

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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### FILER

#### LA QUINTA INNS INC

CIK: **278243** | IRS No.: **741724417** | State of Incorpor.: **TX** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-07790** | Film No.: **94527758**  
SIC: **7011** Hotels & motels

Business Address  
*112 E PEACAN STREET  
10010 SAN PEDRO AVE  
SAN ANTONIO TX 78299  
2103026000*

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended March 31, 1994.

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-7790

LA QUINTA INNS, INC.  
(Exact name of registrant as specified in its charter)

TEXAS #74-1724417  
(State of Incorporation) (I.R.S. Employer Identification No.)

WESTON CENTRE  
112 E. PECAN STREET  
P.O. BOX 2636  
SAN ANTONIO, TEXAS 78299-2636  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (210) 302-6000

Number of shares of Common Stock, \$.10 par value outstanding at March 31, 1994:  
30,425,817

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 and, (2) has been subject to such filing requirements  
for the past 90 days. YES X NO  
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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

LA QUINTA INNS, INC.  
 COMBINED CONDENSED BALANCE SHEETS  
 (in thousands, except share data)

<TABLE>  
 <CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
	(unaudited)	
<S>	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$16,364	\$23,848
Receivables:		
Trade . . . . .	10,559	6,744
Other . . . . .	1,390	3,191
Supplies . . . . .	6,339	5,921
Prepaid expenses . . . . .	552	581
	-----	-----
Total current assets . . . . .	35,204	40,285
	-----	-----
Notes receivable, excluding current installments (net of allowance of \$3,128 and \$3,167) . . . . .	7,577	7,683
	-----	-----
Investments, including joint ventures accounted for on the equity method . . . . .	6,335	6,583
	-----	-----
Properties held for sale, at estimated net realizable value . . . . .	3,033	3,401
	-----	-----
Land held for future development, at cost . . . . .	1,452	1,452
	-----	-----
Property and equipment, at cost, substantially all pledged:		
Buildings . . . . .	685,461	660,278
Furniture, fixtures and equipment . . . . .	113,581	114,113
Land and leasehold improvements . . . . .	131,409	129,862
	-----	-----
Total property and equipment . . . . .	930,451	904,253
Less accumulated depreciation and amortization . . . . .	231,876	230,917
	-----	-----
Net property and equipment . . . . .	698,575	673,336
	-----	-----
Deferred charges and other assets, at cost less applicable amortization . . . .	12,180	11,501
	-----	-----
Total assets . . . . .	\$764,356	\$744,241
	-----	-----

</TABLE>

See accompanying notes to combined condensed financial statements.

ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

LA QUINTA INNS, INC.  
 COMBINED CONDENSED BALANCE SHEETS  
 (in thousands, except share data)

<TABLE>  
 <CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
	(unaudited)	
<S>	<C>	<C>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current installments of long-term debt . . . . .	\$ 24,922	\$ 22,491
Accounts payable:		
Trade . . . . .	12,626	14,282
Other . . . . .	5,164	9,584
Income taxes . . . . .	3,012	1,830
Accrued expenses:		
Payroll and employee benefits . . . . .	17,493	17,620
Interest . . . . .	6,075	3,379
Property taxes . . . . .	5,231	7,994
Other . . . . .	1,136	1,870
	-----	-----
Total current liabilities . . . . .	75,659	79,050
	-----	-----
Long-term debt, excluding current installments . . . . .	435,594	414,004
	-----	-----
Deferred income taxes, pension and other . . . . .	14,394	16,154
	-----	-----
Partners' capital . . . . .	84,333	85,976
	-----	-----
Shareholders' equity:		
Common stock (\$ .10 par value; 40,000,000 shares authorized, 32,111,364 shares issued) . . . . .	3,211	3,211
Additional paid-in capital . . . . .	60,794	60,573
Retained earnings . . . . .	104,833	100,059
Minimum pension liability adjustment . . . . .	(1,458)	(1,458)
	-----	-----
	167,380	162,385
Less treasury stock, at cost (1,685,547 and 1,732,867 shares, respectively) . . . . .	13,004	13,328
	-----	-----
Total shareholders' equity . . . . .	154,376	149,057
	-----	-----
Total liabilities and shareholders' equity . . . . .	\$764,356	\$744,241
	-----	-----

</TABLE>

See accompanying notes to combined condensed financial statements.

ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

LA QUINTA INNS, INC.  
COMBINED CONDENSED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)  
(unaudited)

<TABLE>  
<CAPTION>

	Three months ended March 31	
	1994	1993
	----	----
<S>	<C>	<C>
Revenues:		
Inn . . . . .	\$76,038	\$57,297
Restaurant rental and other . . . . .	1,840	1,661
Management services . . . . .	386	1,649
	-----	-----
Total revenues . . . . .	78,264	60,607
	-----	-----
Operating costs and expenses:		
Direct . . . . .	44,798	33,429
Corporate . . . . .	4,828	5,209

Depreciation, amortization and fixed asset retirements . . . . .	8,361	5,478
	-----	-----
Total operating costs and expenses . . . . .	57,987	44,116
	-----	-----
Operating income . . . . .	20,277	16,491
Other (income) deductions:		
Interest income . . . . .	(437)	(1,212)
Interest on long-term debt . . . . .	9,152	7,522
Partners' equity in earnings and losses . . . . .	2,471	3,794
	-----	-----
Earnings before property and investment transactions . . . . .	9,091	6,387
Net gain (loss) on property transactions . . . . .	(6)	297
	-----	-----
Earnings before income taxes, and cumulative effect of accounting change . . . . .	9,085	6,684
Income taxes . . . . .	3,543	2,540
	-----	-----
Earnings before cumulative effect of accounting change . . . . .	5,542	4,144
Cumulative effect of accounting change . . . . .	--	1,500
	-----	-----
Net earnings . . . . .	\$ 5,542	\$ 5,644
	-----	-----
Earnings per common and common equivalent share:		
Earnings before cumulative effect of accounting change . . . . .	\$ .17	\$ .13
Cumulative effect of accounting change . . . . .	--	.05
	-----	-----
Net earnings . . . . .	\$ .17	\$ .18
	-----	-----
Weighted average number of common and common equivalent shares outstanding . . . . .	32,151	31,087
	-----	-----

</TABLE>

See accompanying notes to combined condensed financial statements.

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ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

LA QUINTA INNS, INC.  
COMBINED CONDENSED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

<TABLE>  
<CAPTION>

	Three months ended March 31	
	1994	1993
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings . . . . .	\$ 5,542	\$ 5,644
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment . . . . .	8,361	5,478
Partners' equity in earnings and losses . . . . .	2,471	3,794
(Gain) loss on sale of assets . . . . .	6	(297)
Undistributed earnings of affiliates . . . . .	--	202
Cumulative effect of change in accounting for income taxes . . . . .	--	(1,500)
	-----	-----
Net cash provided by operating activities before changes		

in operating assets and liabilities. . . . .	16,380	13,321
	-----	-----
Changes in operating assets and liabilities:		
Receivables . . . . .	(2,048)	(2,079)
Income taxes. . . . .	1,182	2,216
Supplies and prepaid expenses . . . . .	(389)	(136)
Accounts payable and accrued expenses . . . . .	(2,730)	(559)
Deferred charges and other assets . . . . .	410	636
Deferred credits and other. . . . .	(1,760)	218
	-----	-----
Net cash provided by operating activities. . . . .	11,045	13,617
	-----	-----
Cash flows from investing activities:		
Capital expenditures. . . . .	(31,467)	(4,892)
Proceeds from the sale of fixed assets. . . . .	389	686
Purchase of partners' equity interests. . . . .	(9,322)	(806)
Increase (decrease) in notes receivable and other investments . . . . .	388	(3,069)
	-----	-----
Net cash used by investing activities. . . . .	(40,012)	(8,081)
	-----	-----
Cash flows from financing activities:		
Proceeds from secured line of credit and long-term borrowings . . . . .	212,102	15,326
Principal payments on secured line of credit and long-term borrowings . . . . .	(191,079)	(19,229)
Distributions to partners . . . . .	(78)	(1,782)
Net proceeds from stock option exercises. . . . .	538	708
	-----	-----
Net cash provided (used) by financing activities . . . . .	21,483	(4,977)
	-----	-----
Increase (decrease) in cash and cash equivalents . . . . .	(7,484)	559
Cash and cash equivalents at beginning of period . . . . .	23,848	12,861
	-----	-----
Cash and cash equivalents at end of period . . . . .	\$16,364	\$13,420
	-----	-----
Interest paid. . . . .	\$ 6,851	\$ 7,037
	-----	-----
Income tax paid. . . . .	\$ 23	\$ 32
	-----	-----
Income tax refunds . . . . .	\$ (12)	\$ (54)
	-----	-----

</TABLE>

See accompanying notes to combined condensed financial statements.

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ITEM 1 - FINANCIAL STATEMENTS (CONTINUED)

LA QUINTA INNS, INC.  
NOTES TO COMBINED CONDENSED FINANCIAL STATEMENTS  
(unaudited)

(1) Basis of Presentation

The accompanying unaudited combined condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of financial position and results of operations have been made. It is suggested that the combined condensed financial statements be read in conjunction with the combined financial statements and notes thereto included in the December 31,

(2) Earnings per Common and Common Equivalent Share

The Board of Directors authorized three-for-two stock splits effective in October 1993 and March 1994. Earnings per share, the weighted average number of shares outstanding, shareholders' equity and the following information have been adjusted to give effect to each of these distributions. The weighted average number of common and common equivalent shares used in the computation of earnings per share are as follows:

<TABLE>  
<CAPTION>

	Three months ended March 31	
	1994	1993
<S>	<C>	<C>
Weighted average common shares issued. . . . .	32,111,364	32,111,364
Effect of treasury stock . . . . .	(1,697,771)	(1,878,165)
Dilutive effect of stock options . . . . .	1,737,619	853,663
Weighted average number of common and common equivalent shares. . . . .	32,151,212	31,086,862

</TABLE>

(3) Acquisition of La Quinta Motor Inns Limited Partnership

As of December 1, 1993, the Company owned 82% of the Units of La Quinta Motor Inns Limited Partnership ("LQP") acquired through a tender offer (which expired November 30, 1993) and other Units acquired by the Company prior to the tender offer. The acquisition has been accounted for as a purchase and the results of LQP's operations have been included in the Company's combined results of operations since December 1, 1993. The remaining 18% of the Units were acquired on January 24, 1994 for approximately \$9.3 million.

The Company obtained funds to acquire the Units by borrowing \$45.9 million under its existing credit facilities.

(4) Contingencies

In September 1993, a former officer of the Company filed suit against the Company and certain of its directors and their affiliate companies. The suit alleges breach of an employment agreement, misrepresentation, wrongful termination, self-dealing, breach of fiduciary duty, usurpation of corporate opportunity and tortious interference with contractual relations. The suits seeks compensatory damages of \$2,500,000 and exemplary damages of \$5,000,000. The Company intends to vigorously defend against this suit.

The Company is also party to various lawsuits and claims generally incidental to its business. The ultimate disposition of these and the above discussed matters are not expected to have a significant adverse effect on the Company's financial position or results of operations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On January 24, 1994, La Quinta Inns, Inc. ("La Quinta" or the "Company") concluded the acquisition of LQP which owned 31 inns in 15 states managed by La Quinta. In the first quarter of 1994, the operations of LQP were included in the combined financial statements of the Company. The Company accounted for its investment in LQP under the equity method in the first quarter of 1993.

In addition, during 1993, the Company purchased, in separately negotiated transactions, the limited partners' interests in 14 of the Company's combined unincorporated partnerships and joint ventures which owned 44 inns. The Company continues to operate these properties as La Quinta inns. Also during 1993, the Company completed the acquisition of 11 inns and began renovating and converting them to the La Quinta brand. Conversion was completed during the first quarter of 1994.

The following table describes the composition of inns in the La Quinta chain at:

<TABLE>  
<CAPTION>

	March 31, 1994			March 31, 1993		
	Inns	Rooms	La Quinta Equivalent Rooms (1)	Inns	Rooms	La Quinta Equivalent Rooms (1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Owned 100% . . . . .	167	21,143	21,143	89	11,456	11,456
Owned 40 - 80% . . . . .	44	5,935	2,474	80	10,218	4,919
Total Company owned and operated . . . . .	211	27,078	23,617	169	21,674	16,375
Managed Inns . . . . .	10	1,324	12	40	4,978	75
Licensed Inns . . . . .	1	120	--	3	366	--
	222	28,522	23,629	212	27,018	16,450

</TABLE>

(1) Represents the Company's proportionate ownership in system rooms.

In 1993, the Company began a system wide inn image enhancement program designed to increase revenue through the generation of new guest trials. The program is intended to give its properties a new, fresh, crisp appearance while preserving their unique character. It features new signage displaying a new logo as well as exterior and lobby upgrades including brighter colors, additional landscaping, enhanced guest entry and full lobby renovation with contemporary furnishings and seating area for continental breakfast.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1994

The following chart shows certain historical operating statistics and revenue data. References to the percentages of occupancy and the average daily rate refer to Company inns.

<TABLE>  
<CAPTION>

Comparative Operating Statistics and Revenue Data

	Three Months Ended March 31,	
	1994	1993
	(in thousands, except rates and percentages)	
<S>	<C>	<C>
Inn revenue . . . . .	\$76,038	\$57,297
Other revenue . . . . .	2,226	3,310
Total revenue . . . . .	\$78,264	\$60,607
Direct expenses . . . . .	\$44,798	\$33,429
Percentage of occupancy . . . . .	65.4%	61.5%
Average room rate . . . . .	\$46.18	\$45.81



</TABLE>

The improvement in inn revenues was related to an increase in the percentage of occupancy and average room rate along with the revenues associated with the acquisition of inns, including the LQP, as more fully described above. Revenues associated with LQP inns were \$10,971,000 in the first quarter of 1994. Additionally, inns which have completed the reimaging process have shown improvements in both rate and occupancy.

Other revenue decreased as a result of a reduction in management services revenue due to the acquisition of LQP and the elimination of related management fees charged by the Company.

Direct expenses increased to \$44,798,000, an increase of \$11,369,000. The 1994 Three Months includes \$7,393,000 incurred by the LQP inns. The \$.40 increase in direct expenses per occupied room is primarily attributable to the Company's implementation of a complimentary continental breakfast at all La Quinta inns in March of 1993, increases in repairs and maintenance, utilities, outside services expense and is partially offset by decreases in salaries and property tax expense. Newly acquired inns typically incur more direct expenses as a percentage of revenue during the first twelve months of operations than inns which have been operating as a La Quinta for more than twelve months. During the 1994 Three Months, 11 of the Company's inns were in their first twelve months of operations.

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Depreciation amortization and fixed asset retirements increased primarily due to the acquisition of LQP. Depreciation, amortization and fixed asset retirements expense also includes asset retirements associated with the Company's refurbishment program and other capital improvements.

Operating income improved to \$20,277,000 in the 1994 Three Months, an increase of \$3,786,000, or 23% over the 1993 Three Months, as more fully described above.

The decrease in interest income is primarily attributable to a decrease in interest earned on the note receivable from AEW Partners, L.P., due to the collection of the entire outstanding principal balance of that note in December 1993 and the corresponding reduction of interest thereon.

Interest expense on the Senior Subordinated notes issued in May 1993 along with debt assumed with the acquisition of the LQP, and new debt related to the purchase of certain of the limited partners' interests resulted in the 21.7% increase in interest expense.

The acquisition of the limited partners' interests resulted in a decrease in partners' equity in earnings and losses for the first quarter of 1994 compared to the first quarter of 1993.

The cumulative effect of accounting change in the 1993 Three Months was the result of implementation of Statement of Financial Standards No. 109 "Accounting for Income Taxes".

#### FINANCIAL CONDITION

The decrease in the Company's cash and cash equivalents in the first three months of 1994 resulted from capital expenditures from the reimaging program, conversion of inns and the acquisition of the remaining Units of LQP during January of 1994.

Major components of the decrease in net cash provided by operating activities were reductions in accounts payable, accrued expenses and deferred credits.

The increase in investing activities in the 1994 Three Months over the prior year's comparable period is primarily a result of capital expenditures related to the reimaging program and the purchase of the remaining Units of LQP.

Increases in borrowings on the Company's secured term credit facility resulted in a substantial portion of the increase in cash provided by financing activities for the 1994 Three Months, as compared to cash used by financing activities for the 1993 Three Months.

At March 31, 1994, La Quinta Development Partnership, L.P. (the "Development Partnership") had approximately \$15,838,000 in cash and cash equivalents to fund the Company's development program along with the continuing operations of the Development Partnership. The Company anticipates that the majority of its development activity in 1994 will occur through the Development Partnership.

The Company anticipates that an additional \$11,343,000 will be needed to complete the image enhancement program, at March 31, 1994. The Company intends to fund its image program through funds generated from operations and available on its Credit Facility. The Company does not anticipate the funding of this program will have an adverse effect on its ability to fund its operations.

Funds on hand, anticipated from future cash flows and available on the Company's line of credit are expected to be sufficient to fund the Company's operating expenses, debt service, other capital requirements and its development program through at least the end of the first quarter of 1994. The Company will evaluate from time to time the necessity of other financing alternatives.

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## Part II - OTHER INFORMATION

### ITEM 1 - LEGAL PROCEEDINGS

Actions for negligence or other tort claims occur routinely as an ordinary incident to the Company's business. Several lawsuits are pending against the Company which have arisen in the ordinary course of the business, but none of these proceedings involves a claim for damages (in excess of applicable excess umbrella insurance coverages) involving more than 10% of current assets of the Company (also see note 4 to combined condensed financial statements). The Company does not anticipate any amounts which it may be required to pay as a result of an adverse determination of such legal proceedings, individually or in the aggregate, or any other relief granted by reason thereof, will have a material adverse effect on the Company's financial position or results of operations.

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### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS:

A list of all exhibits filed or included as part of this Quarterly Report on Form 10-Q is as follows:

Exhibits	By Reference	Descriptions	Sequel Numbering System Page
15	Filed Herewith	Letter from KPMG Peat Marwick dated May 12, 1994	12
99	Filed Herewith	Letter from KPMG Peat Marwick dated April 19, 1994	13

#### (b) Reports on Form 8-K:

No Current Reports on Form 8-K have been filed during the period for which

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LA QUINTA INNS, INC.  
(Registrant)

May 13, 1994

By: /S/ William C. Hammett, Jr.  
-----  
William C. Hammett, Jr.  
Senior Vice President - Accounting and  
Administration

May 13, 1994

By: /S/ Irene C. Primera  
-----  
Irene C. Primera  
Vice President - Controller

La Quinta Inns, Inc.  
San Antonio, Texas

Gentlemen:

Re: Registration Statements Nos. 33-26470, 2-97266, 2-67606, 2-65645, 33-42087,  
and 33-55102 and 33-58866

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated April 19, 1994, related to our review of interim financial information.

Pursuant to Rule 436(c) under the Securities Act of 1933, such report is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of sections 7 and 11 of the Act.

KPMG Peat Marwick

San Antonio, Texas  
May 12, 1994

## INDEPENDENT ACCOUNTANTS' REPORT

The Board of Directors  
La Quinta Inns, Inc.

We have reviewed the combined condensed balance sheet of La Quinta Inns, Inc. as of March 31, 1994, and the related combined condensed statements of operations and cash flows for the three-month periods ended March 31, 1994 and 1993. These combined condensed financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the combined condensed financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the combined balance sheet of La Quinta Inns, Inc. as of December 31, 1993 and the related combined statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 31, 1994, except as to the first paragraph of note 5, which is as of February 9, 1994, we expressed an unqualified opinion on those combined financial statements. Our report refers to a change in the method of accounting for income taxes. In our opinion, the information set forth in the accompanying combined condensed balance sheet as of December 31, 1993, is fairly presented, in all material respects, in relation to the combined balance sheet from which it has been derived.

San Antonio, Texas  
April 19, 1994