Chatham Lodging Trust
Form 10-Q
August 11, 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 June 30, 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 August 8, 2014
Common Shares of Beneficial Interest ($0.01 par value per share)	26,878,072

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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)

	June 30, 2014 (unaudited)	December 31, 2013
Assets:		
Investment in hotel properties, net	$970,954	$652,877
Cash and cash equivalents	11,935	4,221
Restricted cash	8,060	4,605
Investment in unconsolidated real estate entities	3,321	774
Hotel receivables (net of allowance for doubtful accounts of $59 and $30, respectively)	3,803	2,455
Deferred costs, net	6,840	7,113
Prepaid expenses and other assets	2,760	1,879
Total assets	$1,007,673	$673,924
Liabilities and Equity:		
Mortgage debt	$444,535	$222,063
Revolving credit facility	98,000	50,000
Accounts payable and accrued expenses	13,992	12,799
Distributions and losses in excess of investments of unconsolidated real estate entities	—	1,576
Distributions payable	2,260	1,950
Total liabilities	558,787	288,388
Commitments and contingencies		
Equity:		
Shareholders' Equity:		
Preferred shares, $0.01 par value, 100,000,000 shares authorized and unissued at June 30, 2014 and December 31, 2013	—	—
Common shares, $0.01 par value, 500,000,000 shares authorized; 26,877,757 and 26,295,558 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	266	261
Additional paid-in capital	445,427	433,900
Accumulated deficit	729	(50,792)
Total shareholders' equity	446,422	383,369
Noncontrolling Interests:		
Noncontrolling Interest in Operating Partnership	2,464	2,167
Total equity	448,886	385,536
Total liabilities and equity	$1,007,673	$673,924

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

CHATHAM LODGING TRUST
Consolidated Statements of Operations
(In thousands, except share and per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Revenue:				
Room	$43,978	$28,960	$77,935	$53,195
Food and beverage	585	199	1,213	349
Other	2,021	1,202	3,629	2,213
Cost reimbursements from unconsolidated real estate entities	493	385	1,165	768
Total revenue	47,077	30,746	83,942	56,525
Expenses:				
Hotel operating expenses:				
Room	8,802	6,065	16,557	11,615
Food and beverage	432	182	899	317
Telephone expense	285	216	572	407
Other hotel operating	507	378	950	727
General and administrative	3,847	2,680	7,274	5,186
Franchise and marketing fees	3,602	2,243	6,394	4,144
Advertising and promotions	859	651	1,689	1,308
Utilities	1,482	1,117	3,102	2,183
Repairs and maintenance	2,057	1,556	4,056	3,001
Management fees	1,396	887	2,490	1,631
Insurance	217	176	433	348
Total hotel operating expenses	23,486	16,151	44,416	30,867
Depreciation and amortization	7,365	4,026	13,680	7,778
Property taxes and insurance	2,809	2,045	5,458	4,032
General and administrative	2,364	2,064	4,686	4,046
Hotel property acquisition costs and other charges	5,559	1,059	7,041	1,236
Reimbursed costs from unconsolidated real estate entities	493	385	1,165	768
Total operating expenses	42,076	25,730	76,446	48,727
Operating income	5,001	5,016	7,496	7,798
Interest and other income	12	111	26	115
Interest expense, including amortization of deferred fees	(4,362)	(2,817)	(8,100)	(5,658)
Loss on early extinguishment of debt	—	—	(184)	(933)
Loss from unconsolidated real estate entities	(2,000)	(89)	(2,316)	(720)
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	66,701	—	66,701	—
Income before income tax expense	65,352	2,221	63,623	602
Income tax expense	(38)	(45)	(41)	(45)
Net income	65,314	2,176	63,582	557
Net income attributable to noncontrolling interests	(108)	—	(108)	—
Net income attributable to common shareholders	$65,206	$2,176	$63,474	$557
Income per Common Share - Basic:				
Net income attributable to common shareholders (Note 11)	$2.46	$0.12	$2.40	$0.02
Income per Common Share - Diluted:				

Net income attributable to common shareholders (Note 11)	$2.44	$0.11	$2.38	$0.02
Weighted average number of common shares outstanding:				
Basic	26,437,878	18,147,108	26,355,237	17,682,199
Diluted	26,734,919	18,383,626	26,637,261	17,897,255
Distributions per common share:	$0.24	$0.21	$0.45	$0.42

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 $6,746	8,568,500	86	127,335	—	127,421	—	127,421
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	—	—	520	—	520	391	911
Dividends declared on common shares ($0.42 per share)	—	—	—	(7,764)	(7,764)	—	(7,764)
Distributions declared on LTIP units ($0.42 per unit)	—	—	—	—	—	(108)	(108)
Net income	—	—	—	557	557	—	557
Balance, June 30, 2013	22,558,058	$223	$368,540	$(42,698)	$326,065	$1,894	$327,959
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 shares, net of offering costs of $461	486,969	5	10,506	—	10,511	—	10,511
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	—	—	616	—	616	391	1,007
Dividends declared on common shares ($0.45 per share)	—	—	—	(11,953)	(11,953)	—	(11,953)
Distributions declared on LTIP units ($0.45 per unit)	—	—	—	—	—	(116)	(116)
Reallocation of noncontrolling interest	—	—	86	—	86	(86)	—

Net income	—	—	—	63,474	63,474	108	63,582
Balance, June 30, 2014	26,877,757	$266	$445,427	$ 729	$ 446,422	$ 2,464	$448,886

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

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

	For the six months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$63,582	$557
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,623	7,739
Amortization of deferred franchise fees	57	40
Amortization of deferred financing fees included in interest expense	749	556
Net gain from remeasurement and sale of investment in unconsolidated real estate entities	(66,701)	—
Loss on early extinguishment of debt	184	933
Loss on write-off of deferred franchise fee	—	64
Share based compensation	1,213	1,080
Loss from unconsolidated real estate entities	2,316	720
Changes in assets and liabilities:		
Hotel receivables	(389)	(204)
Deferred costs	(136)	296
Prepaid expenses and other assets	(619)	(630)
Accounts payable and accrued expenses	1,225	964
Net cash provided by operating activities	15,104	12,115
Cash flows from investing activities:		
Improvements and additions to hotel properties	(7,721)	(7,128)
Acquisition of hotel properties, net of cash acquired	(265,288)	(74,769)
Distributions from unconsolidated entities	449	908
Investment in unconsolidated real estate entities	—	(1,649)
Restricted cash	(3,455)	263
Net cash used in investing activities	(276,015)	(82,375)
Cash flows from financing activities:		
Borrowings on revolving credit facility	126,000	88,500
Repayments on revolving credit facility	(78,000)	(137,500)
Payments on debt	(1,342)	(807)
Proceeds from the issuance of debt	256,000	117,033
Principal prepayment of mortgage debt	(32,186)	(100,130)
Payment of financing costs	(531)	(965)
Payment of offering costs	(511)	(6,746)
Proceeds from issuance of common shares	10,972	134,166
In-substance repurchase of vested common shares	(18)	(7)
Distributions-common shares/units	(11,759)	(9,090)
Net cash provided by financing activities	268,625	84,454
Net change in cash and cash equivalents	7,714	14,194
Cash and cash equivalents, beginning of period	4,221	4,496
Cash and cash equivalents, end of period	$11,935	$18,690
Supplemental disclosure of cash flow information:		
Cash paid for interest	$7,129	$5,241

Cash paid for income taxes	$165	$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 June 30, 2014, the Company had accrued distributions payable of $2,260. These distributions were paid on July 25, 2014 except for $89 related to accrued but unpaid distributions on unvested performance based shares (See Note 12). As of June 30, 2013, the Company had accrued distributions payable of $1,657. These distributions were paid on April 26, 2013 except for $60 related to accrued but unpaid distributions on unvested performance based shares.
Accrued share based compensation of $206 and $169 is included in accounts payable and accrued expenses as of June 30, 2014 and 2013, respectively.
Accrued capital improvements of $424 and $806 are included in accounts payable and accrued expenses as of June 30, 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.

In January 2014, the Company established an At the Market Equity Offering ("ATM Plan") whereby, from time to time, we may publicly offer and sell up to $50 million of our common shares by means of ordinary brokers’ transactions on the New York Stock Exchange, in negotiated transactions or in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, with Cantor Fitzgerald & Co. acting as sales agent. As of June 30, 2014, we had issued 486,820 shares under the ATM Plan at a weighted average price of $22.53. As of June 30, 2014, there was approximately $39.0 million of common shares available for issuance under the ATM Plan.

In January 2014, the Company established a dividend reinvestment and stock purchase plan ("DRSPP"). Shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on the Company's common shares. Shareholders may also make optional cash purchases of the Company's common shares subject to certain limitations detailed in the prospectus for the DRSPP. As of June 30, 2014, we had issued 149 shares under the DRSPP at a weighted average price of $22.12. As of June 30, 2014, there was approximately $25.0 million of common shares available for issuance under the DRSPP.

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 June 30, 2014, the Company owned 29 hotels with an aggregate of 4,342 rooms located in 15 states and the District of Columbia. The Company also owns a 10.3% noncontrolling interest in a joint venture (the “NewINK JV”) with NorthStar Realty Finance Corp (“NorthStar”), which owns 47 hotels comprising an aggregate of 6,097 rooms, and owns a 5.0% noncontrolling interest in a joint venture (the "Torrance JV") with Cerberus Capital Management ("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 47 of the NewINK JV hotels and its interest in the Torrance JV through the Operating Partnership. All of the NewINK 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 June 30, 2014, Island Hospitality Management Inc. (“IHM”), which is 90% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed 27 of the Company’s wholly owned hotels and Concord Hospitality Enterprises Company managed two of the Company’s wholly owned hotels. As of June 30, 2014, all of the NewINK JV hotels were managed by IHM. The Torrance JV hotel is managed by Marriott International, Inc. ("Marriott").

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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 consisting of normal, recurring adjustments which are 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.

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). 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 and do not expect the implementation of the amended guidance to have a material impact on the Company's consolidated financial position of results of operations, but do expect these amendments to impact the Company determination of which future property disposals qualify as discontinued operations as well as requiring additional disclosures about discontinued operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that AUS 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

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4. Acquisition of Hotel Properties

Hotel Purchase Price Allocation

The allocation of the purchase price for the Silicon Valley hotels (hereinafter the "Silicon Valley Hotels") includes the following hotels (i) Residence Inn Silicon Valley I, (ii) Residence Inn Silicon Valley II, (iii) Residence Inn San Mateo and (iv) Residence Inn Mountain View, based on the fair value on the date of their acquisition was (in thousands):

	Silicon Valley Hotels (Preliminary)	
Acquisition date	6/9/2014	
Number of Rooms	751	
Land	$149,385	
Building and improvements	156,902	
Furniture, fixtures and equipment	17,565	
Cash	25	
Accounts receivable	959	
Prepaid expenses and other assets	289	
Net assets acquired	$325,125	
Less: Fair value of interest in the Silicon Valley Hotels and NewINK JV	$(59,813	)
Net assets acquired, net of cash and Fair Value of interest in the Silicon Valley Hotels and New INK JV	$265,287	

The Company incurred acquisition costs of $4.8 million and $5.1 million, respectively, during the three and six months ended June 30, 2014 and $1.1 million and $1.2 million, respectively, during the three and six months ended June 30, 2013.

The amount of revenue and operating income from the new hotels acquired in 2014 are as follows (in thousands):

	For the three months ended June 30, 2014		For the six months ended June 30, 2014	
	Revenue	Operating Income	Revenue	Operating Income
Silicon Valley Hotels	$3,075	$2,113	3,075	$2,113
Total	$3,075	$2,113	$3,075	$2,113

Pro Forma Financial Information

The following condensed pro forma financial information presents the unaudited results of operations for the three and six months ended June 30, 2014 and 2013 as if the hotels acquired in 2014 and 2013 had taken place on January 1, 2013 and 2012. 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 and 2012, nor do they purport to represent the results of operations for future periods (in thousands, except share and per share data).

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	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Pro forma total revenue	$56,383	$51,034	$103,511	$94,462
Pro forma net income (loss)	$3,404	$65,465	$(799)	$67,601
Pro forma income (loss) per share:				
Basic	$0.13	$2.44	$(0.03)	$2.52
Diluted	$0.13	$2.42	$(0.03)	$2.50
Weighted average Common Shares Outstanding				
Basic	26,877,757	26,877,757	26,877,757	26,877,757
Diluted	27,174,798	27,114,275	26,877,757	27,092,813

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 $59 thousand and $30 thousand as of June 30, 2014 and December 31, 2013, respectively.

6. Investment in Hotel Properties

Investment in hotel properties as of June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Land and improvements	$244,236	$94,847
Building and improvements	720,061	559,713
Furniture, fixtures and equipment	56,179	36,628
Renovations in progress	6,392	4,006
	1,026,868	695,194
Less accumulated depreciation	(55,914)	(42,317)
Investment in hotel properties, net	$970,954	$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 and six months ended June 30, 2014 and 2013, the Company received cash distributions from the Torrance JV as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Cash generated from other activities and excess cash	$—	$908	$38	$908
Total	$—	$908	$38	$908

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The Company owned a 10.3% interest in a joint venture (the "Innkeepers JV") with Cerberus Capital Management ("Cerberus"), which owned 51 hotels comprising an aggregate of 6,848 rooms until June 9, 2014. The Company accounted for this investment under the equity method. During the three and six months ended June 30, 2014 and 2013, the Company received cash distributions from the Innkeepers JV as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Cash generated from other activities and excess cash	$—	$—	$411	$—
Total	$—	$—	$411	$—

On June 9, 2014, the Company completed the sale of its joint venture with Cerberus, the Innkeepers JV, which owned a 51-hotel, 6,848-room portfolio, to a new joint venture between affiliates of NorthStar and the Company’s operating partnership (the “NewINK JV”) in which NorthStar effectively acquired Cerberus' 89.7% interest in 47 of the 51 hotels from the Innkeepers JV. The remaining four hotels, each of which is a Residence Inn that are located in Silicon Valley, CA, were purchased by the Company (see note 4). The Company owns a 10.3% interest in the NewINK JV, which owns 47 hotels comprising an aggregate of 6,097 rooms. The Company accounts for this investment under the equity method. The remeasurement gain of the Company's interest in the four Silicon Valley Hotels as a result of the step acquisition was approximately $18.8 million and the net gain from the Company's promote interest in the Innkeepers JV was approximately $47.9 million (credited toward the purchase of the Silicon Valley Hotels), resulting in a total gain of $66.7 million from the transaction. The Company's gain resulting from this transaction will be rolled tax deferred between the basis of the Company's investment in the NewINK JV and the Company's basis in the four Silicon Valley Hotels. During the three and six months ended June 30, 2014 and 2013, the Company received no cash distributions from the NewINK JV.

The Company’s ownership interests in the NewINK JV is subject to change in the event that either the Company or NorthStar calls for additional capital contributions to the respective JV's for certain non-discretionary requirements, or solely in the case of a capital call by NorthStar necessary for the conduct of business, including contributions to fund costs and expenses related to capital expenditures. The Company manages each of the NewINK JV and the Torrance JV (collectively, the "JV") and will receive a promote interest in each applicable JV if it meets certain return thresholds. NorthStar and Cerberus may also approve certain actions by each respective 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.

The Company's investment in the Innkeepers JV investment is $0.0 million at June 30, 2014. The Company's investment in the NewINK JV is $2.5 million at June 30, 2014. The Company's investment in the Torrance JV is $0.8 million at June 30, 2014. The following table sets forth the combined components of net income (loss), including the Company’s share, related to the Innkeepers JV and NewINK JV for the three and six months ended June 30, 2014 and 2013 (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Revenue	$72,857	$70,914	$136,570	$132,207
Total hotel operating expenses	39,359	38,531	76,358	75,361
Operating income	$33,498	$32,383	$60,212	$56,846
Net income (loss) from continuing operations	$(19,843)	$1,443	$(23,177)	$(4,552)
Gain (loss) on sale of hotels	$—	$(2,517)	$(5)	$(2,659)
Net income (loss)	$(19,843)	$(1,074)	$(23,182)	$(7,211)
Total income (loss) from unconsolidated real estate entities attributable to Chatham	$(2,039)	$(110)	$(2,382)	$(741)

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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	6/30/14 Property Carrying Value	Balance Outstanding on Loan as of June 30, 2014	December 31, 2013
Senior Secured Revolving Credit Facility (1)	2.66	%	November 5, 2016	$235,426	$98,000	$ 50,000
SpringHill Suites by Marriott Washington, PA	5.84	%	April 1, 2015	11,719	4,849	4,937
Courtyard by Marriott Altoona, PA	5.96	%	April 1, 2016	10,744	6,276	6,378
Residence Inn by Marriott New Rochelle, NY	5.75	%	September 1, 2021	21,265	14,993	15,150
Residence Inn by Marriott San Diego, CA	4.66	%	February 6, 2023	47,631	30,305	30,546
Homewood Suites by Hilton San Antonio, TX	4.59	%	February 6, 2023	29,883	17,314	17,454
Residence Inn by Marriott Vienna, VA	4.49	%	February 6, 2023	33,473	23,730	23,925
Courtyard by Marriott Houston, TX	4.19	%	May 6, 2023	33,028	19,644	19,812
Hyatt Place Pittsburgh, PA	4.65	%	July 6, 2023	38,809	23,844	24,028
Residence Inn by Marriott Bellevue, WA	4.97	%	December 6, 2023	70,144	47,580	47,580
Residence Inn by Marriott Garden Grove, CA (2)	4.79	%	April 6, 2024	43,713	34,000	32,253
Residence Inn by Marriott Silicon Valley I, CA (3)	4.64	%	July 6, 2024	92,533	64,800	—
Residence Inn by Marriott Silicon Valley II, CA (3)	4.64	%	July 6, 2024	101,644	70,700	—
Residence Inn by Marriott San Mateo, CA (3)	4.64	%	July 6, 2024	72,489	48,600	—
Residence Inn by Marriott Mountain View, CA (3)	4.64	%	July 6, 2024	56,264	37,900	—
Total				$898,765	$542,535	$ 272,063

(1) Thirteen properties in the borrowing base serve as collateral for borrowings under the senior secured revolving credit facility at June 30, 2014. The interest rate for the senior secured revolving credit facility 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 but is interest only for the first 12 months. The Company incurred $0.2 million in costs for early extinguishment of debt related to the old loan.

(3) On June 9, 2014, the Company obtained 4 new mortgage loans secured by a first mortgage for the Silicon Valley I, Silicon Valley II, San Mateo and Mountain View hotels. The new loans have a 10-year term and a 30-year amortization payment schedule but are interest only for the first 60 months.

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 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 in 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

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At June 30, 2014 and December 31, 2013, the Company had $98.0 million and $50.0 million, respectively, of outstanding borrowings under its senior secured revolving credit facility. At June 30, 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. The estimated fair value of the Company’s fixed rate debt as of June 30, 2014 and December 31, 2013 was $446.4 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 June 30, 2014 and December 31, 2013 was $98.0 million and $50.0 million, respectively.

As of June 30, 2014, the Company was in compliance with all of its financial covenants. At June 30, 2014, the Company’s consolidated fixed charge coverage ratio was 2.87. Future scheduled principal payments of debt obligations as of June 30, 2014, for each of the next five calendar years and thereafter are as follows (in thousands):

	Amount
2014 (remaining six months)	$1,317
2015	8,313
2016	107,533
2017	3,802
2018	3,980
Thereafter	417,590
Total	$542,535

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Federal	$28	$35	$30	$35
State	10	10	11	10
Tax expense	$38	$45	$41	$45

At June 30, 2014, TRS 1 had a gross deferred tax asset associated with future tax deductions of $3.2 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 June 30, 2014.

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10. Dividends Declared and Paid

The Company declared total common share dividends of $0.24 per share and distributions on long-term incentive plan (“LTIP”) units of $0.24 per unit for the three months ended June 30, 2014 and $0.45 per share and distributions on LTIP units of $0.45 per unit for the six months ended June 30, 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				