

Chatham Lodging Trust
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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)

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Maryland
(State or Other Jurisdiction of
Incorporation or Organization)
50 Coconut Row, Suite 216
Palm Beach, Florida
(Address of Principal Executive Offices)

27-1200777
(I.R.S. Employer
Identification No.)
33480
(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

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.

Class	Outstanding at November 7, 2012
Common Shares of Beneficial Interest (\$0.01 par value per share)	13,908,907

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****CHATHAM LODGING TRUST****Consolidated Balance Sheets***(In thousands, except share and per share data)*

	September 30, 2012 (unaudited)	December 31, 2011
Assets:		
Investment in hotel properties, net	\$ 396,666	\$ 402,815
Cash and cash equivalents	5,744	4,680
Restricted cash	2,598	5,299
Investment in unconsolidated real estate entities	15,052	36,003
Hotel receivables (net of allowance for doubtful accounts of \$22 and \$17, respectively)	1,866	2,057
Deferred costs, net	5,186	6,350
Prepaid expenses and other assets	3,298	1,502
Total assets	\$ 430,410	\$ 458,706
Liabilities and Equity:		
Debt	\$ 160,213	\$ 161,440
Revolving credit facility	48,500	67,500
Accounts payable and accrued expenses	7,434	10,184
Distributions payable	2,864	2,464
Total liabilities	219,011	241,588
Commitments and contingencies		
Equity:		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized and unissued at September 30, 2012 and December 31, 2011		
Common shares, \$0.01 par value, 500,000,000 shares authorized; 13,909,822 and 13,908,907 shares issued and outstanding, respectively at September 30, 2012 and 13,820,854 and 13,819,939 shares issued and outstanding, respectively at December 31, 2011	137	137
Additional paid-in capital	240,118	239,173
Accumulated deficit	(30,323)	(23,220)
Total shareholders' equity	209,932	216,090
Noncontrolling Interests:		
Noncontrolling Interest in Operating Partnership	1,467	1,028
Total equity	211,399	217,118
Total liabilities and equity	\$ 430,410	\$ 458,706

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

Table of Contents**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,	
	2012	2011	2012	2011
Revenue:				
Room	\$ 25,337	\$ 22,660	\$ 71,778	\$ 49,288
Other operating	1,255	918	3,250	1,679
Cost reimbursements from unconsolidated real estate entities	410		1,160	
Total revenue	27,002	23,578	76,188	50,967
Expenses:				
Hotel operating expenses:				
Room	5,462	4,653	15,726	10,865
Other operating	8,885	8,185	25,468	18,215
Total hotel operating expenses	14,347	12,838	41,194	29,080
Depreciation and amortization	3,399	3,399	10,861	8,647
Property taxes and insurance	1,918	1,623	5,174	3,723
General and administrative	1,676	1,427	5,400	4,280
Hotel property acquisition costs	24	2,104	108	3,587
Reimbursed costs from unconsolidated real estate entities	410		1,160	
Total operating expenses	21,774	21,391	63,897	49,317
Operating income	5,228	2,187	12,291	1,650
Interest and other income	53	6	54	18
Interest expense, including amortization of deferred fees	(3,627)	(3,087)	(11,303)	(4,503)
Loss from unconsolidated real estate entities	(195)		(57)	
Income (loss) before income tax expense	1,459	(894)	985	(2,835)
Income tax benefit (expense)	39	(61)	(61)	(75)
Net income (loss)	\$ 1,498	\$ (955)	\$ 924	\$ (2,910)
Loss per Common Share - Basic:				
Net income (loss) attributable to common shareholders (Note 11)	\$ 0.10	\$ (0.07)	\$ 0.05	\$ (0.22)
Loss per Common Share - Diluted:				
Net income (loss) attributable to common shareholders (Note 11)	\$ 0.10	\$ (0.07)	\$ 0.05	\$ (0.22)
Weighted average number of common shares outstanding:				
Basic	13,819,371	13,766,297	13,808,172	13,115,439
Diluted	13,908,907	13,766,297	13,896,486	13,115,439

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Distributions per common share	\$	0.20	\$	0.175	\$	0.575	\$	0.525
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CHATHAM LODGING TRUST****Consolidated Statements of Equity***(In thousands, except share and per share data)**(unaudited)*

	Common Shares		Additional	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Paid-In	Deficit	Shareholders	Interest in	Equity
			Capital		Equity	Operating	
						Partnership	
							Equity
Balance, January 1, 2011	9,208,750	\$ 91	\$ 169,089	\$ (4,441)	\$ 164,739	\$ 425	\$ 165,164
Issuance of shares pursuant to Equity Incentive Plan	12,104		210		210		210
Issuance of shares, net of offering costs of \$4,153	4,600,000	46	69,401		69,447		69,447
Repurchase of vested common shares	(915)		(15)		(15)		(15)
Amortization of share based compensation			366		366	587	953
Dividends declared on common shares (\$0.525 per share)				(7,255)	(7,255)		(7,255)
Distributions declared on LTIP units (\$0.525 per unit)						(135)	(135)
Net loss				(2,910)	(2,910)		(2,910)
Balance, September 30, 2011	13,819,939	\$ 137	\$ 239,051	\$ (14,606)	\$ 224,582	\$ 877	\$ 225,459
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

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

Table of Contents**CHATHAM LODGING TRUST****Consolidated Statements of Cash Flows***(In thousands)**(unaudited)*

	For the nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ 924	\$ (2,910)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	10,805	8,604
Amortization of deferred franchise fees	56	43
Amortization of deferred fees included in interest expense	1,483	1,113
Share based compensation	1,484	1,178
Loss from unconsolidated real estate entities	57	
Changes in assets and liabilities:		
Hotel receivables	191	(1,109)
Deferred costs	39	(153)
Prepaid expenses and other assets	(1,796)	(1,283)
Accounts payable and accrued expenses	(2,825)	2,878
Net cash provided by operating activities	10,418	8,361
Cash flows from investing activities:		
Improvements and additions to hotel properties	(4,534)	(9,639)
Acquisition of hotel properties, net of cash acquired		(61,981)
Distributions from unconsolidated entities	20,894	
Restricted cash	2,701	(3,363)
Net cash provided by (used in) investing activities	19,061	(74,983)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt		15,800
Borrowings on revolving credit facility	6,500	89,000
Repayments on revolving credit facility	(25,500)	(95,800)
Payments on debt	(1,227)	(347)
Payment of financing costs	(259)	(1,498)
Payment of offering costs	(155)	(4,153)
Proceeds from issuance of common shares		73,600
In-substance repurchase of vested common shares		(15)
Distributions-common shares/units	(7,774)	(6,583)
Net cash (used in) provided by financing activities	(28,415)	70,004
Net change in cash and cash equivalents	1,064	3,382
Cash and cash equivalents, beginning of period	4,680	4,768
Cash and cash equivalents, end of period	\$ 5,744	\$ 8,150

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 9,745	\$ 2,455
Cash paid for income taxes	\$ 220	\$ 24

Supplemental disclosure of non-cash investing and financing information:

The Company has accrued distributions payable of \$2,864. These distributions were paid on October 26, 2012 except for \$31 related to accrued but unpaid distributions. See Note 12.

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. Accrued share based compensation of \$300 was included in Accounts payable and accrued expenses as of December 31, 2011.

Accrued share based compensation of \$253 and capital improvements of \$122 are included in Accounts payable and accrued expenses as of September 30, 2012.

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.

The Company completed its initial public offering (the IPO) on April 21, 2010. The IPO resulted in the sale of 8,625,000 common shares at \$20.00 per share, generating \$172.5 million in gross proceeds. Net proceeds, after underwriters discounts and commissions and other offering costs, were approximately \$158.7 million. Concurrently with the closing of the IPO, in a separate private placement pursuant to Regulation D under the Securities Act of 1933, as amended (the Securities Act), the Company sold 500,000 of its common shares to Jeffrey H. Fisher, the Company s Chairman, President and Chief Executive Officer, at the public offering price of \$20.00 per share, for proceeds of \$10.0 million. On February 8, 2011, the Company completed a follow-on common share offering generating gross proceeds of \$73.6 million and net proceeds of approximately \$69.4 million, adding capital to the Company s balance sheet.

The Company had no operations prior to the consummation of the IPO. Following the closing of the IPO, the Company contributed the net proceeds from the IPO and the concurrent private placement, as well as the net proceeds of our February 2011 offering, to Chatham Lodging, L.P. (the Operating Partnership) in exchange for partnership interests in the Operating Partnership. Substantially all assets are held by, and all of the Company s 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 our executive officers hold vested and unvested long-term incentive plan (LTIP) units in the Operating Partnership, which are presented as noncontrolling interests on the consolidated balance sheets.

As of September 30, 2012, the Company owned 18 hotels with an aggregate of 2,414 rooms and held a 10.3% minority interest in a joint venture (the JV) with Cerberus Capital Management (Cerberus), which owns 56 hotels with an aggregate of 7,394 rooms. 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. 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 five 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. The Company indirectly owns interest in 51 of the 56 JV hotels through the Operating Partnership, and the Company s interest in the remaining 5 JV hotels is through one of the TRS holding companies. All of the JV hotels are leased to TRS Lessees in which the Company indirectly owns a 10.3% interest through one of the TRS holding companies. Island Hospitality Management Inc. (IHM), which is 90% owned by Mr. Fisher, manages 16 of the wholly owned hotels and Concord Hospitality Enterprises Company manages two wholly owned hotels. All but one of the JV hotels are managed by IHM. One JV hotel is managed by Dimension Development Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim 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 US GAAP, and the related notes thereto as of December 31, 2011, which are

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included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Table of Contents*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 May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 created a uniform framework for applying fair value measurement principles for companies around the world and clarified existing guidance in U.S. GAAP. ASU 2011-04 is effective for the first reporting annual period beginning after December 15, 2011. The Company adopted this standard and it did not have any material effect on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive income. This update is intended to increase the prominence of other comprehensive income in the financial statements by requiring public companies to present comprehensive income either as a single statement detailing the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income or using a two statement approach including both a statement of income and a statement of comprehensive income. The option to present other comprehensive income in the statement of changes in equity has been eliminated. The amendments in this update are effective for public companies for fiscal years, and interim periods beginning after December 15, 2011. Currently, the Company has no items of other comprehensive income in any periods presented.

4. Acquisition of Hotel Properties*Acquisition of Hotel Properties*

No acquisitions were completed during the nine months ended September 30, 2012. The Company incurred acquisition costs of \$0.02 million and \$0.1 million, respectively, during the three and nine months ended September 30, 2012 and \$2.1 million and \$3.6 million, respectively, during the three and nine months ended September 30, 2011.

Pro Forma Financial Information

The following condensed pro forma financial information presents the results of operations as if the acquisitions of the hotels acquired in 2011 had taken place on January 1, 2011. The pro forma results have been prepared for comparative purposes only, include results for periods prior to the Company's ownership and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2011, nor do they purport to represent the results of operations for future periods (in thousands, except share and per share data).

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Pro forma total revenue	\$ 27,002	\$ 24,987	\$ 76,188	\$ 69,176
Pro forma net income (loss)	\$ 1,498	\$ (432)	\$ 924	\$ (3,132)
Pro forma income (loss) per share:				
Basic and diluted	\$ 0.11	\$ (0.03)	\$ 0.07	\$ (0.23)
Weighted average Common Shares Outstanding				
Basic and diluted	13,819,939	13,819,939	13,819,939	13,819,939

5. Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb estimated probable losses. That estimate is based on past loss experience, current economic and market conditions and other relevant factors. The allowance for doubtful accounts was \$22 thousand and \$17 thousand as of September 30, 2012 and December 31, 2011, respectively.

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Investment in hotel properties as of September 30, 2012 and December 31, 2011, consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Land and improvements	\$ 59,113	\$ 60,064
Building and improvements	337,130	332,399
Furniture, fixtures and equipment	20,240	17,469
Renovations in progress	978	3,897
	417,461	413,829
Less accumulated depreciation	(20,795)	(11,014)
Investment in hotel properties, net	\$ 396,666	\$ 402,815

At the end of the first quarter, there was a fire at the Company's White Plains hotel. The hotel was insured and coverage has been accepted by the carrier. No casualty losses are expected as the hotel was insured.

7. Investment in Unconsolidated Entities

On October 27, 2011, the Company acquired a 10.3% interest in the JV with Cerberus. The JV initially acquired 64 properties for a total purchase price of approximately \$1.02 billion, including assumption of approximately \$675 million of mortgage debt secured by 45 of the hotels with a weighted average interest rate of 6.71% and maturing in 2017. The Company's original investment of \$37 million in the JV was funded through borrowings under the Company's secured revolving credit facility. The Company accounts for this investment under the equity method. During the three and nine months ended, September 30, 2012, the Company received cash distributions from the JV of \$1.0 million and \$4.0 million, respectively, relating to cash flow generated by the JV; and \$0.0 million and \$11.7 million net proceeds, respectively, from mortgage financing by the JV. The Company received cash distributions from the JV's sale of 8 hotels to 3 parties during the three and nine months ended September 30, 2012 of \$0.7 million and \$5.1 million, respectively.

The Company's ownership interest in the JV is subject to change in the event that either Chatham or Cerberus calls for additional capital contributions to the JV necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. The Company manages the JV and will receive a promote interest if the JV meets certain return thresholds. Cerberus may also approve certain actions by the JV without the Company's consent, including certain property dispositions conducted at arm's length, certain actions related to the restructuring of the JV and removal of the Company as managing member in the event the Company fails to fulfill its material obligations under the joint venture agreement.

The JV incurred \$12.3 million and \$36.8 million in depreciation expense and \$0.0 million and \$0.4 million of acquisition costs during the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2012, the JV realized a net loss of \$1.8 million on the sale of three hotels and a net gain of \$4.7 million on the sale of 8 hotels, respectively. The following table sets forth the components of net loss, including the Company's share, related to the JV for the three and nine months ended September 30, 2012 (in thousands):

	For the three months ended	For the nine months ended
	September 30, 2012	September 30, 2012
Revenue	\$ 71,607	\$ 207,598
Total operating expenses	40,713	120,561
Operating income	\$ 30,894	\$ 87,037
Net loss	\$ (1,899)	\$ (556)
	\$ (195)	\$ (57)

**Chatham's 10.3% interest of net loss reported as Loss from
unconsolidated real estate entities**

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The Company's mortgage loans and its senior secured revolving credit facility are collateralized by a first-mortgage lien on the underlying properties. The mortgages are non-recourse except for instances of fraud or misapplication of funds. Mortgage debt consisted of the following (in thousands):

Collateral	Interest Rate	Maturity Date	09/30/12 Property Carrying Value	Balance Outstanding as of	
				September 30, 2012	December 31, 2011
Senior Secured Revolving Credit Facility	5.50%	October 10, 2013	\$ 165,878	\$ 48,500	\$ 67,500
Courtyard by Marriott Altoona, PA	5.96%	April 1, 2016	11,299	6,618	6,753
SpringHill Suites by Marriott Washington, PA	5.84%	April 1, 2015	12,381	5,144	5,260