a trust, will be required to give written notice immediately to us of such event and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

In addition, our trustees, upon receipt of advice of counsel or other evidence satisfactory to the trustees, in their sole and absolute discretion, may, in their sole and absolute discretion, exempt a person from the ownership limitation under certain circumstances. The foregoing restrictions continue to apply until the trustees determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT and there is an affirmative vote of two-thirds of the number of common and preferred shares entitled to vote on such matter at a regular or special meeting of our shareholders.

All certificates representing common or preferred shares bear a legend referring to the restrictions described above.

The restrictions on ownership and transfer described above could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of some, or a majority, of our common shares might receive a premium for their shares over the then-prevailing market price or which such holders might believe to be otherwise in their best interest.

## EQUITY COMPENSATION PLAN

See Part III, Item 12, for a description of securities authorized for issuance under our Amended and Restated 2012 Equity Incentive Plan.

## DISTRIBUTION INFORMATION

Future distributions, if any, will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on the profitability and cashflows of our hotels to generate sufficient cash flow for distributions. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

## SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2008 and ending December 31, 2015, with the yearly changes in the Standard & Poor's 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REIT Index for the same period, assuming a base share price of \$100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.



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	2010	2011	2012	2013	2014	2015
Hersha Hospitality Trust	\$ 100.00	\$ 73.94	\$ 75.76	\$ 84.39	\$ 110.45	\$ 89.53
S&P 500	100.00	100.00	113.40	146.97	166.84	169.14
Russell 2000	100.00	94.55	108.38	148.49	155.66	148.80
SNL Hotel REIT Index	100.00	84.91	93.04	113.81	150.22	116.21

## 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 year ended December 31, 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. We may seek Board of Trustee approval to increase the 2016 authorization.

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	49,791
	-	N/A	1,964,151	49,791

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July 1 to July 31, 2015				
August 1 to August 31, 2015	643,334	24.38	2,607,485	34,109
September 1 to September 30, 2015	813,453	23.57	3,420,938	17,174
October 1 to October 31, 2015	297,600	22.56	3,718,538	108,227
November 1 to November 30, 2015	516,128	23.31	4,234,666	96,197
December 1 to December 31, 2015	1,075,705	22.45	5,310,371	72,053

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## Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. As a result of the early adoption on January 1, 2014 of ASU Update No. 2014-08, we do not expect to classify most of our hotel dispositions as discontinued operations. For purposes of this table below, the operating results of certain real estate assets which have been sold prior to the adoption of ASU Update No. 2014-08 are included in discontinued operations for all periods presented.

## HERSHA HOSPITALITY TRUST

## SELECTED FINANCIAL DATA

(In thousands, except per share data)

	2015	2014	2013	2012	2011
Revenue:					
Hotel Operating Revenues	\$ 470,272	\$ 417,226	\$ 338,064	\$ 299,005	\$ 229,156
Interest Income From Development Loans	-	-	158	1,998	3,427
Other Revenues	113	180	191	212	330
Total Revenue	470,385	417,406	338,413	301,215	232,913
Operating Expenses:					
Hotel Operating Expenses	254,313	227,324	188,431	161,982	121,402
Gain on Insurance Settlements	-	(4,604)	(403)	-	-
Hotel Ground Rent	3,137	2,433	985	835	877
Real Estate and Personal Property Taxes and Property Insurance	34,518	30,342	24,083	19,341	15,936
General and Administrative (including Share Based Payments of \$6,523, \$6,028, \$9,746, \$9,678, \$7,590)	20,515	20,363	23,869	23,377	18,449
Acquisition and Terminated Transaction Costs	1,119	2,472	974	1,179	2,734
Depreciation and Amortization	74,390	69,167	55,784	48,243	40,562
Contingent Consideration	-	2,000	-	-	-
Total Operating Expenses	387,992	349,497	293,723	254,957	199,960
Operating Income	82,393	67,909	44,690	46,258	32,953
Interest Income	193	805	1,784	1,311	456
Interest Expense	(43,557)	(43,357)	(40,935)	(38,070)	(34,266)
Other Expense	(367)	(485)	(102)	(43)	(231)
Gain on Disposition of Hotel Properties	-	7,195	-	-	-
Gain on Hotel Acquisitions, net	-	12,667	12,096	-	-
Development Loan Recovery	-	22,494	-	-	-
Loss on Debt Extinguishment	(561)	(670)	(545)	(3,189)	(102)

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Income (Loss) before (Loss) Income from Unconsolidated Joint Venture Investments and Discontinued Operations	38,101	66,558	16,988	6,267	(1,190)
Income (Loss) from Unconsolidated Joint Ventures	965	693	(22)	(232)	210
Impairment of Investment in Unconsolidated Joint Ventures	-	-	(1,813)	-	(1,677)
(Loss) Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	-	-	-	(1,892)	2,757
Income (Loss) from Unconsolidated Joint Venture Investments	965	693	(1,835)	(2,124)	1,290
Income Before Income Taxes	39,066	67,251	15,153	4,143	100
Income Tax Benefit	3,141	2,685	5,600	3,355	-
Income from Continuing Operations	42,207	69,936	20,753	7,498	100
Discontinued Operations:					
(Loss) Gain on Disposition of Hotel Properties	-	(128)	32,121	11,231	991
Impairment of Assets Held for Sale	-	(1,800)	(10,314)	-	(30,248)
Income from Discontinued Operations	-	263	7,388	3,489	2,189
(Loss) Income from Discontinued Operations	-	(1,665)	29,195	14,720	(27,068)
Net Income (Loss)	42,207	68,271	49,948	22,218	(26,968)
(Income) Loss Allocated to Noncontrolling Interests	(411)	(1,016)	(335)	158	1,734
Issuance Costs of Redeemed Preferred Shares	-	-	(2,250)	-	-
Preferred Distributions	(14,356)	(14,356)	(14,611)	(14,000)	(10,499)
Net Income (Loss) applicable to Common Shareholders	\$ 27,440	\$ 52,899	\$ 32,752	\$ 8,376	\$ (35,733)

## HERSHA HOSPITALITY TRUST

## SELECTED FINANCIAL DATA

(In thousands, except per share data)

	2015	2014	2013	2012	2011
Basic Income (Loss) from Continuing Operations applicable to Common Shareholders	\$ 0.56	\$ 1.08	\$ 0.07	\$ (0.12)	\$ (0.24)
Diluted Income (Loss) from Continuing Operations applicable to Common Shareholders (1)	0.56	1.07	0.07	(0.12)	(0.24)
Dividends declared per Common Share	1.12	1.04	0.96	0.96	0.92
Balance Sheet Data					
Net investment in hotel properties	\$ 1,831,119	\$ 1,745,483	\$ 1,535,835	\$ 1,466,713	\$ 1,341,536
Assets Held for Sale	-	-	56,583	-	93,829
Noncontrolling Interests Common Units	31,876	29,082	29,523	15,484	16,862
Redeemable Noncontrolling Interest	-	-	-	15,321	14,955
Noncontrolling Interests Consolidated Joint Ventures	-	-	-	-	307
Noncontrolling Interests Consolidated Variable Interest Entity	(1,760)	(1,075)	(342)	476	-
Shareholder's equity	678,039	829,381	837,958	829,828	730,673
Total assets	1,969,772	1,855,539	1,748,097	1,707,679	1,630,909
Total debt	1,177,087	918,923	773,501	792,708	758,374
Liabilities related to Assets Held for Sale	-	-	45,835	-	61,758
Other Data					
Net cash provided by operating activities	\$ 121,817	\$ 112,894	\$ 90,261	\$ 71,756	\$ 58,668
Net cash used in investing activities	\$ (143,909)	\$ (180,504)	\$ (125,474)	\$ (55,817)	\$ (230,758)
Net cash provided by financing activities	\$ 28,372	\$ 53,072	\$ 2,367	\$ 28,552	\$ 131,062
Weighted average shares outstanding					
Basic	47,786,811	49,777,302	49,597,613	46,853,818	42,188,346
Diluted (1)	48,369,658	50,307,506	50,479,545	46,853,818	42,188,346

(1) Income allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these amounts in the numerator and denominator would have no impact.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements appearing in this Item 7 are forward-looking statements within the meaning of the federal securities laws. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. See "Cautionary Factors That May Affect Future Results" for additional information regarding our forward-looking statements.

### BACKGROUND

As of December 31, 2015, we owned interests in 54 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles and Miami, including 49 wholly-owned hotels and interests in five hotels owned through unconsolidated joint ventures. Our "Summary of Operating Results" section below contains operating results for 49 consolidated hotel assets and five hotel assets 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 December 31, 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, 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 acquisitions of new hotels 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.

Since 2010, the lodging cycle has been characterized by limited new supply and muted GDP growth. Favorable supply and demand fundamentals are expected for the next 2-to-3 years and increasing domestic and leisure transient business, combined with the resurgence of group travelers, is expected to offset global macroeconomic uncertainty and drive lodging demand moving forward. Limited new supply and strong demand has resulted in historically high occupancies across the United States (“U.S.”), with RevPAR growth forecast to be rate-driven for the remainder of the cycle. We expect moderate improvement in consumer and commercial spending and lodging demand during 2016. 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 “Item 1A. Risk Factors” and other documents that we may file with the SEC in the future. We will continue to cautiously monitor recovery in 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 years ended December 31, 2015, 2014 and 2013.

## CONSOLIDATED HOTELS:

	Year Ended 2015	Year Ended 2014	2015 vs. 2014 % Variance	Year Ended 2013	2014 vs. 2013 % Variance
Occupancy	84.1%	82.6%	1.5%	79.7%	2.9%
Average Daily Rate (ADR)	\$ 197.34	\$ 187.82	5.1%	\$ 179.70	4.5%
Revenue Per Available Room (RevPAR)	\$ 165.88	\$ 155.19	6.9%	\$ 143.30	8.3%
Room Revenues	\$ 424,383	\$ 380,461	11.5%	\$ 309,452	22.9%
Hotel Operating Revenues	\$ 470,272	\$ 417,226	12.7%	\$ 338,064	23.4%

RevPAR for the year ended December 31, 2015 increased 6.9% 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 in 2015 and the acquisition of hotel properties consummated in 2015 and 2014 that are accretive to RevPAR. The increase, as noted in the table above, was the result of increases in both occupancy and ADR. Performing particularly well in 2015 were hotels in our Boston, West Coast, and South Florida markets, each of which posted RevPAR growth in excess of 11.0% versus the same period in 2014.

The following table outlines operating results for the three years ended December 31, 2015, 2014 and 2013 for hotels we own through unconsolidated joint venture interests (excluding those hotel assets that have been sold to an independent third party during the period presented). 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:

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	Year Ended 2015	Year Ended 2014	2015 vs. 2014 % Variance	Year Ended 2013	2014 vs. 2013 % Variance
Occupancy	68.1%	67.2%	0.9%	68.3%	-1.1%
Average Daily Rate (ADR)	\$ 170.20	\$ 164.10	3.7%	\$ 154.57	6.2%
Revenue Per Available Room (RevPAR)	\$ 115.93	\$ 110.33	5.1%	\$ 105.52	4.6%
Room Revenues	\$ 57,927	\$ 59,135	-2.0%	\$ 58,273	1.5%
Total Revenues	\$ 80,703	\$ 80,860	-0.2%	\$ 80,879	0.0%

For our unconsolidated hotels, RevPAR for the year ended December 31, 2015 increased 5.1% compared to RevPAR achieved during the year ended December 31, 2014. The 2015 results reflect the overall condition of the market in which our unconsolidated joint venture hotels operate, particularly Boston, where our 2 hotels posted RevPAR growth of 8.1%. In addition, the Courtyard Norwich, CT is included in the results for the year ended 2014, but is not included in the results for the year ended 2015. The owner of the property, Mystic Partners, LLC, transferred the title of the property, of which we held a 66.7% interest, to the lender during the fourth quarter of 2014. This property had occupancy of 56.6%, ADR of \$115.52 and RevPAR of \$65.42 for the year ended 2014, which was the lowest operating statistics for the Mystic Partners, LLC portfolio.

As noted in “Item 1 – Business,” we entered into Contribution Agreements to make an equity investment in a joint venture, which will own seven hotels currently included in the Company’s consolidated hotels noted above. Upon contribution of the Cindat JV Properties into the joint venture, we believe the properties will be accounted for as an unconsolidated joint venture. The impact of this transaction on future occupancy, ADR and RevPAR reported for our consolidated hotels and unconsolidated joint ventures will depend upon the timing of contribution and the future results of the Cindat JV Properties.

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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 entire period being reported and the comparable period in each of the periods being presented, and is deemed fully operational. Based on this definition, for the years ended December 31, 2015 and 2014, there are 41 same store consolidated hotels and 34 same store consolidated hotels for the years ended December 31, 2014 and 2013. The following table outlines operating results for the years ended December 31, 2015, 2014, and 2013, for our same store consolidated hotels:

SAME STORE

CONSOLIDATED HOTELS:

	(includes 41 hotels in both years)			(includes 34 hotels in both years)		
	Year	Year		Year		2014 vs.
	Ended	Ended	2015 vs. 2014 %	Ended	Year Ended	2013
	2015	2014	Variance	2014	2013	% Variance
Occupancy	83.7%	82.1%	1.6%	82.9%	79.7%	3.2%
Average Daily Rate (ADR)	\$ 193.62	\$ 185.13	4.6%	\$ 179.76	\$ 176.85	1.6%
Revenue Per Available Room (RevPAR)	\$ 162.06	\$ 152.03	6.6%	\$ 148.97	\$ 140.95	5.7%
Room Revenues	\$ 374,679	\$ 351,248	6.7%	\$ 280,421	\$ 265,142	5.8%
Total Revenues	\$ 415,395	\$ 385,065	7.9%	\$ 305,961	\$ 288,635	6.0%

Driven by strong performance in our Boston, West Coast, and Washington DC markets, RevPAR for our same store consolidated hotels increased 6.6% during the year ended December 31, 2015, when compared to the same period in 2014.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2015 TO DECEMBER 31, 2014

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

Revenue

Our total revenues for the years ended December 31, 2015 and 2014 consisted entirely of hotel operating revenues and other revenue. 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 were consolidated in our financial statements during the period. Hotel operating revenues increased \$53,046, or 12.7%, from \$417,226 for the year ended December 31, 2014 to \$470,272 for the same period in 2015. This increase in hotel operating revenues was primarily attributable to the acquisition of hotel properties consummated in 2015 and 2014 as well as the continued growth and stabilization of our existing assets.

Since December 31, 2014, we have acquired interests in three consolidated hotels. These three hotels contributed the following operating revenues for the twelve months ended December 31, 2015.

Brand	Location	Acquisition Date	Rooms	2015 Hotel Operating Revenues
St. Gregory Hotel	Washington, DC	June 16, 2015	155	\$ 5,257
TownePlace Suites	Sunnyvale, CA	August 25, 2015	94	1,744
Ritz Carlton Georgetown	Washington, DC	December 29, 2015	86	149
			335	\$ 7,150

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2015 included revenues for the following hotels that were purchased during the year ended December 31, 2014. Hotels acquired during the year ended December 31, 2014 would have a full year of results included in the year ended December 31, 2015 but not necessarily a full year of results during the same period in 2014.

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We acquired interests in the following consolidated hotels during the year ended December 31, 2014:

Brand	Location	Acquisition Date	Rooms	2015 Hotel Operating Revenues	2014 Hotel Operating Revenues
Hotel Milo	Santa Barbara, CA	February 28, 2014	122	\$ 9,141	\$ 8,655
Parrot Key Resort	Key West, FL	May 7, 2014	148	15,089	9,145
Hilton Garden Inn 52nd Street	New York, NY	May 30, 2014*	205	17,935	10,439
Hampton Inn Pearl Street	New York, NY	June 23, 2014*	81	5,563	2,867
			556	\$ 47,728	\$ 31,106

\*Date the hotel began operations.

In addition, our same store consolidated portfolio experienced improvements in ADR and occupancy during the year ended December 31, 2015 when compared to the same period in 2014. Occupancy in our same store consolidated hotels increased 158 basis points from 82.1% during the year ended December 31, 2014 to 83.7% for the same period in 2015. ADR improved 4.6%, increasing from \$185.13 for the year ended December 31, 2014 to \$193.62 during the same period in 2015. These improvements were due to improvements in lodging trends in the markets in which our hotels are located.

#### Expenses

Total hotel operating expenses increased 11.9% to approximately \$254,313 for the year ended December 31, 2015 from \$227,324 for the year ended December 31, 2014. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2014, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 7.6%, or \$5,223, to \$74,390 for the year ended December 31, 2015 from \$69,167 for the year ended December 31, 2014. Real estate and personal property tax and property insurance increased \$4,176, or 13.8%, for the year ended December 31, 2015 when compared to the same period in 2014. This increase is due to our acquisitions along with a general 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 by approximately \$152 to \$20,515 for the year ended December 31, 2015 from \$20,363 for the year ended December 31, 2014. 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 \$495 when comparing the year ended December 31, 2015 to the same period in 2014. The increase in share based compensation expense is due primarily to the issuance of the shares attributable to the 2014 ALTIP Plan during the first quarter of 2015. 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 transactions costs will fluctuate from period to period based on our acquisition activities. Acquisition 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 \$1,353 from \$2,472 for the year ended December 31, 2014 to \$1,119 for the year ended December 31, 2015. While we acquired more properties in 2014, the manners in which acquisition targets are found can and do dictate the costs necessary to complete the acquisition. The costs incurred in 2015 were related to the following hotels: \$76 related to our St. Gregory acquisition, \$84 related to our TownePlace Suites acquisition, and \$548 related to our Ritz Carlton Georgetown acquisition. The costs incurred in 2014 were related to the following hotels: \$1,836 related to our Hilton Garden Inn 52nd Street acquisition; \$173 related to our Hotel Milo acquisition; and \$169 related to our Parrot Key Resort acquisition. Also included in these costs are charges related to transactions that were terminated during the year.

## Operating Income

Operating income for the year ended December 31, 2015 was \$82,393 compared to operating income of \$67,909 during the same period in 2014. Operating income was positively impacted by the improved operating results of our hotels discussed above. Offsetting this increase was insurance recoveries of approximately \$4,604 recognized during the year ended December 31, 2014 related to the settlement of insurance claims from Hurricane Sandy. A similar event did not occur during the year ended December 31, 2015.

## Interest Expense

Interest expense increased \$200 from \$43,357 for the year ended December 31, 2014 to \$43,557 for the year ended December 31, 2015. Our borrowings have increased in total since December 31, 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 during the year ended December 31, 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 year ended December 31, 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 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, which was fully drawn down by December 31, 2015.

## Gain on Disposition of Hotel Properties

During the year ended December 31, 2014, the Company recorded a gain of \$7,195 related to its sale of Hotel 373 in Manhattan.

## Gain on Hotel Acquisitions, net

During the year ended December 31, 2014, the Company recorded a gain of \$12,667 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. A similar event did not occur during the year ended December 31, 2015.

## 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 during the year ended December 31, 2014. A similar event did not occur during the year ended December 31, 2015.

#### 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. The operating results of the unconsolidated joint ventures improved by \$272 for the year ended December 31, 2015. This is primarily because of the improved performance in our Boston market, where two of our five properties owned in joint ventures are located.

#### Income Tax Benefit

During the year ended December 31, 2015, the Company recorded an income tax benefit of \$3,141 compared to an income tax benefit of \$2,685 in 2014.

#### Net Income Applicable to Common Shareholders

Net income applicable to common shareholders for the year ended December 31, 2015 was \$27,440 compared to net income applicable to common shareholders of \$52,899 for the same period in 2014. Net income applicable to common shareholders for the year ended December 31, 2014 was positively impacted by the improved operating results of our hotels and one-time gains discussed above which occurred for the year ended December 31, 2014 only.



## Comprehensive Income Attributable to Common Shareholders

Comprehensive income applicable to common shareholders for the year ended December 31, 2015 was \$27,332 compared to \$52,917 for the same period in 2014. This amount was primarily attributable to net income as more fully described above. Further change in other comprehensive income was primarily the result of 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. For the year ended December 31, 2015, we recorded other comprehensive loss of \$108 when compared to \$18 of other comprehensive income for the year ended December 31, 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.

## COMPARISON OF THE YEAR ENDED DECEMBER 31, 2014 TO DECEMBER 31, 2013

(dollars in thousands, except per share data)

## Revenue

Our total revenues for the years ended December 31, 2014 and 2013 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99.9% of total revenues for the years ended December 31, 2014 and 2013, respectively. 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 were consolidated in our financial statements during the period. Hotel operating revenues increased \$79,162, or 23.4%, from \$338,064 for the year ended December 31, 2013 to \$417,226 for the same period in 2014. This increase in hotel operating revenues was primarily attributable to the acquisitions consummated in 2014 and 2013 as well as increases in hotel operating revenues for our same store consolidated hotels.

We acquired interests in the following consolidated hotels that contributed the following operating revenues for the year ended December 31, 2014:

Brand	Location	Acquisition Date	Rooms	2014 Hotel Operating Revenues
Hotel Milo	Santa Barbara, CA	February 28, 2014	122	\$ 8,655
Parrot Key Resort	Key West, FL	May 7, 2014	148	9,145
Hilton Garden Inn 52nd Street	New York, NY	May 30, 2014*	205	10,439
Hampton Inn Pearl Street	New York, NY	June 23, 2014*	81	2,867

\*Date the hotel began operations.

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2014 included revenues for the following hotels that were purchased during the year ended December 31, 2013. Hotels acquired during the year ended December 31, 2013 would have a full year of results included in the year ended December 31, 2014 but not necessarily a full year of results during the same period in 2013.

We acquired interests in the following consolidated hotels during the year ended December 31, 2013:

Brand	Location	Acquisition Date	Rooms	2014 Hotel Operating Revenues	2013 Hotel Operating Revenues
Hyatt Union Square	New York, NY	April 9, 2013	178	\$ 19,066	\$ 11,272
Courtyard by Marriott	San Diego, CA	May 30, 2013	245	16,205	8,350
Residence Inn	Coconut Grove, FL	June 12, 2013	140	4,424	2,889
Winter Haven	Miami, FL	December 20, 2013	70	4,185	203
Blue Moon	Miami, FL	December 20, 2013	75	4,446	175
			708	\$ 48,326	\$ 22,889

In addition, our same store consolidated portfolio experienced improvements in ADR and occupancy during the year ended December 31, 2014 when compared to the same period in 2013. Occupancy in our same store consolidated hotels increased 320 basis points from 79.7% during the year ended December 31, 2013 to 82.9% for the same period in 2014. ADR improved 1.6%, increasing from \$176.85 for the year ended December 31, 2013 to \$179.76 during the same period in 2014. These improvements were due to improvements in lodging trends in the markets in which our hotels are located.

## Expenses

Total hotel operating expenses increased 20.6% to approximately \$227,324 for the year ended December 31, 2014 from \$188,431 for the year ended December 31, 2013. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2013, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 24.0%, or \$13,383, to \$69,167 for the year ended December 31, 2014 from \$55,784 for the year ended December 31, 2013. Real estate and personal property tax and property insurance increased \$6,259, or 26.0%, for the year ended December 31, 2014 when compared to the same period in 2013 due to our acquisitions along with a general 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 by approximately \$3,506 from \$23,869 in 2013 to \$20,363 in 2014. 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 \$3,718 when comparing the year ended December 31, 2014 to the same period in 2013. This decrease in share based compensation expense is due primarily to the vesting of the 2010 Multi-Year LTIP Plan as of December 31, 2016 as well as a lesser amount of restricted shares issued since December 31, 2013. 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 transactions costs will fluctuate from period to period based on our acquisition activities. Acquisition 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 increased \$1,498 from \$974 for the year ended December 31, 2013 to \$2,472 for the year ended December 31, 2014. While we acquired more properties during the year ended December 31, 2013 when compared to the same period in 2012, the manner in which acquisition targets are found can and do dictate the costs necessary to complete the acquisition. The costs incurred in 2014 were related to the following hotels: \$1,836 related to our Hilton Garden Inn 52nd Street acquisition; \$173 related to our Hotel Milo acquisition; and \$169 related to our Parrot Key Resort acquisition. The costs incurred in 2013 were related to following hotels: \$500 related to our Hyatt Union Square acquisition; \$152 related to our Residence Inn Coconut Grove acquisition; \$65 related to our Courtyard San Diego acquisition; and \$138 for our Winter Haven and Blue Moon Hotel acquisitions. The remaining costs were primarily related to transactions that were terminated during the year.

## Operating Income

Operating income for the year ended December 31, 2014 was \$67,909 compared to operating income of \$44,690 during the same period in 2013. Operating income was positively impacted by the improved operating results of our hotels discussed above as well as insurance recoveries of \$4,604, much of which represents settlement of business interruption insurance claims that arose from the Hurricane Sandy natural disaster in 2012.

#### Interest Expense

Interest expense increased \$2,422 from \$40,935 for the year ended December 31, 2013 to \$43,357 for the year ended December 31, 2014. The increase in interest expense is due primarily to increased borrowings drawn on our unsecured credit facilities. 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.

#### Gain on Disposition of Hotel Properties

During the year ended December 31, 2014, the Company recorded a gain of \$7,195 related to its sale of Hotel 373 in Manhattan.

#### Gain on Hotel Acquisitions, net

During the year ended December 31, 2014, the Company recorded a net gain of \$12,667 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. During the year ended December 31, 2013, the Company had recorded a similar net gain of \$12,096 related to its purchase of Hyatt Union Square.

#### 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. The operating results of the unconsolidated joint ventures improved by \$715 for the year ended December 31, 2014. This is primarily because of the improved performance in our Boston market, where two of our five properties owned in joint ventures are located.

We recorded an impairment loss of \$1,813 related to the Courtyard, Norwich, CT, one of the properties owned by Mystic Partners, LLC during the year ended December 31, 2013. At that time, we did not anticipate recovering our investment balance in this asset, and as such we reduced our investment attributed to this property to \$0 as of December 31, 2013. During the third quarter of 2014, the title on this property was transferred to the lender.

#### Income Tax Benefit

During the year ended December 31, 2014, the Company recorded an income tax benefit of \$2,685 compared an income tax benefit of \$5,600 in 2013. Prior year income tax benefit included the reversal of allowances against state deferred tax assets resulting from cumulative net operating losses that were deemed to be realizable based on projections of future performance of the hotels generating these net operating losses.

#### Discontinued Operations

On September 20, 2013, the Company entered into a purchase and sale agreement to sell a portfolio of 16 non-core hotels for an aggregate purchase price of approximately \$217,000. During the third quarter of 2013, the Company had recorded an impairment of \$6,591 in connection with the anticipated disposition. As of December 31, 2013, the Company had closed on the sale of 12 of the hotels, with the remaining four hotels closing during the first quarter of 2014. Accordingly, a gain of \$31,559 was recognized during the fourth quarter of 2013 as the proceeds from the sale exceeded the carrying value.

For the year ended December 31, 2014, the Company recorded a loss of \$128 in connection with the closing of the remaining four properties. 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.

On June 12, 2013, we closed on the sale of our Comfort Inn, Harrisburg, PA. The Company sold the hotel for \$3,700 and recorded a gain on sale of \$442. Additionally, on September 17, 2013, we closed on the sale of Holiday Inn Express Camp Springs, MD property. The Company sold the hotel for \$8,500 and recorded a gain on the sale of \$120 and an impairment charge of \$3,723 during the second quarter of 2013 as the anticipated net proceeds did not exceed the carrying value.

The operating results for all 18 of the above described hotel properties and one land parcel have been reclassified to discontinued operations in the statement of operations for the years ended December 31, 2014 and 2013, respectively.

We recorded income from discontinued operations of approximately \$263 during the twelve months ended December 31, 2014, compared to income of approximately \$7,388 during the twelve months ended December 31, 2013. See “Note 11 – Hotel Dispositions” for more information.

Effective January 1, 2014, we early 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 early 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.

### Net Income Applicable to Common Shareholders

Net income applicable to common shareholders for the year ended December 31, 2014 was \$52,899 compared to net income applicable to common shareholders of \$32,752 for the same period in 2013. Net income applicable to common shareholders for the year ended December 31, 2014 was positively impacted by the improved operating results of our hotels and one-time gains discussed above. Net income applicable to common shareholders for the year ended December 31, 2013 was negatively impacted by the extinguishment of \$2,250 of issuance costs associated with the redemption of all of our outstanding Series A Preferred Shares.

### Comprehensive Income Applicable to Common Shareholders

Comprehensive income applicable to common shareholders for the year ended December 31, 2014 was \$52,917 compared to \$34,162 for the same period in 2013. This amount was primarily attributable to net income as more fully described above. Further change in other comprehensive income was primarily the result of the positive shift in the position of the fair value of our derivative instruments. For the year ended December 31, 2014, we recorded other comprehensive income of \$18 when compared to \$1,410 of other comprehensive income for the year ended December 31, 2013.

## 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 December 31, 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.

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. As of December 31, 2015, we had fully drawn this term loan. This new term loan expands our senior unsecured borrowing capacity from \$500,000 to \$800,000.

As of December 31, 2015, the outstanding unsecured term loan balance under the \$500,000 senior unsecured credit facility and unsecured term loan agreement was \$550,000 and we had \$27,000 outstanding borrowings under the \$250,000 revolving line of credit. As of December 31, 2015, our remaining borrowing capacity under the \$500,000 unsecured credit facility's revolving line of credit was \$218,745, which is based on certain operating metrics of unencumbered hotel properties designated as borrowing base assets. We intend to repay indebtedness incurred under the \$500,000 unsecured credit facility 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 December 31, 2015, we have \$158,167 of indebtedness maturing on or before December 31, 2016. 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.

On February 25, 2013, we completed a public offering of 3,000,000 6.875% Series C preferred shares. These shares have a par value of \$0.01 per share with a \$25.00 liquidation preference per share. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$72,370. We utilized the net proceeds of the offering to redeem all outstanding 8.00% Series A preferred shares on March 28, 2013, and for general corporate purposes. The Series A preferred shares were redeemed at a per share redemption price of \$25.00 together with accrued and unpaid dividends to the redemption date for an aggregate per share redemption price of \$25.4056. Dividends ceased accruing on the Series A preferred shares on March 28, 2013.

In addition to the incurrence of debt and the offering of equity securities, disposition of property or investment from a joint venture partner serve as additional capital resources and sources of liquidity. We may recycle capital from stabilized assets, as evidenced by our recently announced transaction involving the Cindat JV Properties or from sales of non-core hotels in secondary and tertiary markets. Capital from these types of transactions is intended to be redeployed into high growth acquisitions, share buybacks, or to pay down existing debt.

#### 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 shares. In October 2015, our Board of Trustees authorized a new \$100,000 share repurchase program which would commence up on the completion of the existing program. The new program will expire on December 31, 2016 unless extended by the Board of Trustees. We may seek Board of Trustee approval to increase the 2016 authorization. For the year ended December 31, 2015, the Company repurchased 5,310,371 common shares for an aggregate purchase price of \$128,239 under the February 2015 and October 2015 repurchase programs. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

#### Acquisitions

During the year ended December 31, 2015, we acquired the following wholly-owned hotel properties:

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Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Other Intangibles	Loan Costs	Total Purchase Price	Assump 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	-
Ritz-Carlton Georgetown, DC	12/29/2015	17,570	29,160	3,270	-	-	50,000	-
<b>TOTAL</b>		<b>\$ 41,334</b>	<b>\$ 81,164</b>	<b>\$ 8,858</b>	<b>\$ 6,498</b>	<b>\$ 978</b>	<b>\$ 138,832</b>	<b>\$ 28,902</b>

\*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 and intangible asset related to the franchise agreement of \$100 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 on 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.

## 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 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 year ended December 31, 2015 was \$121,817 and cash used for the payment of distributions and dividends for the year ended December 31, 2015 was \$70,971.

We also project that our operating cash flow and available borrowings under the \$250,000 revolving line of credit portion of our \$800,000 unsecured credit facility will be sufficient to satisfy our liquidity and other capital needs over the next twelve to eighteen months.

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 \$800,000 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 year ended December 31, 2015 decreased when compared to spending on capital improvements during the year ended December 31, 2014. During the year ended December 31, 2015, we spent \$27,366 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to \$38,342 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 twelve months ended December 31, 2015, we spent \$2,814 less on hotel development projects than during the same period of 2014 as both the new tower construction at Courtyard Miami Beach and re-development project at Hampton Inn Pearl Street hotels neared completion. 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 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.

CASH FLOW ANALYSIS (dollars in thousands, except per share data)

Comparison of the Years Ended December 31, 2015 and December 31, 2014

Net cash provided by operating activities increased \$8,923 from \$112,894 for the year ended December 31, 2014 to \$121,817 for the comparable period in 2015. Net income, adjusted for non-cash items reflected in the statement of cash flows for the years ended December 31, 2015 and 2014, increased \$16,769 for the year ended December 31, 2015 when compared to 2014. This is primarily due to cash provided by properties acquired over the past twelve months and improving operating results within our existing portfolio. Further, a net decrease in working capital assets provided additional cash from operating activities.

Net cash used in investing activities for the year ended December 31, 2015 decreased \$36,595 from \$180,504 for the year ended December 31, 2014 compared to \$143,909 for 2015. While spending on the purchase of hotel properties and deposits on hotel acquisitions was \$60,060 higher during the year ended December 31, 2014, compared to same period in 2015, proceeds from the disposition of hotel properties was \$30,056 less during the year ended December 31, 2015 when compared to the year ended December 31, 2014. Offsetting this was spending on hotel development projects which were \$2,814 less during the year ended December 31, 2015 when compared to the year ended December 31, 2014. During the year ended December 31, 2014 we received \$30,056 in proceeds from the disposition of Hotel 373 in the second quarter and the remaining 4 non-core properties during the first quarter.

Net cash provided by financing activities for the year ended December 31, 2015 was \$28,372 compared to net cash provided by financing activities for the year ended December 31, 2014 of \$53,072. Net proceeds received during the year ended December 31, 2015 under our unsecured credit facility were \$227,000 higher than during the same period in 2014. Net proceeds from mortgages and notes payable were \$136,258 lower during the year ended December 31, 2015, when compared to the same period in 2014. During the year ended December 31, 2015, we used \$128,239 for the repurchase of common shares. Dividends and distributions payable increased \$4,605 during the year ended December 31, 2015, compared to 2014, due to the increase in our dividend paid on common shares from \$1.04 to \$1.12 per share. This was partially offset by the reduction of dividends paid on common shares due to our common share repurchases.

Comparison of the Years Ended December 31, 2014 and December 31, 2013

Net cash provided by operating activities increased \$22,633, from \$90,261 for the year ended December 31, 2013 to \$112,894 for the same period 2014. Net income, adjusted for non-cash items reflected in the statement of cash flows for the years ended December 31, 2014 and 2013, increased \$17,698 for the year ended December 31, 2014 when compared to 2013. This is primarily due to cash provided by properties acquired over the past twelve months and improving operating results within our existing portfolio. The offsetting decrease in cash provided by operating activities was attributable to an increase in working capital assets.

Net cash used in investing activities increased \$55,030, from \$125,474 for year ended December 31, 2013 to \$180,504 for 2014. Spending on the purchase of hotel properties and deposits on hotel acquisitions was \$43,742 less during 2014 compared to 2013, proceeds from the disposition of hotel properties was \$105,959 less during the year ended December 31, 2014 when compared to the year ended December 31, 2013. Offsetting this was spending on hotel development projects which was \$16,290 less during the year ended December 31, 2014 when compared to the year ended December 31, 2013 and a repayment of note receivable of \$15,122 which occurred during the year ended December 31, 2013. During the year ended December 31, 2014 we received \$30,056 in proceeds from the disposition of Hotel 373 in the second quarter and the remaining four non-core properties during the first quarter.

Net cash provided by financing activities for year ended December 31, 2014 was \$53,072 compared to \$2,367 during the same period in 2013. Net proceeds received during the year ended December 31, 2014 under our unsecured credit facility were \$50,000 higher than during the same period in 2013. Net proceeds from mortgages and notes payable were \$29,050 higher during the year ended December 31, 2014, when compared to the same period in 2013. During the first quarter of 2013, we completed an offering of Series C Preferred Shares with net proceeds of \$72,370, after deducting underwriting discounts and offering expenses, which was primarily used to redeem all of the issued and outstanding Series A Preferred Shares with a redemption value of \$60,000. During the year ended December 31, 2014, we used \$15,418 for the repurchase of common shares. Dividends and distributions payable decreased \$391 during the year ended December 31, 2014, compared to 2013, due to a decrease in the number of outstanding common shares.

## 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.

## 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, gains on hotel acquisitions, 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, gains on hotel acquisitions, 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):

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Net income applicable to common shareholders	\$ 27,440	\$ 52,899	\$ 32,752
Income allocated to noncontrolling interests	411	1,016	335
(Income) loss from unconsolidated joint ventures	(965)	(693)	1,835
Gain on hotel acquisition	-	(12,667)	(12,096)
Development Loan Recovery	-	(22,494)	-
Gain on disposition of hotel properties	-	(7,067)	(32,121)
Loss from impairment of depreciable assets	-	1,800	10,314
Depreciation and amortization	74,390	69,167	55,784
Depreciation and amortization from discontinued operations	-	-	7,050
Funds from consolidated hotel operations applicable to common shareholders and Partnership units	101,276	81,961	63,853
Income (loss) from Unconsolidated Joint Ventures	965	693	(1,835)
Impairment of investment in unconsolidated joint ventures	-	-	1,813
Depreciation and amortization of purchase price in excess of historical cost (1)	481	570	596
Interest in depreciation and amortization of unconsolidated joint ventures (2)	5,027	5,915	6,502
Funds from unconsolidated joint ventures operations applicable to common shareholders and Partnership units	6,473	7,178	7,076
Funds from Operations applicable to common shareholders and Partnership units	\$ 107,749	\$ 89,139	\$ 70,929
Weighted Average Common Shares and Units Outstanding			
Basic	47,786,811	49,777,302	49,597,613
Diluted	50,276,867	52,035,256	52,221,554

(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 income (loss) to arrive at

FFO in each year presented.

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## 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.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, estimates are evaluated by us, including those related to carrying value of investments in hotel properties. Our estimates are based upon historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

### Revenue Recognition

Approximately 95% of our revenues are derived from hotel room revenues and revenue from other hotel operating departments. We directly recognize revenue and expense for all consolidated hotels as hotel operating revenue and hotel operating expense when earned and incurred. These revenues are recorded net of any sales or occupancy taxes collected from our guests. All revenues are recorded on an accrual basis, as earned. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred.

Revenue for interest on development loan financing is recorded in the period earned based on the interest rate of the loan and outstanding balance during the period. Development loans receivable and accrued interest on the development loans receivable are evaluated to determine if outstanding balances are collectible. Interest is recorded only if it is determined the outstanding loan balance and accrued interest balance are collectible.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned.

#### 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. ASU 2015-03 does not address debt issuance costs related to line-of-credit arrangements. The SEC staff announced at the June 18, 2015 Emerging Issues Task Force Meeting that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of a line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which incorporates the SEC staff guidance into the FASB Accounting Standards Codification. 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 continue 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 anticipates a change in our balance sheet presentation only because the standard does not alter the accounting for amortization of debt issuance costs.

#### 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 or properties that are intended to be 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 December 31, 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.

### 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 variable interest entity that most significantly impact the entity's economic performance, and ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE. Control can also be demonstrated by the ability of a member to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the other member and the inability of the members to replace the managing member. 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.

#### Accounting for Derivative Financial Investments and Hedging Activities

We use derivatives to hedge, fix and cap interest rate risk and we account for our derivative and hedging activities by recording all derivative instruments at fair value on the balance sheet. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. Cash flow hedges that are considered highly effective are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in other comprehensive income within shareholders' equity. Amounts are reclassified from other comprehensive income to the income statements in the period or periods the hedged forecasted transaction affects earnings.

Under cash flow hedges, derivative gains and losses not considered highly effective in hedging the change in expected cash flows of the hedged item are recognized immediately in the income statement. For hedge transactions that do not qualify for the short-cut method, at the hedge's inception and on a regular basis thereafter, a formal assessment is performed to determine whether changes in the cash flows of the derivative instruments have been highly effective in offsetting changes in cash flows of the hedged items and whether they are expected to be highly effective in the future.



RELATED PARTY TRANSACTIONS

We have entered into a number of transactions and arrangements that involve related parties. For a description of the transactions and arrangements, please see Note 6, “Commitments and Contingencies and Related Party Transactions,” to the consolidated financial statements.

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## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our contractual obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2015.

Contractual Obligations	Total	2016	2017	2018	2019	2020	Thereafter
Long Term Debt	\$ 596,584	\$ 158,167	\$ 203,737	\$ 101,871	\$ 2,872	\$ 2,912	\$ 127,025
Interest Expense on Long Term Debt	87,982	25,812	9,954	7,243	5,309	5,194	34,470
Unsecured Term Loan	550,000	-	-	-	250,000	300,000	-
Unsecured Line of Credit	27,000	-	-	27,000	-	-	-
Interest Expense on Credit Facility	73,159	15,662	15,662	15,662	9,764	8,584	7,825
Hotel Ground Rent	262,944	2,701	2,706	2,714	2,719	2,744	249,360
Total	\$ 1,597,669	\$					