

Chatham Lodging Trust
Form 10-Q
November 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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: 001-34693

CHATHAM LODGING TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization) 27-1200777
(I.R.S. Employer
Identification No.)

50 Coconut Row, Suite 211
Palm Beach, Florida 33480
(Address of Principal Executive Offices) (Zip Code)
(561) 802-4477
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) 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 (2) 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 (§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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Class	Outstanding at November 6, 2013
Common Shares of Beneficial Interest (\$0.01 par value per share)	26,295,558

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CHATHAM LODGING TRUST

Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets:		
Investment in hotel properties, net	\$543,709	\$426,074
Cash and cash equivalents	60,401	4,496
Restricted cash	5,062	2,949
Investment in unconsolidated real estate entities	515	13,362
Hotel receivables (net of allowance for doubtful accounts of \$42 and \$28, respectively)	2,249	2,098
Deferred costs, net	5,647	6,312
Prepaid expenses and other assets	2,387	1,930
Total assets	\$619,970	\$457,221
Liabilities and Equity:		
Debt		
Revolving credit facility	\$175,208	\$159,746
Accounts payable and accrued expenses	48,500	79,500
Distributions payable	11,885	8,488
Total liabilities	1,900	2,875
Commitments and contingencies	237,493	250,609
Equity:		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at September 30, 2013 and December 31, 2012	—	—
Common shares, \$0.01 par value, 500,000,000 shares authorized; 25,808,058 and 13,908,907 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	256	137
Additional paid-in capital	425,331	240,355
Accumulated deficit	(45,138)	(35,491)
Total shareholders' equity	380,449	205,001
Noncontrolling Interests:		
Noncontrolling Interest in Operating Partnership	2,028	1,611
Total equity	382,477	206,612
Total liabilities and equity	\$619,970	\$457,221

The accompanying notes are an integral part of these consolidated financial statements.

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CHATHAM LODGING TRUST

Consolidated Statements of Operations

(In thousands, except share and per share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Revenue:				
Room	\$33,182	\$25,337	\$86,377	\$71,778
Food and beverage	368	76	717	185
Other	1,362	1,179	3,575	3,065
Cost reimbursements from unconsolidated real estate entities	458	410	1,226	1,160
Total revenue	35,370	27,002	91,895	76,188
Expenses:				
Hotel operating expenses:				
Room	6,845	5,462	18,460	15,726
Food and beverage expense	189	87	506	241
Telephone expense	236	204	643	549
Other expense	430	454	1,157	1,130
General and administrative	3,159	2,318	8,493	6,886
Franchise and marketing fees	2,663	2,013	6,807	5,715
Advertising and promotions	738	570	2,046	1,740
Utilities	1,492	1,210	3,675	3,116
Repairs and maintenance	1,710	1,216	4,711	3,678
Management fees	947	707	2,430	1,995
Insurance	192	106	540	418
Total hotel operating expenses	18,601	14,347	49,468	41,194
Depreciation and amortization	4,748	3,399	12,526	10,861
Property taxes and insurance	2,297	1,918	6,329	5,174
General and administrative	1,910	1,676	5,956	5,400
Hotel property acquisition costs and other charges	1,345	24	2,581	108
Reimbursed costs from unconsolidated real estate entities	458	410	1,226	1,160
Total operating expenses	29,359	21,774	78,086	63,897
Operating income	6,011	5,228	13,809	12,291
Interest and other income	9	53	124	54
Interest expense, including amortization of deferred fees	(2,775)	(3,627)	(8,433)	(11,303)
Loss on early extinguishment of debt	—	—	(933)	—
Loss from unconsolidated real estate entities	(674)	(195)	(1,394)	(57)
Income before income tax benefit (expense)	2,571	1,459	3,173	985
Income tax benefit (expense)	(30)	39	(75)	(61)
Net income	\$2,541	\$1,498	\$3,098	\$924
Income per Common Share - Basic:				
Net income attributable to common shareholders (Note 11)	\$0.11	\$0.10	\$0.15	\$0.05
Income per Common Share - Diluted:				
Net income attributable to common shareholders (Note 11)	\$0.11	\$0.10	\$0.15	\$0.05
Weighted average number of common shares outstanding:				
Basic	22,508,988	13,819,342	19,308,809	13,808,218
Diluted	22,769,282	13,966,952	19,539,941	13,919,056
Distributions per common share:	\$0.210	\$0.200	\$0.630	\$0.575

The accompanying notes are an integral part of these consolidated financial statements.

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CHATHAM LODGING TRUST

Consolidated Statements of Equity

(In thousands, except share and per share data)

(unaudited)

	Common Shares		Additional Paid - In Capital	Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount					
Balance, January 1, 2012	13,819,939	\$ 137	\$ 239,173	\$ (23,220)	\$ 216,090	\$ 1,028	\$ 217,118
Issuance of shares pursuant to Equity Incentive Plan	27,592	—	300	—	300	—	300
Issuance of restricted time-based shares	61,376	—	—	—	—	—	—
Amortization of share based compensation	—	—	645	—	645	586	1,231
Dividends declared on common shares (\$0.575 per share)	—	—	—	(8,027)	(8,027)	—	(8,027)
Distributions declared on LTIP units (\$0.575 per unit)	—	—	—	—	—	(147)	(147)
Net income	—	—	—	924	924	—	924
Balance, September 30, 2012	13,908,907	\$ 137	\$ 240,118	\$ (30,323)	\$ 209,932	\$ 1,467	\$ 211,399
Balance, January 1, 2013	13,908,907	\$ 137	\$ 240,355	\$ (35,491)	\$ 205,001	\$ 1,611	\$ 206,612
Issuance of shares pursuant to Equity Incentive Plan	22,536	—	337	—	337	—	337
Issuance of shares, net of offering costs of \$9,796	11,818,500	119	183,890	—	184,009	—	184,009
Issuance of restricted time-based shares	40,829	—	—	—	—	—	—
Issuance of performance based shares	17,731	—	—	—	—	—	—
Repurchase of common shares	(445)	—	(7)	—	(7)	—	(7)
Amortization of share based compensation	—	—	749	—	749	587	1,336
Dividends declared on common shares (\$0.63 per share)	—	—	—	(12,745)	(12,745)	—	(12,745)
Distributions declared on LTIP units (\$0.63 per unit)	—	—	—	—	—	(163)	(163)
Reallocation of noncontrolling interest	—	—	7	—	7	(7)	—
Net income	—	—	—	3,098	3,098	—	3,098
Balance, September 30, 2013	25,808,058	\$ 256	\$ 425,331	\$ (45,138)	\$ 380,449	\$ 2,028	\$ 382,477

The accompanying notes are an integral part of these consolidated financial statements.

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CHATHAM LODGING TRUST

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	For the nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$3,098	\$924
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,446	10,805
Amortization of deferred franchise fees	61	56
Amortization of deferred financing fees included in interest expense	809	1,483
Loss on early extinguishment of debt	933	—
Loss on write-off of deferred franchise fee	64	—
Share based compensation	1,589	1,484
Loss from unconsolidated real estate entities	1,394	57
Changes in assets and liabilities:		
Hotel receivables	(151	) 191
Deferred costs	(118	) 39
Prepaid expenses and other assets	(532	) (1,796
Accounts payable and accrued expenses	2,359	(2,825
Net cash provided by operating activities	21,952	10,418
Cash flows from investing activities:		
Improvements and additions to hotel properties	(11,154	) (4,534
Acquisition of hotel properties, net of cash acquired	(117,805) —
Distributions from unconsolidated entities	13,102	20,894
Investment in unconsolidated real estate entities	(1,649) —
Restricted cash	(2,113	) 2,701
Net cash provided by (used in) investing activities	(119,619	) 19,061
Cash flows from financing activities:		
Borrowings on revolving credit facility	135,000	6,500
Repayments on revolving credit facility	(166,000	) (25,500
Payments on debt	(1,441	) (1,227
Proceeds from the issuance of debt	117,033	—
Principal prepayment of mortgage debt	(100,130) —
Payment of financing costs	(1,009	) (259
Payment of offering costs	(9,796	) (155
Proceeds from issuance of common shares	193,805	—
In-substance repurchase of vested common shares	(7) —
Distributions-common shares/units	(13,883	) (7,774
Net cash provided by (used in) financing activities	153,572	(28,415
Net change in cash and cash equivalents	55,905	1,064
Cash and cash equivalents, beginning of period	4,496	4,680
Cash and cash equivalents, end of period	\$60,401	\$5,744
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$7,592	\$9,745
Cash paid for income taxes	\$77	\$220
Supplemental disclosure of non-cash investing and financing information:		

On January 15, 2013, the Company issued 22,536 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2012. On January 6, 2012, the Company issued 27,592 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2011.

As of September 30, 2013, the Company had accrued distributions payable of \$1,900. These distributions were paid on October 25, 2013 except for \$75 related to accrued but unpaid distributions on unvested performance based shares (See Note 12). As of September 30, 2012, the Company had accrued distributions payable of \$2,864. These distributions were paid on July 27, 2012 except for \$31 related to accrued but unpaid distributions on unvested performance based shares.

A franchise fee of \$75 was included in prepaid expenses and other assets at December 31, 2012. This amount was moved to deferred costs, net as of the second quarter of 2013, for the rebranding of the Company's Washington D.C. hotel to a Residence Inn by Marriott.

Accrued share based compensation of \$253 is included in accounts payable and accrued expenses as of September 30, 2013 and 2012.

Accrued capital improvements of \$1,121 and \$122 are included in accounts payable and accrued expenses as of September 30, 2013 and 2012, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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CHATHAM LODGING TRUST

Notes to the Consolidated Financial Statements
(unaudited)

1. Organization

Chatham Lodging Trust (“we,” “us” or the “Company”) was formed as a Maryland real estate investment trust (“REIT”) on October 26, 2009. The Company is internally-managed and was organized to invest primarily in premium-branded upscale extended-stay and select-service hotels.

On January 14, 2013, the Company completed a follow-on common share offering generating gross proceeds of \$51.4 million and net proceeds of approximately \$48.4 million. On January 31, 2013, the Company issued an additional 92,677 common shares pursuant to the exercise of the underwriters’ over-allotment option in the offering that closed on January 14, 2013, generating gross proceeds of approximately \$1.4 million and net proceeds of approximately \$1.3 million. Proceeds from the January 2013 offerings were used to repay debt under the Company’s secured revolving credit facility, including debt incurred in connection with the acquisition of the Hampton Inn Portland Downtown-Waterfront hotel in Portland, ME (the “Portland Hotel”) and the Courtyard by Marriott Houston Medical Center hotel in Houston, TX (the “Houston CY Hotel”).

On June 18, 2013, the Company completed a follow-on common share offering generating gross proceeds of \$73.6 million and net proceeds of approximately \$70.0 million. On June 28, 2013, the Company issued an additional 475,823 common shares pursuant to the exercise of the underwriters’ over-allotment option in the offering that closed on June 18, 2013, generating gross proceeds of approximately \$7.8 million and net proceeds of approximately \$7.4 million. Proceeds from the June 2013 offerings were used to repay debt under the Company’s secured revolving credit facility, including debt incurred in connection with the acquisition of the Hyatt Place Pittsburgh North Shore hotel in Pittsburgh, PA (the “Pittsburgh Hotel”) and the August 9, 2013 acquisition of the Hampton Inn and Suites by Hilton in Exeter, NH (the “Exeter Hotel”).

On September 30, 2013, the Company completed a follow-on common share offering generating gross proceeds of \$59.6 million and net proceeds of approximately \$56.8 million. Proceeds from the September 2013 offering were used to repay debt under the Company’s secured revolving credit facility, including debt incurred in connection with the acquisition of the Denver Tech Hilton Garden Inn hotel in Denver, CO (the “Denver Tech Hotel”) and to fund the purchase price for the Company’s acquisition of the Residence Inn Seattle Bellevue/Downtown in Bellevue, WA. On October 11, 2013, the Company issued an additional 487,500 common shares pursuant to the exercise of the underwriter’s over-allotment option in the offering that closed on September 30, 2013, generating gross proceeds of approximately \$8.9 million and net proceeds of approximately \$8.5 million.

The net proceeds from our offerings are contributed to Chatham Lodging, L.P., our operating partnership (the “Operating Partnership”), in exchange for partnership interests. Substantially all of the Company’s assets are held by, and all operations are conducted through, the Operating Partnership. Chatham Lodging Trust is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership. Certain of the Company’s executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership, which are presented as non-controlling interests on our consolidated balance sheets.

As of September 30, 2013, the Company owned 23 hotels with an aggregate of 3,200 rooms located in 13 states and the District of Columbia, held a 10.3% noncontrolling interest in a joint venture (the “Innkeepers JV”) with Cerberus Capital Management (“Cerberus”), which owns 51 hotels comprising an aggregate of 6,847 rooms, and held a 5.0% noncontrolling interest in a joint venture (the “Torrance JV”) with Cerberus that owns the 248-room Residence Inn by Marriott in Torrance, CA.

To qualify as a REIT, the Company cannot operate the hotels. Therefore, the Operating Partnership and its subsidiaries lease our wholly owned hotels to taxable REIT subsidiary lessees (“TRS Lessees”), which are wholly owned by one of the Company’s taxable REIT subsidiary (“TRS”) holding companies. The Company indirectly owns its interest in 51 of the Innkeepers JV hotels and its interest in the Torrance JV through the Operating Partnership. All of the Innkeepers JV hotels and the Torrance JV hotel are leased to TRS Lessees, in which the Company indirectly owns noncontrolling interests through one of its TRS holding companies. Each hotel is leased to a TRS Lessee under a

percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel room revenue. The initial term of each of the TRS leases is 5 years. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with third party management companies that provide day-to-day management for the hotels. As of September 30, 2013, Island Hospitality Management Inc. ("IHM"), which is 90% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed 21 of the Company's wholly owned hotels and Concord Hospitality Enterprises Company managed two of the Company's wholly owned hotels. As

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of September 30, 2013, all of the Innkeepers JV hotels were managed by IHM. The Torrance JV hotel is managed by Marriott International, Inc. ("Marriott").

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. These unaudited consolidated financial statements, in the opinion of management, include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full year performance due to seasonal and other factors including the timing of the acquisition of hotels.

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements prepared in accordance with GAAP, and the related notes thereto as of December 31, 2012, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Reclassifications

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the current period presentation. The reclassification did not have any impact on the income (loss).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board (FASB) clarified that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of a default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance on sales of real estate. The provisions are effective for public companies for fiscal years and interim periods within those years, beginning on or after June 15, 2012. The Company adopted the new guidance on January 1, 2013 and the guidance did not have any impact on the Company's consolidated financial statements.

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4. Acquisition of Hotel Properties

Hotel Purchase Price Allocation

The allocation of the purchase price of each of the hotels, based on the fair value on the date of its acquisition was (in thousands):

	Houston CY Hotel Acquisition	Pittsburgh Hotel Acquisition	Exeter Hotel Acquisition	Denver Tech Hotel Acquisition (Preliminary)	Total
Acquisition date	2/5/2013	6/17/2013	8/9/2013	9/26/2013	
Number of rooms	197	178			