Chatham Lodging Trust
Form 10-Q
May 09, 2014
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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 March 31, 2014
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 | 27-1200777 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 50 Cocoanut 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. x 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). x 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 x |
| 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 x 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 May 8, 2014 |
|---|---|
| Common Shares of Beneficial Interest ($0.01 par value per share) | 26,390,788 |

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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)

| | March 31, 2014 (unaudited) | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Investment in hotel properties, net | $650,428 | $652,877 |
| Cash and cash equivalents | 5,821 | 4,221 |
| Restricted cash | 5,286 | 4,605 |
| Investment in unconsolidated real estate entities | 764 | 774 |
| Hotel receivables (net of allowance for doubtful accounts of $53 and $30, respectively) | 2,205 | 2,455 |
| Deferred costs, net | 6,763 | 7,113 |
| Prepaid expenses and other assets | 3,091 | 1,879 |
| Total assets | $674,358 | $673,924 |
| Liabilities and Equity: | | |
| Mortgage debt | $223,158 | $222,063 |
| Revolving credit facility | 55,000 | 50,000 |
| Accounts payable and accrued expenses | 12,944 | 12,799 |
| Distributions and losses in excess of investments of unconsolidated real estate entities | 2,331 | 1,576 |
| Distributions payable | 1,934 | 1,950 |
| Total liabilities | 295,367 | 288,388 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' Equity: | | |
| Preferred shares, $0.01 par value, 100,000,000 shares authorized and unissued at March 31, 2014 and December 31, 2013 | — | — |
| Common shares, $0.01 par value, 500,000,000 shares authorized; 26,390,788 and 26,295,558 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 261 | 261 |
| Additional paid-in capital | 434,505 | 433,900 |
| Accumulated deficit | (58,084) | (50,792) |
| Total shareholders' equity | 376,682 | 383,369 |
| Noncontrolling Interests: | | |
| Noncontrolling Interest in Operating Partnership | 2,309 | 2,167 |
| Total equity | 378,991 | 385,536 |
| Total liabilities and equity | $674,358 | $673,924 |

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 March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Revenue: | | |
| Room | $33,958 | $24,235 |
| Food and beverage | 628 | 150 |
| Other | 1,608 | 1,011 |
| Cost reimbursements from unconsolidated real estate entities | 672 | 383 |
| Total revenue | 36,866 | 25,779 |
| Expenses: | | |
| Hotel operating expenses: | | |
| Room | 7,755 | 5,551 |
| Food and beverage expense | 466 | 134 |
| Telephone expense | 287 | 191 |
| Other hotel operating expense | 443 | 348 |
| General and administrative | 3,426 | 2,578 |
| Franchise and marketing fees | 2,793 | 1,901 |
| Advertising and promotions | 831 | 657 |
| Utilities | 1,620 | 1,065 |
| Repairs and maintenance | 1,999 | 1,445 |
| Management fees | 1,094 | 671 |
| Insurance | 215 | 171 |
| Total hotel operating expenses | 20,929 | 14,712 |
| Depreciation and amortization | 6,316 | 3,756 |
| Property taxes and insurance | 2,650 | 1,987 |
| General and administrative | 2,321 | 1,982 |
| Hotel property acquisition costs and other charges | 1,482 | 177 |
| Reimbursed costs from unconsolidated real estate entities | 672 | 383 |
| Total operating expenses | 34,370 | 22,997 |
| Operating income | 2,496 | 2,782 |
| Interest and other income | 13 | 5 |
| Interest expense, including amortization of deferred fees | (3,738) | (2,841) |
| Loss on early extinguishment of debt | (184) | (933) |
| Loss from unconsolidated real estate entities | (316) | (631) |
| Loss before income tax expense | (1,729) | (1,618) |
| Income tax expense | (3) | — |
| Net loss | $(1,732) | $(1,618) |
| Loss per Common Share - Basic: | | |
| Net loss attributable to common shareholders (Note 11) | $(0.07) | $(0.10) |
| Loss per Common Share - Diluted: | | |
| Net loss attributable to common shareholders (Note 11) | $(0.07) | $(0.10) |
| Weighted average number of common shares outstanding: | | |
| Basic | 26,271,678 | 17,212,124 |
| Diluted | 26,271,678 | 17,212,124 |
| Distributions per common share: | $0.21 | $0.21 |

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, 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 $3,040 | 3,592,677 | 37 | 49,736 | — | 49,773 | — | 49,773 |
| 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 | — | — | 268 | — | 268 | 195 | 463 |
| Dividends declared on common shares ($0.21 per share) | — | — | — | (3,700) | (3,700) | — | (3,700) |
| Distributions declared on LTIP units ($0.21 per unit) | — | — | — | — | — | (54) | (54) |
| Net loss | — | — | — | (1,618) | (1,618) | — | (1,618) |
| Balance, March 31, 2013 | 17,582,235 | $174 | $290,689 | $ (40,809) | $ 250,054 | $ 1,752 | $251,806 |
| Balance, January 1, 2014 | 26,295,558 | $261 | $433,900 | $ (50,792) | $ 383,369 | $ 2,167 | $385,536 |
| Issuance of shares pursuant to Equity Incentive Plan | 16,542 | — | 337 | — | 337 | — | 337 |
| Issuance of restricted time-based shares | 48,213 | — | — | — | — | — | — |
| Issuance of performance based shares | 31,342 | — | — | — | — | — | — |
| Repurchase of common shares | (867) | — | (18) | — | (18) | — | (18) |
| Amortization of share based compensation | — | — | 286 | — | 286 | 196 | 482 |
| Dividends declared on common shares ($0.21 per share) | — | — | — | (5,560) | (5,560) | — | (5,560) |
| Distributions declared on LTIP units ($0.21 per unit) | — | — | — | — | — | (54) | (54) |
| Net loss | — | — | — | (1,732) | (1,732) | — | (1,732) |
| Balance, March 31, 2014 | 26,390,788 | $261 | $434,505 | $ (58,084) | $ 376,682 | $ 2,309 | $378,991 |

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 three months ended March 31, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(1,732) | $(1,618) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 6,288 | 3,737 |
| Amortization of deferred franchise fees | 28 | 19 |
| Amortization of deferred financing fees included in interest expense | 394 | 308 |
| Loss on early extinguishment of debt | 184 | 933 |
| Loss on write-off of deferred franchise fee | — | 64 |
| Share based compensation | 585 | 548 |
| Loss from unconsolidated real estate entities | 316 | 631 |
| Changes in assets and liabilities: | | |
| Hotel receivables | 250 | 115 |
| Deferred costs | 130 | 369 |
| Prepaid expenses and other assets | (1,223) | (504) |
| Accounts payable and accrued expenses | (242) | 94 |
| Net cash provided by operating activities | 4,978 | 4,696 |
| Cash flows from investing activities: | | |
| Improvements and additions to hotel properties | (3,207) | (3,078) |
| Acquisition of hotel properties, net of cash acquired | — | (34,764) |
| Distributions from unconsolidated entities | 449 | — |
| Restricted cash | (681) | 681 |
| Net cash used in investing activities | (3,439) | (37,161) |
| Cash flows from financing activities: | | |
| Borrowings on revolving credit facility | 38,000 | 66,500 |
| Repayments on revolving credit facility | (33,000) | (49,500) |
| Payments on debt | (719) | (354) |
| Proceeds from the issuance of debt | 34,000 | 72,858 |
| Principal prepayment of mortgage debt | (32,186) | (100,130) |
| Payment of financing costs | (156) | (680) |
| Payment of offering costs | (230) | (3,040) |
| Proceeds from issuance of common shares | — | 52,812 |
| In-substance repurchase of vested common shares | (18) | (7) |
| Distributions-common shares/units | (5,630) | (5,345) |
| Net cash provided by financing activities | 61 | 33,114 |
| Net change in cash and cash equivalents | 1,600 | 649 |
| Cash and cash equivalents, beginning of period | 4,221 | 4,496 |
| Cash and cash equivalents, end of period | $5,821 | $5,145 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $3,260 | $2,736 |
| Cash paid for income taxes | $90 | $50 |
| Supplemental disclosure of non-cash investing and financing information: | | |

On January 15, 2014, the Company issued 16,542 shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2013. 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.

As of March 31, 2014, the Company had accrued distributions payable of $1,934. These distributions were paid on April 25, 2014 except for $70 related to accrued but unpaid distributions on unvested performance based shares (See Note 12). As of March 31, 2013, the Company had accrued distributions payable of $1,284. These distributions were paid on April 26, 2013 except for $35 related to accrued but unpaid distributions on unvested performance based shares.

Accrued share based compensation of $103 and $84 is included in accounts payable and accrued expenses as of March 31, 2014 and 2013, respectively. Accrued share based compensation of $337 and $337 was included in accounts payable and accrued expenses at December 31, 2013 and 2012, respectively.

Accrued capital improvements of $945 and $366 are included in accounts payable and accrued expenses as of March 31, 2014 and 2013, 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.

The net proceeds from any share 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 March 31, 2014, the Company owned 25 hotels with an aggregate of 3,591 rooms located in 15 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 March 31, 2014, Island Hospitality Management Inc. ("IHM"), which is 90% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed 23 of the Company's wholly owned hotels and Concord Hospitality Enterprises Company managed two of the Company's wholly owned hotels. As of March 31, 2014, 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, 2013, which are included in the Company's

Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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Reclassifications
Certain prior period amounts in the consolidated financial statements have been reclassified to conform to be comparable to the current period presentation. The reclassification did not have any impact on the previously reported loss or equity.
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 April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results or a business activity classified as held for sale upon acquisition should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations but could have an impact on our financial statement presentation and required disclosures. Early adoption is permitted for disposals that have not been reported in financial statements previously issued. We adopted this accounting standard update effective January 1, 2014.
4. Acquisition of Hotel Properties
Hotel Purchase Price Allocation
No acquisitions were completed in the three months ended March 31, 2014. The Company incurred acquisition costs of $0.3 million during three months ended March 31, 2014 and $0.2 million during the three months ended March 31, 2013.
Pro Forma Financial Information
The following condensed pro forma financial information presents the unaudited results of operations as if the hotels acquired in 2013 had taken place on January 1, 2013. The unaudited pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2013, 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 March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Pro forma total revenue | $36,866 | | $34,014 | |
| Pro forma net loss | $(1,732 | ) | $(1,074 | ) |
| Pro forma income per share: | | | | |
| Basic | $(0.07 | ) | $(0.04 | ) |
| Diluted | $(0.07 | ) | $(0.04 | ) |
| Weighted average Common Shares Outstanding | | | | |
| Basic | 26,390,788 | | 26,390,788 | |
| Diluted | 26,390,788 | | 26,390,788 | |

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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 $53 thousand and $30 thousand as of March 31, 2014 and December 31, 2013, respectively.

6. Investment in Hotel Properties

Investment in hotel properties as of March 31, 2014 and December 31, 2013 consisted of the following (in thousands):

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Land and improvements | $94,847 | $94,847 |
| Building and improvements | 560,424 | 559,713 |
| Furniture, fixtures and equipment | 37,051 | 36,628 |
| Renovations in progress | 6,701 | 4,006 |
| | 699,023 | 695,194 |
| Less accumulated depreciation | (48,595) | (42,317) |
| Investment in hotel properties, net | $650,428 | $652,877 |

7. Investment in Unconsolidated Entities

On April 17, 2013, the Company acquired a 5.0% interest for $1.7 million in the Torrance JV. The Torrance JV acquired the 248-room Residence Inn by Marriott in Torrance, CA for $31.0 million. The Company accounts for this investment under the equity method. During the three months ended March 31, 2014 and 2013, the Company received cash distributions from the Torrance JV as follows (in thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Cash generated from other activities and excess cash | $38 | $— |
| Total | $38 | $— |

The Company owns a 10.3% interest in the Innkeepers JV. The Company accounts for this investment under the equity method. During the three months ended March 31, 2014 and 2013, the Company received cash distributions from the Innkeepers JV as follows (in thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Cash generated from other activities and excess cash | $411 | $— |
| Total | $411 | $— |

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

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The Innkeepers JV incurred $11.6 million and $12.1 million in depreciation expense during the three months ended March 31, 2014 and 2013, respectively. The Torrance JV incurred $0.2 million and $0.0 million in depreciation expense during the three months ended March 31, 2014 and 2013, respectively. The Innkeepers JV investment is a liability of $(2.3) million at March 31, 2014 representing that distributions and losses exceed the initial investment. The Company's investment in the Torrance JV is $0.8 million at March 31, 2014. The following table sets forth the combined components of net loss, including the Company’s share, related to the Innkeepers JV for the three months ended March 31, 2014 and 2013 (in thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Revenue | $63,714 | $61,292 |
| Total hotel operating expenses | 36,998 | 36,830 |
| Operating income | $26,716 | $24,462 |
| Net loss from continuing operations | $(3,335) | $(5,995) |
| Net loss | $(3,339) | $(6,136) |
| Total loss from unconsolidated real estate entities attributable to Chatham | $(343) | $(631) |

8. Debt

The Company’s mortgage loans and its senior secured revolving credit facility are collateralized by first-mortgage liens on certain of the Company’s 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 | 3/31/14 Property Carrying Value | Balance Outstanding on Loan as of March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|---|
| Senior Secured Revolving Credit Facility (1) | 2.66 % | November 5, 2016 | $234,233 | $55,000 | $ 50,000 |
| Courtyard by Marriott Altoona, PA | 5.96 % | April 1, 2016 | 10,741 | 6,327 | 6,378 |
| SpringHill Suites by Marriott Washington, PA | 5.84 % | April 1, 2015 | 11,837 | 4,893 | 4,937 |
| Residence Inn by Marriott New Rochelle, NY | 5.75 % | September 1, 2021 | 21,441 | 15,070 | 15,150 |
| Residence Inn by Marriott Garden Grove, CA (2) | 4.79 % | April 6, 2024 | 44,085 | 34,000 | 32,253 |
| Residence Inn by Marriott San Diego, CA | 4.66 % | February 6, 2023 | 47,986 | 30,422 | 30,546 |
| Homewood Suites by Hilton San Antonio, TX | 4.59 % | February 6, 2023 | 30,079 | 17,382 | 17,454 |
| Residence Inn by Marriott Vienna, VA | 4.49 % | February 6, 2023 | 33,631 | 23,825 | 23,925 |
| Courtyard by Marriott Houston, TX | 4.19 % | May 6, 2023 | 33,337 | 19,726 | 19,812 |
| Hyatt Place Pittsburgh, PA | 4.65 % | July 6, 2023 | 39,111 | 23,933 | 24,028 |
| Residence Inn by Marriott Bellevue, WA | 4.97 % | December 6, 2023 | $70,743 | 47,580 | 47,580 |
| Total | | | $577,224 | $278,158 | $ 272,063 |

(1) Thirteen properties in the borrowing base serve as collateral for borrowings under the senior secured revolving credit facility at March 31, 2014. Interest rate is variable and based on LIBOR plus 2.5%.

(2) On March 21, 2014, the Company refinanced the mortgage for the Residence Inn Garden Grove hotel. The new loan has a 10-year term and a 30-year amortization payment schedule.

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The Company entered into an amendment (the "Amendment") to its amended and restated senior secured revolving credit facility on December 11, 2013. The amendment extends the maturity date to November 5, 2016 and includes an option to extend the maturity date by an additional year. The senior secured revolving credit facility also includes limitations on the extent of allowable distributions to the Company not to exceed the greater of 95% of Adjusted Funds from Operations (as defined i the senior secured revolving credit facility) and the minimum amount of distributions required for the Company to maintain its REIT status. Other key terms are as follows:

| | |
|---|---|
| Facility amount | $175 million |
| Accordion feature | Increase additional $50 million |
| LIBOR floor | None |
| Interest rate applicable margin | 200-300 basis points, based on leverage ratio |
| Unused fee | 25 basis points if less than 50% unused, 35 basis points if more than 50% unused |
| Minimum fixed charge coverage ratio | 1.5x |

At March 31, 2014 and December 31, 2013, the Company had $55.0 million and $50.0 million, respectively, of outstanding borrowings under its senior secured revolving credit facility. At March 31, 2014, the maximum borrowing availability under the senior secured revolving credit facility was $175.0 million.

The Company estimates the fair value of its fixed rate debt, which is all of the Company's mortgage loans, by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. Level 3 typically consists of mortgages because of the significance of the collateral value to the value of the loan. The estimated fair value of the Company’s fixed rate debt as of March 31, 2014 and December 31, 2013 was $222.9 million and $220.0 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. The Company’s only variable rate debt is under its senior secured revolving credit facility. The estimated fair value of the Company’s variable rate debt as of March 31, 2014 and December 31, 2013 was $55.0 million and $50.0 million, respectively.

As of March 31, 2014, the Company was in compliance with all of its financial covenants. At March 31, 2014, the Company’s consolidated fixed charge coverage ratio was 2.82. Future scheduled principal payments of debt obligations as of March 31, 2014, for each of the next five calendar years and thereafter are as follows (in thousands):

| | Amount |
|---|---|
| 2014 (remaining nine months) | $1,910 |
| 2015 | 8,315 |
| 2016 | 64,533 |
| 2017 | 3,832 |
| 2018 | 3,948 |
| Thereafter | 195,620 |
| Total | $278,158 |

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9. Income Taxes

The Company’s TRSs are subject to federal and state income taxes. The Company’s TRSs are structured under two TRS holding companies, which are referred to as TRS 1 and TRS 2, that are treated separately for income tax purposes.

The components of income tax expense for the following periods are as follows (in thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Federal | $2 | $— |
| State | 1 | — |
| Tax expense | $3 | $— |

At March 31, 2014, TRS 1 had a gross deferred tax asset associated with future tax deductions of $2.0 million. TRS 1 has continued to record a full valuation allowance equal to 100% of the gross deferred tax asset due to the uncertainty of realizing the benefit of its deferred assets due to the cumulative taxable losses incurred by TRS 1 since its inception. TRS 2 has a gross deferred tax asset of $0.0 million as of March 31, 2014 and no valuation allowance has been recorded in connection with the gross deferred tax assets of TRS 2 for March 31, 2014.

10. Dividends Declared and Paid

The Company declared total common share dividends of $0.21 per share and distributions on long-term incentive plan (“LTIP”) units of $0.21 per unit for the three months ended March 31, 2014. The dividends and distributions were as follows:

| | Record Date | Payment Date | Common share distribution amount | LTIP unit distribution amount |
|---|---|---|---|---|
| January | 1/31/2014 | 2/28/2014 | $0.07 | $0.07 |
| February | 2/28/2014 | 3/28/2014 | 0.07 | 0.07 |
| March | 3/31/2014 | 4/25/2014 | 0.07 | 0.07 |
| 1st Quarter 2014 | | | $0.21 | $0.21 |

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11. Earnings Per Share

The two class method is used to determine earnings per share because unvested restricted shares and unvested long-term incentive plan units are considered to be participating shares. Unvested restricted shares and unvested long-term incentive plan units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented. The following is a reconciliation of the amounts used in calculating basic and diluted net loss per share (in thousands, except share and per share data):

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Numerator: | | | | |
| Net loss | $(1,732 | ) | $(1,618 | ) |
| Dividends paid on unvested shares and units | (76 | ) | (78 | ) |
| Net loss attributable to common shareholders | $(1,808 | ) | $(1,696 | ) |
| Denominator: | | | | |
| Weighted average number of common shares - basic | 26,271,678 | | 17,212,124 | |
| Effect of dilutive securities: | | | | |
| Unvested shares (1) | — | | — | |
| Weighted average number of common shares - diluted | 26,271,678 | | 17,212,124 | |
| Basic loss per Common Share: | | | | |
| Net loss attributable to common shareholders per weighted average common share | $(0.07 | ) | $(0.10 | ) |
| Diluted loss per Common Share: | | | | |
| Net loss attributable to common shareholders per weighted average common share | $(0.07 | ) | $(0.10 | ) |

(1) Unvested restricted shares and unvested long-term incentive plan units that could potentially dilute basic earnings per share in the future were not included in the computation of diluted loss per share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented.

12. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees and service providers. The plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. The plan was amended and restated as of May 17, 2013 to increase the maximum number of shares available under the plan to 3,000,000 shares. Share awards under this plan generally vest over three years, though compensation for the Company’s independent trustees includes shares granted that vest immediately. The Company pays dividends on unvested shares and units, except for performance based shares, for which dividends on unvested performance based shares are not paid until those shares are vested. Certain awards may provide for accelerated vesting if there is a change in control. In January 2014 and 2013, the Company issued 16,542 and 22,536 common shares, respectively, to its independent trustees as compensation for services performed in 2013 and 2012. The quantity of shares was calculated based on the average of the closing prices for the Company’s common shares on the New York Stock Exchange for the last ten trading days preceding the reporting date. The Company would have distributed 5,028 common shares had this liability classified award been satisfied as of March 31, 2014. As of March 31, 2014, there were 2,296,458 common shares available for issuance under the Equity Incentive Plan.

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Restricted Share Awards

A summary of the shares granted to executive officers pursuant to the Equity Incentive Plan as of March 31, 2014 are:

| Award Type | Award Date | Total Shares Granted | Vested as of March 31, 2014 |
|---|---|---|---|
| 2012 Time-based Awards | 2/23/2012 | 61,376 | 40,918 |
| 2012 Performance-based Awards | 2/23/2012 | 53,191 | 35,462 |
| 2013 Time-based Awards | 1/29/2013 | 40,829 | 13,611 |
| 2013 Performance-based Awards | 5/17/2013 | 40,829 | 13,611 |
| 2014 Time-based Awards | 1/31/2014 | 48,213 | — |
| 2014 Performance-based Awards | 1/31/2014 | 38,805 | — |

Time-based shares will vest over a three-year period. The performance-based shares will be issued and vest over a three-year period only if and to the extent that long-term performance criteria established by the Board of Trustees are met and the recipient remains employed by the Company through the vesting date.

The Company measures compensation expense for time-based vesting restricted share awards based upon the fair market value of its common shares at the date of grant. For the performance-based shares granted in 2012, 2013 and 2014, compensation expense is based on a valuation of $10.20, $10.93 and $13.17, respectively, per performance share granted, which takes into account that some or all of the awards may not vest if long-term performance criteria are not met during the vesting period. Compensation expense is recognized on a straight-line basis over the vesting period and is included in general and administrative expense in the accompanying consolidated statements of operations. The Company pays dividends on non-vested time-based restricted shares. Dividends for performance-based shares are accrued and paid annually only if and to the extent that long-term performance criteria established by the Board of Trustees are met and the recipient remains employed by the Company on the vesting date.

A summary of the Company’s restricted share awards for the three months ended March 31, 2014 and year ended December 31, 2013 is as follows:

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Number of Shares | Weighted - Average Grant Date Fair Value | Number of Shares | Weighted - Average Grant Date Fair Value |
| Non-vested at beginning of the period | 158,035 | $12.39 | 140,077 | $12.70 |
| Granted | 87,018 | 17.46 | 81,658 | 13.43 |
| Vested | (65,412) | 12.17 | (63,700) | 14.39 |
| Non-vested at end of the period | 179,641 | $14.92 | 158,035 | $12.39 |

As of March 31, 2014 and December 31, 2013, there were $2.4 million and $1.2 million, respectively, of unrecognized compensation costs related to restricted share awards. As of March 31, 2014, these costs were expected to be recognized over a weighted–average period of approximately 2.3 years. For the three months ended March 31, 2014 and 2013, the Company recognized approximately $0.3 million and $0.3 million, respectively, of expense related to the restricted share awards. This expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

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Long-Term Incentive Plan Units

The Company recorded $0.2 million and $0.2 million in compensation expense related to the LTIP Units for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014 and December 31, 2013, there was $0.8 million and $1.0 million, respectively, of total unrecognized compensation cost related to LTIP Units. This cost is expected to be recognized over approximately 1.1 years, which represents the weighted average remaining vesting period of the LTIP Units. Upon the closing of the Company's equity offering on September 30, 2013, the Company determined that a revaluation event occurred, as defined in the Internal Revenue Code of 1986, as amended, and 26,250 LTIPS units of one of the officers of the Company achieved full parity with the common Operating Partnership units with respect to liquidating distributions and all other purposes. Three-fifths of these units have vested. Accordingly, these LTIP units will be allocated their pro-rata share of the Company's net loss.

## 13. Commitments and Contingencies

Litigation

The nature of the operations of the hotels exposes the hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. The Company is not presently subject to any material litigation nor, to the Company’s knowledge, is any material litigation threatened against the Company or its properties.

Hotel Ground Rent

The Altoona hotel is subject to a ground lease with an expiration date of April 30, 2029 with an extension option of up to 12 additional terms of five years each. Monthly payments are determined by the quarterly average room occupancy of the hotel. Rent is equal to approximately $7,500 per month when monthly occupancy is less than 85% and can increase up to approximately $20,000 per month if occupancy is 100%, with minimum rent increased on an annual basis by two and one-half percent (2.5%).

At the New Rochelle Residence Inn, there is an air rights lease and garage lease that each expire on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel’s proportionate share of the city’s adopted budget for the operations, management and maintenance of the garage and established reserves to fund for the cost of capital repairs.

Future minimum rental payments under the terms of all non-cancellable operating ground leases under which the Company is the lessee are expensed on a straight-line basis regardless of when payments are due. The following is a schedule of the minimum future obligation payments required under the ground, air rights and garages leases as of March 31, 2014, for the remainder of 2014 and for each of the next four calendar years and thereafter (in thousands):

| | Amount |
|---|---|
| 2014 (remaining nine months) | $156 |
| 2015 | 210 |
| 2016 | 212 |
| 2017 | 214 |
| 2018 | 217 |
| Thereafter | 11,228 |
| Total | $12,237 |

Management Agreements

The management agreements with Concord have an initial ten-year term that expires on February 28, 2017 and will renew automatically for successive one-year terms unless terminated by the TRS lessee or the manager by written notice to the other party no later than 90 days prior to the then current term’s expiration date. The management agreements may be terminated for cause, including the failure of the managed hotel operating performance to meet specified levels. If the Company were to terminate the management agreements during the first nine years of the term other than for breach or default by the manager, the Company would be responsible for paying termination fees to the manager.

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The management agreements with IHM have an initial term of five years and may be renewed for two five-year periods at IHM’s option by written notice to us no later than 90 days prior to the then current term’s expiration date. The IHM management agreements provide for early termination at the Company’s option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels.
Terms of the Company's management agreements are:

| Property | Management Company | Base Management Fee | Monthly Accounting Fee | Monthly Revenue Management Fee | Incentive Management Fee |
|---|---|---|---|---|---|
| Courtyard Altoona | Concord | 4.0 % | 1,211 | — | — % |
| Springhill Suites Washington | Concord | 4.0 % | 991 | — | — % |
| Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Minneapolis-Mall of America | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Nashville-Brentwood | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Dallas-Market Center | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Hartford-Farmington | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Orlando-Maitland | IHM | 2.0 % | 1,000 | 550 | 1.0 % |
| Homewood Suites by Hilton Carlsbad (North San Diego County) | IHM | 3.0 % | 1,000 | — | 1.0 % |
| Hampton Inn & Suites Houston-Medical Center | IHM | 3.0 % | 1,000 | — | 1.0 % |
| Residence Inn Long Island Holtsville | IHM | 3.0 % | 1,000 | — | 1.0 % |
| Residence Inn White Plains | IHM | 3.0 % | 1,000 | — | 1.0 % |
| Residence Inn New Rochelle | IHM | 3.0 % | 1,000 | — | 1.0 % |
| Residence Inn Garden Grove | IHM | 2.5 % | 1,000 | — | 1.0 % |
| Residence Inn Mission Valley | IHM | 2.5 % | 1,000 | — | 1.0 % |
| Homewood Suites by Hilton San Antonio River Walk | IHM | 2.5 % | 1,000 | — | 1.0 % |
| Residence Inn Washington DC | IHM | 2.5 % | 1,000 | — | 1.0 % |
| Residence Inn Tysons Corner | IHM | 2.5 % | 1,000 | — | 1.0 % |
| Hampton Inn Portland Downtown | IHM | 3.0 % | 1,000 | 550 | 1.0 % |
| Courtyard Houston | IHM | 3.0 % | 1,000 | 550 | 1.0 % |
| Hyatt Place Pittsburgh North Shore | IHM | 3.0 % | 1,500 | 1,000 | 1.0 % |
| Hampton Inn Exeter | IHM | 3.0 % | 1,200 | 1,000 | 1.0 % |
| Hilton Garden Inn Denver Tech | IHM | 3.0 % | 1,500 | 1,000 | 1.0 % |
| Residence Inn Bellevue | IHM | 3.0 % | 1,200 | 1,000 | 1.0 % |
| Springhill Suites Savannah | IHM | 3.0 % | 1,200 | 1,000 | 1.0 % |

Management fees totaled approximately $1.1 million and $0.7 million, respectively, for the three months ended March 31, 2014 and 2013, respectively.

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Franchise Agreements

Terms of the Company's Franchise agreements are:

| Property | Franchise/Royalty Fee | | Marketing/Program Fee | | Expiration |
|---|---|---|---|---|---|
| Homewood Suites by Hilton Boston-Billerica/ Bedford/ Burlington | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Minneapolis-Mall of America | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Nashville-Brentwood | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Dallas-Market Center | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Hartford-Farmington | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Orlando-Maitland | 4.0 | % | 4.0 | % | 2025 |
| Homewood Suites by Hilton Carlsbad (North San Diego County) | 4.0 | % | 4.0 | % | 2028 |
| Hampton Inn & Suites Houston-Medical Center | 5.0 | % | 4.0 | % | 2020 |
| Courtyard Altoona | 5.5 | % | 2.0 | % | 2030 |
| Springhill Suites Washington | 5.0 | % | 2.5 | % | 2030 |
| Residence Inn Long Island Holtsville | 5.5 | % | 2.5 | % | 2025 |
| Residence Inn White Plains | 5.5 | % | 2.5 | % | 2030 |
| Residence Inn New Rochelle | 5.5 | % | 2.5 | % | 2030 |
| Residence Inn Garden Grove | 5.0 | % | 2.5 | % | 2031 |
| Residence Inn Mission Valley | 5.0 | % | 2.5 | % | 2031 |
| Homewood Suites by Hilton San Antonio River Walk | 4.0 | % | 4.0 | % | 2026 |
| Residence Inn Washington DC | 5.5 | % | 2.5 | % | 2033 |
| Residence Inn Tysons Corner | 5.0 | % | 2.5 | % | 2031 |
| Hampton Inn Portland Downtown | 6.0 | % | 4.0 | % | 2032 |
| Courtyard Houston | 5.5 | % | 2.0 | % | 2030 |
| Hyatt Place Pittsburgh North Shore | 5.0 | % | 3.5 | % | 2030 |
| Hampton Inn Exeter | 6.0 | % | 4.0 | % | 2031 |
| Hilton Garden Inn Denver Tech | 4.3 | % | 5.5 | % | 2028 |
| Residence Inn Bellevue | | | | | |