

RLJ Lodging Trust
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 001-35169

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

Maryland 27-4706509
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

3 Bethesda Metro Center, Suite 1000
Bethesda, Maryland 20814
(Address of Principal Executive Offices) (Zip Code)

(301) 280-7777
(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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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.

As of October 26, 2016, 124,298,143 common shares of beneficial interest of the Registrant, \$0.01 par value per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

RLJ Lodging Trust

Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Investment in hotel properties, net	\$ 3,599,818	\$ 3,674,999
Cash and cash equivalents	178,627	134,192
Restricted cash reserves	65,368	55,455
Hotel and other receivables, net of allowance of \$182 and \$117, respectively	37,874	25,755
Deferred income tax asset	45,761	49,978
Prepaid expense and other assets	37,584	32,563
Total assets	\$ 3,965,032	\$ 3,972,942
Liabilities and Equity		
Mortgage loans, net	\$ 414,104	\$ 406,049
Term Loans and Revolver, net	1,168,893	1,169,437
Accounts payable and other liabilities	143,943	129,192
Deferred income tax liability	9,801	9,801
Advance deposits and deferred revenue	12,313	11,647
Accrued interest	3,206	4,883
Distributions payable	41,381	41,409
Total liabilities	1,793,641	1,772,418
Commitments and Contingencies (Note 10)		
Equity		
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value, 50,000,000 shares authorized; zero shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Common shares of beneficial interest, \$0.01 par value, 450,000,000 shares authorized; 124,299,663 and 124,635,675 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1,243	1,246
Additional paid-in capital	2,185,821	2,195,732
Accumulated other comprehensive loss	(32,746	) (16,602)
Retained earnings	3,940	2,439
Total shareholders' equity	2,158,258	2,182,815
Noncontrolling interest:		
Noncontrolling interest in consolidated joint venture	5,925	6,177
Noncontrolling interest in the Operating Partnership	7,208	11,532
Total noncontrolling interest	13,133	17,709
Total equity	2,171,391	2,200,524
Total liabilities and equity	\$ 3,965,032	\$ 3,972,942

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

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RLJ Lodging Trust

Consolidated Statements of Operations and Comprehensive Income

(Amounts in thousands, except share and per share data)

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Revenue				
Operating revenue				
Room revenue	\$260,659	\$253,163	\$777,211	\$747,962
Food and beverage revenue	26,001	27,027	82,602	85,607
Other operating department revenue	9,599	9,230	28,729	27,508
Total revenue	\$296,259	\$289,420	\$888,542	\$861,077
Expense				
Operating expense				
Room expense	\$59,671	\$56,310	\$173,783	\$165,603
Food and beverage expense	19,135	19,494	59,477	60,750
Management and franchise fee expense	29,607	28,985	90,869	88,704
Other operating expense	62,162	61,676	184,133	181,485
Total property operating expense	170,575	166,465	508,262	496,542
Depreciation and amortization	40,953	39,847	122,532	114,828
Property tax, insurance and other	20,575	19,458	60,032	57,782
General and administrative	7,215	8,249	23,522	29,041
Transaction and pursuit costs	98	2,017	257	3,005
Total operating expense	239,416	236,036	714,605	701,198
Operating income	56,843	53,384	173,937	159,879
Other income	112	557	86	1,103
Interest income	430	373	1,240	1,181
Interest expense	(14,552)	(14,042)	(44,233)	(39,885)
Income from continuing operations before income tax expense	42,833	40,272	131,030	122,278
Income tax expense	(1,439)	(151)	(5,397)	(615)
Income from continuing operations	41,394	40,121	125,633	121,663
(Loss) gain on sale of hotel properties	(5)	812	(155)	23,782
Net income	41,389	40,933	125,478	145,445
Net income attributable to noncontrolling interests				
Noncontrolling interest in consolidated joint venture	(32)	(49)	(7)	(26)
Noncontrolling interest in the Operating Partnership	(183)	(290)	(553)	(984)
Net income attributable to common shareholders	\$41,174	\$40,594	\$124,918	\$144,435
Basic per common share data:				
Net income per share attributable to common shareholders	\$0.33	\$0.32	\$1.00	\$1.10
Weighted-average number of common shares	123,621,323	127,663,480	123,635,010	129,855,686

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Diluted per common share data:

Net income per share attributable to common shareholders	\$ 0.33	\$ 0.31	\$ 1.00	\$ 1.10
Weighted-average number of common shares	123,836,452	128,143,154	123,859,753	130,410,613

Amounts attributable to the Company's common shareholders:

Income from continuing operations	\$ 41,179	\$ 39,788	\$ 125,072	\$ 120,819
(Loss) gain on sale of hotel properties	(5	) 806	(154	) 23,616
Net income attributable to common shareholders	\$ 41,174	\$ 40,594	\$ 124,918	\$ 144,435

Comprehensive income:

Net income	\$ 41,389	\$ 40,933	\$ 125,478	\$ 145,445
Unrealized gain (loss) on interest rate derivatives	9,470	(15,166	) (16,144	) (18,650
Comprehensive income	50,859	25,767	109,334	126,795
Comprehensive income attributable to the noncontrolling interest in consolidated joint venture	(32	) (49	) (7	) (26
Comprehensive income attributable to the noncontrolling interest in the Operating Partnership	(183	) (290	) (553	) (984
Comprehensive income attributable to the Company	\$ 50,644	\$ 25,428	\$ 108,774	\$ 125,785

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

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RLJ Lodging Trust
Consolidated Statements of Changes in Equity
(Amounts in thousands, except share data)
(unaudited)

	Shareholders' Equity Common Stock				Noncontrolling Interest					Total Equity
	Shares	Par Value	Additional Paid Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Operating Partnership	Consolidated Joint Venture	Total Non-control- ling Interest		
Balance at December 31, 2015	124,635,675	\$1,246	\$2,195,732	\$2,439	\$(16,602)	\$11,532	\$6,177	\$17,709	\$2,200,524	
Net income	—	—	—	124,918	—	553	7	560	125,478	
Unrealized loss on interest rate derivatives	—	—	—	—	(16,144)	—	—	—	(16,144)	
Distribution to joint venture partner	—	—	—	—	—	—	(259)	(259)	(259)	
Redemption of Operating Partnership units	335,250	3	4,322	—	—	(4,325)	—	(4,325)	—	
Issuance of restricted stock	581,544	6	(6)	—	—	—	—	—	—	
Amortization of share-based compensation	—	—	3,935	—	—	—	—	—	3,935	
Share grants to trustees	2,554	—	57	—	—	—	—	—	57	
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(218,443)	(2)	(4,958)	—	—	—	—	—	(4,960)	
Shares acquired as part of a share repurchase	(610,607)	(6)	(13,265)	—	—	—	—	—	(13,271)	

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program									
Forfeiture of									
restricted	(426,310) (4) 4	—	—	—	—	—	—
stock									
Distributions									
on common	—	—	—	(123,417	—	(552) —	(552) (123,969
shares and									
units									
Balance at									
September 30,	124,299,663	\$ 1,243	\$ 2,185,821	\$ 3,940	\$ (32,746)	\$ 7,208	\$ 5,925	\$ 13,133	\$ 2,171,391
2016									

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

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RLJ Lodging Trust

Consolidated Statements of Changes in Equity

(Amounts in thousands, except share data)

(unaudited)

	Shareholders' Equity					Noncontrolling Interest				Total Equity
	Common Stock					Operating Partnership	Consolidated Joint Venture	Total Non-controlling Interest	Total Equity	
Shares	Par Value	Additional Paid-in Capital	Distributions Paid-in in Excess of Net Earnings	Accumulated Other Comprehensive Loss						
Balance at December 31, 2014	131,964,706	\$1,319	\$2,419,731	\$(46,415)	\$(13,644)	\$11,198	\$6,295	\$17,493	\$2,378,484	
Net income	—	—	—	144,435	—	984	26	1,010	145,445	
Unrealized loss on interest rate derivatives	—	—	—	—	(18,650)	—	—	—	(18,650)	
Distributions to joint venture partner	—	—	—	—	—	—	(195)	(195)	(195)	
Issuance of restricted stock	1,126,431	11	(11)	—	—	—	—	—	—	
Amortization of share-based compensation	—	—	10,488	—	—	—	—	—	10,488	
Share grants to trustees	3,477	—	99	—	—	—	—	—	99	
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock	(363,512)	(3)	(11,026)	—	—	—	—	—	(11,029)	
Shares acquired as part of a share repurchase program	(6,992,708)	(70)	(199,874)	—	—	—	—	—	(199,944)	

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Forfeiture of restricted stock	(12,376)	—	—	—	—	—	—	—	—
Distributions on common shares and units	—	—	—	(128,237)	—	(885)	—	(885)	(129,122)
Balance at September 30, 2015	125,726,018	\$1,257	\$2,219,407	\$(30,217)	\$(32,294)	\$11,297	\$6,126	\$17,423	\$2,175,576

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

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RLJ Lodging Trust
Consolidated Statements of Cash Flows
(Amounts in thousands)
(unaudited)

	For the nine months ended September 30, 2016	2015
Cash flows from operating activities		
Net income	\$ 125,478	\$ 145,445
Adjustments to reconcile net income to cash flow provided by operating activities:		
Loss (gain) on sale of hotel properties	155	(23,782)
Depreciation and amortization	122,532	114,828
Amortization of deferred financing costs	3,103	3,111
Amortization of deferred management fees	563	595
Accretion of interest income on investment in loan	(430)	(275)
Share grants to trustees	57	99
Amortization of share-based compensation	3,935	10,488
Deferred income taxes	4,217	(652)
Changes in assets and liabilities:		
Hotel and other receivables, net	(12,119)	(13,644)
Prepaid expense and other assets	(3,932)	1,773
Accounts payable and other liabilities	7,856	(9,065)
Advance deposits and deferred revenue	666	2,204
Accrued interest	(1,677)	1,806
Net cash flow provided by operating activities	250,404	232,931
Cash flows from investing activities		
Acquisition of hotel properties, net	—	(143,769)
	2,629	232,938

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Proceeds from the sale of hotel properties, net				
Improvements and additions to hotel properties	(58,881))	(100,252))
Additions to property and equipment	(211)	)	(919))
(Increase) decrease in restricted cash reserves, net	(9,913)	)	7,115)
Net cash flow used in investing activities	(66,376)	)	(4,887))
Cash flows from financing activities				
Borrowings under Revolver	51,000		—	
Repayments under Revolver	(51,000))	—)
Borrowings on term loans	—		150,000	
Proceeds from mortgage loans	11,000		7,000	
Payments of mortgage loans principal	(2,760)	)	(165,747))
Repurchase of common shares under a share repurchase program	(13,271)	)	(199,944))
Repurchase of common shares to satisfy employee withholding requirements	(4,960)	)	(11,029))
Distributions on common shares	(123,345)	)	(128,602))
Distributions on Operating Partnership units	(654)	)	(858))
Payments of deferred financing costs	(5,344)	)	(666))
Distribution to joint venture partner	(259)	)	(195))
Net cash flow used in financing activities	(139,593)	)	(350,041))
Net change in cash and cash equivalents	44,435		(121,997))
Cash and cash equivalents, beginning of period	134,192		262,458	
Cash and cash equivalents, end of	\$ 178,627		\$ 140,461	

period

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

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RLJ Lodging Trust
Notes to the Consolidated Financial Statements
(unaudited)

1. Organization

RLJ Lodging Trust (the "Company") was formed as a Maryland real estate investment trust ("REIT") on January 31, 2011. The Company is a self-advised and self-administered REIT that acquires primarily premium-branded, focused-service and compact full-service hotels. The Company qualified and elected to be taxed as a REIT, for U.S. federal income tax purposes, commencing with the portion of its taxable year ended December 31, 2011.

Substantially all of the Company's assets and liabilities are held by, and all of its operations are conducted through RLJ Lodging Trust, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. As of September 30, 2016, there were 124,858,413 units of limited partnership interest in the Operating Partnership ("OP units") outstanding and the Company owned, through a combination of direct and indirect interests, 99.6% of the outstanding OP units.

As of September 30, 2016, the Company owned 125 hotel properties with approximately 20,800 rooms, located in 21 states and the District of Columbia, and an interest in one mortgage loan secured by a hotel. The Company, through wholly-owned subsidiaries, owned a 100% interest in all of its hotel properties, with the exception of the DoubleTree Metropolitan Hotel New York City, in which the Company, through wholly-owned subsidiaries, owned a 98.3% controlling interest in a joint venture, DBT Met Hotel Venture, LP, which was formed to engage in the hotel operations related to this hotel. An independent operator manages the operations of each hotel property.

2. Summary of Significant Accounting Policies

The Company's Annual Report on Form 10-K for the year ended December 31, 2015 contains a discussion of the significant accounting policies. Other than noted below, there have been no other significant changes to the Company's significant accounting policies since December 31, 2015.

Basis of Presentation and Principles of Consolidation

The unaudited consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to financial information. The unaudited financial statements include all adjustments that are necessary, in the opinion of management, to fairly state the consolidated balance sheets, statements of operations and comprehensive income, statements of changes in equity and statements of cash flows.

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on February 25, 2016.

The consolidated financial statements include all subsidiaries controlled by the Company. For the controlled subsidiaries that are not wholly-owned, the noncontrolling interests in these subsidiaries are presented separately in the consolidated financial statements.

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The new guidance

modifies the analysis an entity must perform to determine whether it should consolidate certain legal entities. The Company adopted the new guidance on January 1, 2016 and the adoption did not have an impact on the Company's consolidated financial statements as there were no changes to the subsidiaries consolidated by the Company. Upon adopting the new guidance, the Operating Partnership and certain subsidiaries of the Operating Partnership became variable interest entities. The Company continues to consolidate the Operating Partnership and the Operating Partnership continues to consolidate the other subsidiary variable interest entities.

Reclassifications

Certain prior year amounts in these financial statements have been reclassified to conform to the current year presentation with no impact to net income, shareholders' equity or cash flows.

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Use of Estimates

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

Deferred Financing Costs

Deferred financing costs are the costs incurred to obtain long-term financing. The deferred financing costs are recorded at cost and are amortized using the straight-line method, which approximates the effective interest method, over the respective term of the financing agreement and are included as a component of interest expense. The Company expenses unamortized deferred financing costs when the associated financing agreement is refinanced or repaid before maturity unless certain criteria are met that would allow for the carryover of such costs to the refinanced agreement.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance requires an entity to present the debt issuance costs in the balance sheet as a direct deduction from the carrying amount of that debt liability, rather than as an asset. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. This guidance allows the debt issuance costs on line-of-credit arrangements to be presented in the balance sheet as an asset and amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted both ASU 2015-03 and ASU 2015-15 during the quarter ended March 31, 2016. The adoption of this guidance changed the balance sheet classification of the Company's deferred financing costs but it did not otherwise affect the consolidated financial statements. Upon adoption of the new guidance, the Company retrospectively reclassified deferred financing costs of \$8.1 million in the consolidated balance sheet as of December 31, 2015. The carrying amount of debt as of December 31, 2015 is presented net of deferred financing costs of \$7.3 million. The carrying amount of prepaid expense and other assets as of December 31, 2015 includes deferred financing costs of \$0.8 million related to the Revolver (as defined below).

Share-Based Compensation

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. The new guidance includes provisions that are intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The guidance is effective for annual reporting periods beginning after December 15, 2016, and the interim periods within those annual periods. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company early adopted this guidance during the quarterly period ended March 31, 2016, and the adoption had no effect on its consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model that changes the basis for deciding when revenue is recognized over time or at a point in time and expands the disclosures about revenue. The guidance is effective for annual reporting periods beginning after

December 15, 2017, and the interim periods within those annual periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of the new accounting guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance will require lessees to recognize a right-of-use asset and a lease liability for most of their leases on the balance sheet, and an entity will need to classify its leases as either an operating or finance lease in order to determine the income statement presentation. Lessors will classify their leases as either operating, direct financing, or sales-type leases, and leveraged leases have been eliminated in the new guidance. The guidance is effective for annual reporting periods beginning after December 15, 2018, and the interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of the new accounting guidance on its consolidated financial statements.

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The new guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance is effective for annual reporting periods beginning after December 31, 2017, and the interim periods within those annual periods. Early adoption is permitted, provided that all of the amendments are adopted in the same period, and the guidance requires application using a retrospective transition method. The Company is currently evaluating the impact of the new accounting guidance on its consolidated financial statements.

3. Investment in Hotel Properties

Investment in hotel properties consisted of the following (in thousands):