

HERSHA HOSPITALITY TRUST

Form 10-Q

July 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

COMMISSION FILE NUMBER: 001-14765

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

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As of July 25, 2017, the number of Class A common shares of beneficial interest outstanding was 41,834,274 and there were no Class B common shares of beneficial interest outstanding.

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Hersha Hospitality Trust

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016

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

	June 30, 2017	December 31, 2016
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation	\$ 2,051,750	\$ 1,767,570
Investment in Unconsolidated Joint Ventures	3,567	11,441
Cash and Cash Equivalents	59,600	185,644
Escrow Deposits	7,218	8,993
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of \$43 and \$91	12,374	8,769
Due from Related Parties	6,330	18,332
Intangible Assets, Net of Accumulated Amortization of \$5,488 and \$4,532	17,105	16,944
Other Assets	38,224	39,370
Hotel Assets Held for Sale	-	98,473
Total Assets	\$ 2,196,168	\$ 2,155,536
Liabilities and Equity:		
Line of Credit	\$ -	\$ -
Unsecured Term Loans, Net of Unamortized Deferred Financing Costs (Note 5)	707,740	663,500
Unsecured Notes Payable, Net of Unamortized Deferred Financing Costs (Note 5)	50,604	50,578
Mortgages Payable, Net of Unamortized Premium and Unamortized Deferred Financing Costs	311,850	337,821
Accounts Payable, Accrued Expenses and Other Liabilities	71,108	65,106
Dividends and Distributions Payable	17,590	26,050
Liabilities Related to Hotel Assets Held for Sale	-	51,428
Deferred Gain on Disposition of Hotel Assets	81,269	81,314
Total Liabilities	\$ 1,240,161	\$ 1,275,797
Equity:		
Shareholders' Equity:		
Preferred Shares: \$.01 Par Value, 29,000,000 Shares Authorized, 3,000,000 Series C, 7,700,000 Series D and 4,000,000 Series E Shares Issued and Outstanding at June 30, 2017 and December 31, 2016 , with Liquidation Preferences of \$25 Per Share (Note 1)	\$ 147	\$ 147

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Common Shares: Class A, \$.01 Par Value, 104,000,000 Shares Authorized at June 30, 2017 and 90,000,000 Shares Authorized at December 31, 2016; 41,827,466 and 41,770,514 Shares Issued and Outstanding at June 30, 2017 and December 31, 2016, respectively	418	418
Common Shares: Class B, \$.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at June 30, 2017 and December 31, 2016	-	-
Accumulated Other Comprehensive Income	209	1,373
Additional Paid-in Capital	1,198,941	1,198,311
Distributions in Excess of Net Income	(295,523)	(364,831)
Total Shareholders' Equity	904,192	835,418
Noncontrolling Interests (Note 1):	51,815	44,321
Total Equity	956,007	879,739
Total Liabilities and Equity	\$ 2,196,168	\$ 2,155,536

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Hotel Operating Revenues	\$ 137,016	\$ 127,629	\$ 244,968	\$ 234,476
Other Revenues	988	94	1,034	100
Total Revenues	138,004	127,723	246,002	234,576
Operating Expenses:				
Hotel Operating Expenses	76,522	65,900	143,789	131,618
Hotel Ground Rent	894	892	1,701	1,785
Real Estate and Personal Property Taxes and Property Insurance	8,068	7,949	15,694	17,105
General and Administrative (including Share Based Payments of \$2,527 and \$1,873, and \$3,956 and \$4,279 for the three and six months ended June 30, 2017 and 2016, respectively)	6,598	6,455	11,223	11,855
Acquisition and Terminated Transaction Costs	1,124	55	1,824	1,563
Depreciation and Amortization	20,114	18,495	39,576	38,555
Total Operating Expenses	113,320	99,746	213,807	202,481
Operating Income	24,684	27,977	32,195	32,095
Interest Income	72	78	197	124
Interest Expense	(10,590)	(11,281)	(20,439)	(23,502)
Other Expense	(279)	(633)	(678)	(739)
Gain on Disposition of Hotel Properties	70,852	95,276	89,583	95,276
Loss on Debt Extinguishment	-	(1,049)	(274)	(1,091)
Income Before Results from Unconsolidated Joint Venture Investments and Income Taxes	84,739	110,368	100,584	102,163
Income (Loss) from Unconsolidated Joint Ventures	711	1,521	(3,175)	1,307
	-	-	16,239	-



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Gain from Remeasurement of Investment in Unconsolidated Joint Venture

Income from Unconsolidated Joint Venture Investments	711	1,521	13,064	1,307
Income Before Income Taxes	85,450	111,889	113,648	103,470
Income Tax (Expense) Benefit	(662)	3,070	(2,905)	3,070
Net Income	84,788	114,959	110,743	106,540
Income Allocated to Noncontrolling Interests	(4,758)	(4,748)	(5,939)	(4,061)
Preferred Distributions	(6,042)	(4,000)	(12,084)	(7,589)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	(4,021)	-	(4,021)
Net Income Applicable to Common Shareholders	\$ 73,988	\$ 102,190	\$ 92,720	\$ 90,869

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Earnings Per Share:				
BASIC				
Income from Continuing Operations Applicable to Common Shareholders	\$ 1.77	\$ 2.35	\$ 2.22	\$ 2.06
DILUTED				
Income from Continuing Operations Applicable to Common Shareholders	\$ 1.75	\$ 2.33	\$ 2.19	\$ 2.04
Weighted Average Common Shares Outstanding:				
Basic	41,737,044	43,427,726	41,727,056	43,903,526
Diluted*	42,207,841	43,863,577	42,201,126	44,384,969

\*Income allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the “Operating Partnership” or “HHLP”) has been excluded from the numerator and the Class A common shares issuable upon any redemption of the Operating Partnership’s common units of limited partnership interest (“Common Units”) and the Operating Partnership’s vested LTIP units (“Vested LTIP Units”) have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these shares and units in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income applicable to common shareholders.

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

	Three Months Ended		Six Months Ended June	
	June 30, 2017	2016	30, 2017	2016
Common Units and Vested LTIP Units	2,715,951	2,184,008	2,673,739	2,120,260

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income	\$ 84,788	\$ 114,959	\$ 110,743	\$ 106,540
Other Comprehensive (Loss) Income				
Change in Fair Value of Derivative Instruments	(1,179)	(124)	(959)	(540)
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	(130)	140	(280)	319
Total Other Comprehensive (Loss) Income	\$ (1,309)	\$ 16	\$ (1,239)	\$ (221)
Comprehensive Income	83,479	114,975	109,504	106,319
Less: Comprehensive Income Attributable to Noncontrolling Interests	(1,117)	(4,748)	(5,865)	(4,061)
Less: Preferred Distributions	(6,042)	(4,000)	(12,084)	(7,589)
Less: Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	(4,021)	-	(4,021)
Comprehensive Income Attributable to Common Shareholders	\$ 76,320	\$ 102,206	\$ 91,555	\$ 90,648

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

	Shareholders' Equity									
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital	Accumulated Other Comprehensive Income (\$)	Distributions in Excess of Net Income (\$)	Total Shareholders' Equity (\$)	
Balance at December 31, 2016	41,770,514	418	-	14,700,000	147	1,198,311	1,373	(364,831)	835,418	2
Unit										
Conversion	11,982	-	-	-	-	187	-	-	187	(
Dividends and Distributions declared:										
Common										
Shares (\$0.56 per share)	-	-	-	-	-	-	-	(23,412)	(23,412)	-
Preferred										
Shares	-	-	-	-	-	-	-	(12,084)	(12,084)	-
Common Units (\$0.56 per share)	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-

LTIP Units (\$0.56 per share)										
Dividend Reinvestment Plan	2,410	-	-	-	-	45	-	-	45	
Share Based Compensation:										
Grants	42,560	-	-	-	-	(295)	-	-	(295)	1
Amortization	-	-	-	-	-	693	-	-	693	-
Change in Fair Value of Derivative Instruments	-	-	-	-	-	-	(1,164)	-	(1,164)	-
Net Income	-	-	-	-	-	-	-	104,804	104,804	-
Balance at June 30, 2017	41,827,466	418	-	14,700,000	147	1,198,941	209	(295,523)	904,192	3

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS, EXCEPT SHARES]

Shareholders' Equity									
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Distributions in Excess of Net Income (\$)	Total Shareholders' Equity (\$)
Balance at December 31, 2015	44,457,368	444	-	7,600,000	76	1,086,259	(466)	(408,274)	678,039
Repurchase of Common Shares	(2,072,007)	(20)	-	-	-	(39,105)	-	(2)	(39,127)
Preferred Share Offering, Net of Costs	-	-	-	7,700,000	77	185,933	-	-	186,010
Preferred Share Redemption	-	-	-	(4,600,000)	(46)	(114,954)	-	-	(115,000)
Dividends and Distributions declared: Common Shares (\$0.56 per share)	-	-	-	-	-	-	-	(24,357)	(24,357)
Preferred Shares	-	-	-	-	-	-	-	(7,589)	(7,589)
Common Units (\$0.56 per	-	-	-	-	-	-	-	-	-

share)										
LTIP Units										
(\$0.56 per										
share)	-	-	-	-	-	-	-	-	-	-
Dividend										
Reinvestment										
Plan	1,659	-	-	-	-	31	-	-	31	-
Share Based										
Compensation:										
Grants	39,345	-	-	-	-	(613)	-	-	(613)	2
Amortization	-	-	-	-	-	639	-	-	639	-
Change in Fair										
Value of										
Derivative										
Instruments	-	-	-	-	-	-	(221)	-	(221)	-
Net Loss	-	-	-	-	-	-	-	102,479	102,479	-
Balance at June										
30, 2016	42,426,365	424	-	10,700,000	107	1,118,190	(687)	(337,743)	780,291	2

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



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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Six Months Ended June 30,	
	2017	2016
Operating Activities:		
Net Income	\$ 110,743	\$ 106,540
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Gain on Disposition of Hotel Properties, Net	(89,583)	(95,276)
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	(16,239)	-
Deferred Taxes	2,905	(3,070)
Depreciation	38,754	39,705
Amortization	1,769	670
Loss on Debt Extinguishment	274	1,091
Equity in Loss (Income) of Unconsolidated Joint Ventures	3,175	(1,307)
Distributions from Unconsolidated Joint Ventures	-	429
Loss Recognized on Change in Fair Value of Derivative Instrument	16	43
Share Based Compensation Expense	3,956	4,279
Change in Assets and Liabilities:		

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(Increase) Decrease in:		
Hotel Accounts Receivable	(510)	1,076
Escrows	816	360
Other Assets	(157)	3,412
Due from Related Parties	12,002	(7,818)
(Decrease) Increase in:		
Due to Related Parties	-	(8,771)
Accounts Payable, Accrued Expenses and Other Liabilities	(383)	1,334
Net Cash Provided by Operating Activities	\$ 67,538	\$ 42,697
Investing Activities:		
Purchase of Hotel Property Assets	\$ (249,291)	\$ (126,245)
Capital Expenditures	(22,015)	(18,276)
Cash Paid for Hotel Development Projects	(1,005)	-
Proceeds from Disposition of Hotel Properties	188,651	12,446
Net Changes in Capital Expenditure Escrows	959	3,329
Proceeds from the Sale of Joint Venture Interests	11,623	-
Proceeds from Contribution of Hotel Property Assets to Unconsolidated Joint Venture	-	428,811
Repayment of Notes Receivable	2,000	-
Distributions from Unconsolidated Joint Ventures	-	1,421
Net Cash (Used in) Provided by Investing Activities	\$ (69,078)	\$ 301,486

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

[IN THOUSANDS]

	Six Months Ended June 30,	
	2017	2016
Financing Activities:		
Repayment of Borrowings Under Line of Credit, Net	\$ -	\$ (27,000)
Proceeds of Unsecured Term Loan Borrowing	43,900	-
Repayment of Borrowings Under Unsecured Term Loan Borrowing	-	(39,480)
Principal Repayment of Mortgages and Notes Payable	(121,852)	(64,710)
Cash Paid for Deferred Financing Costs	(426)	(363)
Cash Paid for Debt Extinguishment	(245)	(892)
Proceeds from Issuance of Preferred Shares, Net	-	186,010
Redemption of Series B Preferred Shares	-	(115,000)
Repurchase of Common Shares	-	(39,127)
Dividends Paid on Common Shares	(31,707)	(24,874)
Dividends Paid on Preferred Shares	(11,687)	(8,846)
Distributions Paid on Common Units and LTIP Units	(2,436)	(1,754)
Other Financing Activities	(51)	-
Net Cash Used in Financing Activities	\$ (124,504)	\$ (136,036)
Net Decrease in Cash and Cash Equivalents	\$ (126,044)	\$ 208,147
Cash and Cash Equivalents - Beginning of Period	185,644	27,955
Cash and Cash Equivalents - End of Period	\$ 59,600	\$ 236,102

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



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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Hersha Hospitality Trust (“we,” “us,” “our” or the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial information and with the general instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any future period. Accordingly, readers of these consolidated interim financial statements should refer to the Company’s audited financial statements prepared in accordance with US GAAP, and the related notes thereto, for the year ended December 31, 2016, which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as certain footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted from this report pursuant to the rules of the Securities and Exchange Commission.

We are a self-administered Maryland real estate investment trust that was organized in May 1998 and completed our initial public offering in January 1999. Our common shares are traded on the New York Stock Exchange (the “NYSE”) under the symbol “HT.” We own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership (“HHLP” or “the Partnership”), for which we serve as the sole general partner. As of June 30, 2017, we owned an approximate 93.3% partnership interest in HHLP, including a 1.0% general partnership interest.

Principles of Consolidation and Presentation

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

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

#### Variable Interest Entities

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

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 [UNAUDITED]

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

NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

the primary beneficiary in these entities. Accordingly, the accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated.

Noncontrolling Interest

We classify the noncontrolling interests of our consolidated variable interest entity, common units of limited partnership interest in HHLP (“Common Units”), and Long Term Incentive Plan Units (“LTIP Units”) as equity. LTIP Units are a separate class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units and LTIP Units totaled \$51,815 as of June 30, 2017 and \$44,321 as of December 31, 2016. As of June 30, 2017, there were 3,010,348 Common Units outstanding with a fair market value of \$55,722, based on the price per share of our common shares on the NYSE on such date. In accordance with the partnership agreement of HHLP, holders of these Common Units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying cash.

Net income or loss attributed to Common Units and LTIP Units is included in net income or loss but excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Shareholders’ Equity

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

					Dividend Per Share Six Months Ended June 30,	
Series	Shares Outstanding		Aggregate Liquidation Preference	Distribution Rate	2017	2016
	June 30, 2017	December 31, 2016				
Series C	3,000,000	3,000,000	\$ 75,000	6.875%	\$ 0.8594	\$ 0.8594
Series D	7,700,000	7,700,000	\$ 192,500	6.500%	\$ 0.8126	0.2031
Series E	4,000,000	4,000,000	\$ 100,000	6.500%	\$ 0.8126	-
Total	14,700,000	14,700,000				

In October 2016, our Board of Trustees authorized a new share repurchase program for up to \$100,000 of common shares which commenced upon the completion of the existing repurchase program. The new repurchase program will expire on December 31, 2017, unless extended by our Board of Trustees.

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



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

NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

New Accounting Pronouncements

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

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business as it relates to acquisitions and business combinations. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which permits the capitalization of acquisition costs to the underlying assets. For the six months ended June 30, 2017, the Company incurred \$1,824 in acquisition costs that would have been subject to capitalization under this ASU. This standard is effective for periods beginning after December 31, 2017, however early adoption is permitted. The Company is evaluating the ultimate effect that ASU No. 2017-01 will have on our consolidated financial statements and related disclosures.

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

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

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

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NOTE 1 – BASIS OF PRESENTATION (CONTINUED)

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. We are evaluating each of our revenue streams and related accounting policy under the standard. The new standard is effective for the Company on January 1, 2018. Early adoption is permitted, but not prior to the original effective date of January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. Based on our analysis to date, we do not expect the new revenue recognition model to have a material impact on our hotel operating revenue, including room revenue, food and beverage, and other revenue, however, our final evaluation has not been concluded. Our evaluation under the standard also includes sales to third parties, primarily a result of dispositions of real estate. Our evaluation over sales of real estate is continuing and will be impacted by the FASB definition of a business and in substance nonfinancial assets, which have recently been addressed through the issuance of ASU No. 2017-01 and ASU No. 2017-05, respectively. The Company continues to evaluate the ultimate effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures.

Reclassification

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



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

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

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

	June 30, 2017	December 31, 2016
Land	\$ 552,216	\$ 499,484
Buildings and Improvements	1,615,746	1,383,266
Furniture, Fixtures and Equipment	240,746	204,212
Construction in Progress	1,955	950
	2,410,663	2,087,912
Less Accumulated Depreciation	(358,913)	(320,342)
Total Investment in Hotel Properties	\$ 2,051,750	\$ 1,767,570

Acquisitions

We acquired the following properties during the six months ended June 30, 2017:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Other Intangibles	Total Purchase Price	Assumption of Debt
Mystic Marriott Hotel & Spa, Groton, CT (1)	1/3/2017	\$ 1,420	\$ 40,440	\$ 7,240	\$ 899	* \$ 49,999	\$ 41,333
The Ritz-Carlton, Coconut Grove, FL	2/1/2017	5,185	30,742	1,064	(291)	** 36,700	3,150
The Pan Pacific Hotel, Seattle, WA	2/21/2017	13,079	59,256	6,665	-	79,000	-
The Westin, Philadelphia, PA	6/29/2017	33,048	91,462	10,490	-	135,000	-
TOTAL		\$ 52,732	\$ 221,900	\$ 25,459	\$ 608	\$ 300,699	\$ 44,483

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

\* Consists entirely of \$899 of advanced bookings.

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

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

Acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the above acquired assets. During the three and six months ended June 30, 2017, we incurred \$1,124 and \$1,824 in costs related to acquired assets and terminated transactions.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

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

Hotel	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Revenue	Net Income (Loss)	Revenue	Net Income (Loss)
Mystic Marriott Hotel & Spa, Groton, CT	\$ 5,815	\$ 871	\$ 10,152	\$ 559
The Ritz-Carlton, Coconut Grove, FL	3,490	(159)	6,544	(79)
The Pan Pacific Hotel, Seattle, WA	3,968	313	5,310	(31)
The Westin, Philadelphia, PA	29	(1,012)	29	(1,012)
Total	\$ 13,302	\$ 13	\$ 22,035	\$ (563)

Hotel Dispositions

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

On January 5, 2017, the Company closed on the sales of the Residence Inn, Greenbelt, MD, and the Courtyard, Alexandria, VA to an unaffiliated buyer for a combined total sales price of \$62,000 resulting in a gain on sale of approximately \$18,731. The Residence Inn, Greenbelt, MD was acquired by the Company in July 2004 and the Courtyard, Alexandria, VA was acquired by the Company in September 2006. The operating results for these hotels are included in operating income as shown in the consolidated statements of operations for the period owned during the six months ended June 30, 2017 and 2016 as disposition of these hotels does not represent a strategic shift in our business.

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



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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Assets Held For Sale

The table below shows the balances classified as assets held for sale as of December 31, 2016:

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

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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

## Pro Forma Results (Unaudited)

The following condensed pro forma financial data for the three and six months ended June 30, 2017 and 2016 are presented as if the hotels acquired by the Company in 2017 and 2016 had been acquired as of January 1, 2017 and 2016, respectively. The condensed pro forma financial data are not necessarily indicative of what actual results of operations of the Company would have been for the periods presented assuming the acquisitions had been consummated on January 1, 2017 and 2016, nor do they purport to represent the results of operations for future periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Pro Forma Total Revenues	\$ 146,680	148,990	\$ 264,021	\$ 276,571
Pro Forma Net Income	89,029	116,167	116,549	109,759
Income Allocated to Noncontrolling Interest	(5,017)	(4,806)	(6,289)	(4,209)
Preferred Distributions	(6,042)	(4,000)	(12,084)	(7,589)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	-	(4,021)		(4,021)
Pro Forma Income Applicable to Common Shareholders	\$ 77,970	\$ 103,341	\$ 98,176	\$ 93,940
Pro Forma Income Applicable to Common Shareholders per Common Share				
Basic	\$ 1.87	\$ 2.38	\$ 2.35	\$ 2.14
Diluted	\$ 1.85	\$ 2.36	\$ 2.33	\$ 2.12
Weighted Average Common Shares Outstanding				
Basic	41,737,044	43,427,726	41,727,056	43,903,526
Diluted	42,207,841	43,863,577	42,201,126	44,384,969



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## HERSHA HOSPITALITY TRUST AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

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

Joint Venture	Hotel Properties	Percent Owned	Preferred Return	June 30, 2017	December 31, 2016
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0%	N/A	\$ 1,148	\$ 913
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0%	N/A	2,419	2,112
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT	8.8%-66.7%	8.5% non-cumulative	-	4,699
Cindat Hersha Owner JV, LLC	Hilton and IHG branded hotels in NYC	30.0%	*	-	3,717
				\$ 3,567	\$ 11,441

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

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

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

#### Income/Loss Allocation

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

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

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

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
SB Partners, LLC	\$ 288	\$ 326	\$ 235	\$ 287
Hiren Boston, LLC	423	379	307	285
Mystic Partners, LLC	-	(76)	-	(157)
Cindat Hersha Owner JV, LLC	-	892	(3,717)	892
Income (Loss) from Unconsolidated Joint Venture Investments	\$ 711	\$ 1,521	\$ (3,175)	\$ 1,307

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company's share, related to the unconsolidated joint ventures discussed above as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016.

Balance Sheets

June 30, 2017

December 31, 2016

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Assets

Investment in Hotel Properties, Net	\$ 565,175	\$ 647,548
Other Assets	34,385	45,576
Total Assets	\$ 599,560	\$ 693,124

Liabilities and Equity

Mortgages and Notes Payable	\$ 347,404	\$ 432,173
Other Liabilities	7,377	36,275

Equity:

Hersha Hospitality Trust	92,812	119,892
Joint Venture Partner(s)	152,203	104,784
Accumulated Other Comprehensive Loss	(236)	-
Total Equity	244,779	224,676

Total Liabilities and Equity	\$ 599,560	\$ 693,124
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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Room Revenue	\$ 25,812	\$ 31,578	\$ 41,008	\$ 43,958
Other Revenue	504	6,789	954	11,492
Operating Expenses	(11,270)	(20,681)	(20,356)	(33,565)
Lease Expense	(155)	(276)	(339)	(581)
Property Taxes and Insurance	(2,748)	(2,316)	(5,496)	(3,077)
General and Administrative	(1,372)	(2,116)	(2,527)	(3,348)
Depreciation and Amortization	(3,061)	(3,335)	(6,005)	(5,009)
Interest Expense	(5,188)	(4,658)	(10,099)	(6,264)
Acquisition Costs	-	(1,499)	-	(1,499)
Gain (Loss) Allocated to Noncontrolling Interests	-	(72)	-	(40)
Net Income (Loss)	\$ 2,522	\$ 3,414	\$ (2,860)	\$ 2,067

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

	June 30, 2017	December 31, 2016
Our share of equity recorded on the joint ventures' financial statements	\$ 92,812	\$ 119,892
Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures(1)		