

Edgar Filing: Chesapeake Lodging Trust - Form 10-Q

Chesapeake Lodging Trust  
Form 10-Q  
August 02, 2017  
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 1934

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-34572

---

CHESAPEAKE LODGING TRUST  
(Exact name of registrant as specified in its charter)

---

MARYLAND 27-0372343  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
4300 Wilson Boulevard, Suite 625 22203  
Arlington, Virginia  
(Address of principal executive offices) (Zip Code)  
(571) 349-9450  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

---

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 28, 2017, there were 60,114,283 shares of the registrant's common shares issued and outstanding.



Table of Contents

CHESAPEAKE LODGING TRUST  
INDEX

	Page
PART I	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
PART II	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>27</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>27</u>
<u>Item 5. Other Information</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>28</u>

Table of Contents

## PART I

## Item 1. Financial Statements

CHESAPEAKE LODGING TRUST  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Property and equipment, net	\$ 1,875,055	\$ 1,882,869
Intangible assets, net	35,546	35,835
Cash and cash equivalents	59,940	43,060
Restricted cash	31,227	36,128
Accounts receivable, net of allowance for doubtful accounts of \$161 and \$157, respectively	25,820	19,966
Prepaid expenses and other assets	21,666	17,516
Total assets	\$2,049,254	\$ 2,035,374
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Long-term debt	\$770,094	\$ 737,310
Accounts payable and accrued expenses	66,238	64,581
Other liabilities	44,807	44,808
Total liabilities	881,139	846,699
Commitments and contingencies (Note 11)		
Preferred shares, \$.01 par value; 100,000,000 shares authorized; Series A Cumulative Redeemable Preferred Shares; 5,000,000 shares issued and outstanding, respectively (\$127,422 liquidation preference)	50	50
Common shares, \$.01 par value; 400,000,000 shares authorized; 60,114,283 and 59,671,964 shares issued and outstanding, respectively	601	597
Additional paid-in capital	1,307,141	1,304,364
Cumulative dividends in excess of net income	(139,545 )	(116,297 )
Accumulated other comprehensive loss	(132 )	(39 )
Total shareholders' equity	1,168,115	1,188,675
Total liabilities and shareholders' equity	\$2,049,254	\$ 2,035,374
The accompanying notes are an integral part of these consolidated financial statements.		

Table of Contents

CHESAPEAKE LODGING TRUST  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>REVENUE</b>				
Rooms	\$122,268	\$126,967	\$221,169	\$230,739
Food and beverage	33,136	35,664	62,448	66,219
Other	7,057	6,800	13,718	13,084
Total revenue	162,461	169,431	297,335	310,042
<b>EXPENSES</b>				
Hotel operating expenses:				
Rooms	27,368	27,876	52,690	53,377
Food and beverage	23,149	24,111	45,388	46,877
Other direct	1,300	1,589	2,656	3,147
Indirect	53,532	53,103	103,347	103,683
Total hotel operating expenses	105,349	106,679	204,081	207,084
Depreciation and amortization	19,096	18,610	37,883	37,094
Air rights contract amortization	130	130	260	260
Corporate general and administrative	4,647	4,734	9,582	10,000
Total operating expenses	129,222	130,153	251,806	254,438
Operating income	33,239	39,278	45,529	55,604
Interest expense	(8,171)	(7,560)	(15,969)	(15,770)
Gain on sale of hotel	—	598	—	598
Income before income taxes	25,068	32,316	29,560	40,432
Income tax benefit (expense)	(3,407)	(3,774)	120	(1,820)
Net income	21,661	28,542	29,680	38,612
Preferred share dividends	(2,422)	(2,422)	(4,844)	(4,844)
Net income available to common shareholders	\$19,239	\$26,120	\$24,836	\$33,768
Net income available per common share—basic and diluted	\$0.32	\$0.44	\$0.42	\$0.57

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

Table of Contents

CHESAPEAKE LODGING TRUST  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$21,661	\$28,542	\$29,680	\$38,612
Other comprehensive income (loss):				
Unrealized losses on cash flow hedge instruments	(507 )	(116 )	(507 )	(434 )
Reclassification of unrealized losses on cash flow hedge instruments to interest expense	375	157	414	320
Comprehensive income	\$21,529	\$28,583	\$29,587	\$38,498

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

Table of Contents

CHESAPEAKE LODGING TRUST  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(in thousands, except share data)  
(unaudited)

	Preferred Shares		Common Shares		Additional Paid-In Capital	Cumulative Dividends in Excess of Net Income	Accumulated in Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balances at December 31, 2016	5,000,000	\$ 50	59,671,964	\$ 597	\$1,304,364	\$(116,297)	\$(39)	\$1,188,675
Repurchase of common shares	—	—	(40,504)	—	(1,065)	—	—	(1,065)
Issuance of restricted common shares	—	—	481,068	4	(4)	—	—	—
Issuance of unrestricted common shares	—	—	1,755	—	42	—	—	42
Amortization of deferred compensation	—	—	—	—	3,804	—	—	3,804
Declaration of dividends on common shares	—	—	—	—	—	(48,084)	—	(48,084)
Declaration of dividends on preferred shares	—	—	—	—	—	(4,844)	—	(4,844)
Net income	—	—	—	—	—	29,680	—	29,680
Other comprehensive loss	—	—	—	—	—	—	(93)	(93)
Balances at June 30, 2017	5,000,000	\$ 50	60,114,283	\$ 601	\$1,307,141	\$(139,545)	\$(132)	\$1,168,115

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

Table of Contents

CHESAPEAKE LODGING TRUST  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$29,680	\$38,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,883	37,094