

Summit Hotel Properties, Inc.
Form 10-Q
May 12, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

o 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: 001-35074

SUMMIT HOTEL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction
of incorporation or organization)

27-2962512

(I.R.S. Employer Identification No.)

12600 Hill Country Boulevard, Suite R-100

Austin, TX 78738

(Address of principal executive offices, including zip code)

(512) 538-2300

(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 o 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 o 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 in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

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

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

As of May 9, 2014, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 85,555,856.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	1
Consolidated Balance Sheets March 31, 2014 (unaudited) and December 31, 2013	1
Consolidated Statements of Operations (unaudited) Three months ended March 31, 2014 and 2013	2
Consolidated Statements of Comprehensive Income (Loss) (unaudited) - Three months ended March 31, 2014 and 2013	3
Consolidated Statements of Changes in Equity (unaudited) Three months ended March 31, 2014 and 2013	4
Consolidated Statements of Cash Flows (unaudited) Three months ended March 31, 2014 and 2013	5
Notes to the Consolidated Financial Statements	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	35
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3. Defaults Upon Senior Securities</u>	35
<u>Item 4. Mine Safety Disclosures</u>	35
<u>Item 5. Other Information</u>	35
<u>Item 6. Exhibits</u>	36

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SUMMIT HOTEL PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS (in thousands, except share amounts)****MARCH 31, 2014 (UNAUDITED) AND DECEMBER 31, 2013**

	March 31, 2014	December 31, 2013
ASSETS		
Investment in hotel properties, net	\$ 1,280,255	\$ 1,149,967
Investment in hotel properties under development	90	
Land held for development	13,748	13,748
Assets held for sale	9,723	12,224
Cash and cash equivalents	36,551	46,706
Restricted cash	52,181	38,498
Trade receivables	12,611	7,231
Prepaid expenses and other	6,305	8,876
Derivative financial instruments	208	253
Deferred charges, net	10,585	10,270
Deferred tax asset	54	49
Other assets	6,581	6,654
TOTAL ASSETS	\$ 1,428,892	\$ 1,294,476
LIABILITIES AND EQUITY		
LIABILITIES		
Debt	\$ 567,396	\$ 435,589
Accounts payable	10,277	7,583
Accrued expenses	33,528	27,154
Derivative financial instruments	1,796	1,772
TOTAL LIABILITIES	612,997	472,098
COMMITMENTS AND CONTINGENCIES (Note 7)		
EQUITY		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized:		
9.25% Series A - 2,000,000 shares issued and outstanding at March 31, 2014 and December 31, 2013 (liquidation preference of \$50,398 at March 31, 2014 and December 31, 2013)	20	20
7.875% Series B - 3,000,000 shares issued and outstanding at March 31, 2014 and December 31, 2013 (liquidation preference of \$75,324 at March 31, 2014 and December 31, 2013)	30	30
7.125% Series C - 3,400,000 shares issued and outstanding at March 31, 2014 and December 31, 2013 (liquidation preference of \$85,522 at March 31, 2014 and December 31, 2013)	34	34

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

2013)

Common stock, \$.01 par value per share, 450,000,000 shares authorized, 85,528,563 and 85,402,408 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively

	855	854
Additional paid-in capital	883,345	882,858
Accumulated other comprehensive loss	(1,446)	(1,379)
Accumulated deficit and distributions	(82,888)	(72,577)
Total stockholders' equity	799,950	809,840
Noncontrolling interests in operating partnership	8,252	4,722
Noncontrolling interests in joint venture	7,693	7,816
TOTAL EQUITY	815,895	822,378
TOTAL LIABILITIES AND EQUITY	\$ 1,428,892	\$ 1,294,476

See Notes to the Consolidated Financial Statements

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS** *(in thousands, except per share amounts)***FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

	For the Three Months Ended March 31,	
	2014	2013
REVENUES		
Room revenue	\$ 84,552	\$ 56,641
Other hotel operations revenue	4,992	3,082
Total Revenues	89,544	59,723
EXPENSES		
Hotel operating expenses:		
Rooms	23,692	16,510
Other direct	12,020	7,780
Other indirect	23,859	15,303
Other	348	167
Total hotel operating expenses	59,919	39,760
Depreciation and amortization	15,430	10,651
Corporate general and administrative:		
Salaries and other compensation	2,159	2,421
Other	2,046	656
Hotel property acquisition costs	692	654
Total Expenses	80,246	54,142
INCOME FROM OPERATIONS	9,298	5,581
OTHER INCOME (EXPENSE)		
Interest income	50	17
Other income	40	160
Interest expense	(6,360)	(4,050)
Gain (loss) on disposal of assets	(3)	6
Total Other Expense, net	(6,273)	(3,867)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,025	1,714
INCOME TAX EXPENSE	(78)	(188)
INCOME FROM CONTINUING OPERATIONS	2,947	1,526
INCOME FROM DISCONTINUED OPERATIONS	378	357
NET INCOME	3,325	1,883
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Operating partnership	(10)	(28)
Joint venture	(123)	(37)
NET INCOME ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC.	3,458	1,948
PREFERRED DIVIDENDS	(4,147)	(2,452)

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$	(689)	\$	(504)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic		85,097		62,684
Diluted		85,527		62,950
LOSS PER SHARE				
Basic and diluted net loss per share from continuing operations	\$	(0.01)	\$	(0.01)
Basic and diluted net income (loss) per share from discontinued operations				
Basic and diluted net loss per share	\$	(0.01)	\$	(0.01)

See Notes to the Consolidated Financial Statements

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) *(in thousands)*

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

	For the Three Months Ended March 31,	
	2014	2013
NET INCOME	\$ 3,325	\$ 1,883
Other comprehensive income (loss), net of tax:		
Changes in unrealized loss on derivatives	(68)	107
Total other comprehensive income (loss)	(68)	107
COMPREHENSIVE INCOME	3,257	1,990
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Operating partnership	(11)	(23)
Joint venture	(123)	(37)
COMPREHENSIVE INCOME ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC.	3,391	2,050
PREFERRED DIVIDENDS	(4,147)	(2,452)
COMPREHENSIVE LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (756)	\$ (402)

See Notes to the Consolidated Financial Statements

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in thousands, except share amounts)****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

	Shares of Preferred Stock	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit and Distributions	Total Stockholders' Equity	Noncontrolling Interests Operating Partnership	Joint Venture	Total Equity
BALANCES, DECEMBER 31, 2013	8,400,000	\$ 84	85,402,408	\$ 854	\$ 882,858	\$ (1,379)	\$ (72,577)	\$ 809,840	\$ 4,722	\$ 7,816	\$ 822,378
Common stock redemption of common units			126,155	1	26			27	(27)		
Common units issued for acquisition									3,685		3,685
Dividends paid							(13,769)	(13,769)	(123)		(13,892)
Equity-based compensation					461			461	6		467
Other comprehensive loss						(67)		(67)	(1)		(68)
Net income (loss)							3,458	3,458	(10)	(123)	3,325
BALANCES, MARCH 31, 2014	8,400,000	\$ 84	85,528,563	\$ 855	\$ 883,345	\$ (1,446)	\$ (82,888)	\$ 799,950	\$ 8,252	\$ 7,693	\$ 815,895
BALANCES, DECEMBER 31, 2012	5,000,000	\$ 50	46,159,652	\$ 462	\$ 468,820	\$ (528)	\$ (31,985)	\$ 436,819	\$ 36,718	\$	\$ 473,537
Net proceeds from sale of common stock			17,250,000	172	147,981			148,153			148,153
Net proceeds from sale of preferred stock	3,400,000	34			81,917			81,951			81,951
Common stock redemption of common units			1,974,669	20	6,547			6,567	(6,567)		
Contribution by noncontrolling interests in joint venture										7,500	7,500
Dividends paid							(9,879)	(9,879)	(366)		(10,245)
Equity-based compensation			293,704	3	418			421			421
Other comprehensive income						102		102	5		107
Net income (loss)							1,948	1,948	(28)	(37)	1,883
BALANCES, MARCH 31, 2013	8,400,000	\$ 84	65,678,025	\$ 657	\$ 705,683	\$ (426)	\$ (39,916)	\$ 666,082	\$ 29,762	\$ 7,463	\$ 703,307

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS** *(in thousands)***FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)**

	For the Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 3,325	\$ 1,883
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	15,434	11,490
Amortization of prepaid lease	12	12
Loss on impairment of assets		1,500
Equity-based compensation	467	421
Deferred tax asset	(5)	104
Gain on disposal of assets	(61)	(1,640)
Changes in operating assets and liabilities:		
Restricted cash operating	(1,689)	871
Trade receivables	(5,381)	(7,199)
Prepaid expenses and other	2,530	2,423
Accounts payable and accrued expenses	7,667	1,220
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,299	11,085
INVESTING ACTIVITIES		
Acquisitions of hotel properties	(89,985)	(210,335)
Investment in hotel properties under development		(77)
Acquisition of land held for development		(2,800)
Improvements and additions to hotel properties	(19,037)	(8,520)
Purchases of office furniture and equipment	(5)	(224)
Proceeds from asset dispositions, net of closing costs	2,681	9,198
Restricted cash FF&E reserve	(452)	(14,030)
NET CASH USED IN INVESTING ACTIVITIES	(106,798)	(226,788)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	90,998	74,000
Principal payments on debt	(2,364)	(77,649)
Financing fees on debt	(398)	(1,196)
Proceeds from equity offerings, net of offering costs		237,603
Dividends paid and distributions to members	(13,892)	(10,245)
NET CASH PROVIDED BY FINANCING ACTIVITIES	74,344	222,513
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,155)	6,810
CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	46,706	13,980
END OF PERIOD	\$ 36,551	\$ 20,790
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

Cash payments for interest	\$	6,028	\$	3,925
Capitalized interest	\$	45	\$	77
Cash payments for income taxes, net of refunds	\$	135	\$	81
Mortgage debt from acquisitions of hotel properties	\$	43,172	\$	23,423
Common units issued for acquisition	\$	3,685	\$	

See Notes to the Consolidated Financial Statements

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

Summit Hotel Properties, Inc. (the *Company*) is a self-managed hotel investment company that was organized on June 30, 2010 as a Maryland corporation. The Company holds both general and limited partnership interests in Summit Hotel OP, LP (the *Operating Partnership*), a Delaware limited partnership also organized on June 30, 2010. On February 14, 2011, the Company closed on its initial public offering (*IPO*) of 26,000,000 shares of common stock and a concurrent private placement of 1,274,000 shares of common stock. Effective February 14, 2011, the Operating Partnership and Summit Hotel Properties, LLC (the *Predecessor*) completed the merger of the Predecessor with and into the Operating Partnership (the *Merger*). Unless the context otherwise requires, *we*, *us* and *our* refer to the Company and its subsidiaries.

Summit Hotel OP, LP, the Operating Partnership subsidiary of the Company, filed a Form 15 on December 12, 2013 to voluntarily suspend its duty to file periodic and other reports with the Securities and Exchange Commission (the *SEC*) and to voluntarily deregister its common units of limited partnership interest under the Securities and Exchange Act of 1934 (the *Exchange Act*). As a result of filing the Form 15 with the SEC, the Operating Partnership is no longer required to file annual, quarterly or periodic reports with the SEC. The filing of the Form 15 by the Operating Partnership did not impact the registration of the Company's common stock under the Exchange Act or the Company's obligations as a reporting issuer under the Exchange Act.

At March 31, 2014, our portfolio consists of 90 upscale and upper midscale hotels with a total of 11,353 guestrooms located in 22 states. The hotels are leased to subsidiaries (*TRS Lessees*) of our taxable REIT subsidiary (*TRS*). We indirectly own 100% of the outstanding equity interests in all but one of our TRS Lessees. We indirectly own an 80% controlling interest in the TRS Lessee associated with the Holiday Inn Express & Suites in San Francisco, CA, which we acquired in early 2013 through a joint venture.

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

We prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles (*GAAP*) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Exchange Act. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in accordance with GAAP have been included. Results for

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

the first quarter of 2014 may not be indicative of the results that may be expected for the full year 2014. For further information, please read the financial statements included in our Form 10-K for the year ended December 31, 2013.

Segment Disclosure

Accounting Standards Codification (ASC), ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. We have determined that we have one reportable segment, with activities related to investing in real estate. Our investments in real estate are geographically diversified and the chief operating decision makers evaluate operating performance on an individual

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

asset level. As each of our assets has similar economic characteristics, the assets have been aggregated into one reportable segment.

Assets Held for Sale and Discontinued Operations

We classify assets as held for sale in the period in which certain criteria are met, including when the sale of the asset within one year is probable. Assets held for sale are no longer depreciated and are carried at the lower of carrying amount or fair value, less selling costs.

We present the results of operations of hotel properties that have been sold or otherwise qualify as assets held for sale in discontinued operations if the operations and cash flows of the hotel properties have been or will be eliminated from our ongoing operations.

We periodically review our hotel properties and our land held for development based on established criteria such as age, type of franchise, adverse economic and competitive conditions, and strategic fit, to identify properties which we believe are either non-strategic or no longer complement our business.

Noncontrolling Interests

Noncontrolling interests represent the portion of equity in a subsidiary held by owners other than the consolidating parent. Noncontrolling interests are reported in the consolidated balance sheets within equity, separately from stockholders' equity. Revenue, expenses and net income (loss) attributable to both the Company and the noncontrolling interests are reported in the consolidated statements of operations.

Our consolidated financial statements include noncontrolling interests related to Common Units of the Operating Partnership held by unaffiliated third parties and third-party ownership of joint ventures.

Income Taxes

We are taxed as a REIT under certain provisions of the Internal Revenue Code. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute annually to our shareholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, which does not necessarily equal net income as

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

calculated in accordance with GAAP. As a REIT, we generally will not be subject to federal income tax (other than taxes paid by our TRS) to the extent we currently distribute 100% of our REIT taxable income to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions.

We account for federal and state income taxes of our TRS using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between carrying amounts of existing assets and liabilities based on generally accepted accounting principles and respective carrying amounts for tax purposes, and operating losses and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of the change in tax rates. However, deferred tax assets are recognized only to the extent that it is more likely than not they will be realized based on consideration of available evidence, including future reversals of taxable temporary differences, future projected taxable income and tax planning strategies.

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Observable inputs such as quoted prices in active markets.
- Level 2 Directly or indirectly observable inputs, other than quoted prices in active markets.
- Level 3 Unobservable inputs in which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

- Market approach Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach Amount required to replace the service capacity of an asset (replacement cost).
- Income approach Techniques used to convert future amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

Our estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. We classify assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

We elected not to use the fair value option for cash and cash equivalents, restricted cash, trade receivables, prepaid expenses and other, debt, accounts payable, and accrued expenses. With the exception of our fixed-rate debt, the carrying amounts of these financial instruments approximate their fair values due to their short-term nature or variable interest rates.

New Accounting Standards

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The ASU changed the criteria for reporting discontinued operations while enhancing related disclosures. Criteria for discontinued operations will now include only disposals that represent a strategic shift in operations with a major effect on operations and financial results. The ASU is to be applied on a prospective basis and would be effective for us beginning January 1, 2015; however, we have elected early adoption, which is permitted for disposals, and classifications as held for sale, which have not been reported previously. While we have elected early adoption for our consolidated financial statements and footnote disclosures, the sale of the AmericInn, Aspen Hotel & Suites and Hampton Inn in Fort Smith, AR are included in discontinued operations as these hotels were classified as held for sale in our consolidated financial statements for the year ended December 31, 2013. The AmericInn and Aspen Hotel & Suites were sold in January 2014.

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 3 - HOTEL PROPERTY ACQUISITIONS**

Hotel property acquisitions in the three months ended March 31, 2014 and 2013 include (in thousands):

Date Acquired	Franchise/Brand	Location	Purchase Price	Debt Assumed
First Quarter 2014				
January 9	Hilton Garden Inn	Houston, TX	\$ 37,500	\$ 17,846
January 10	Hampton Inn	Santa Barbara (Goleta), CA	27,900	12,037
January 24	Four Points by Sheraton	South San Francisco, CA	21,250	
March 14	DoubleTree by Hilton	San Francisco, CA	39,060	13,289
Total Three Months Ended March 31, 2014		4 hotel properties	\$ 125,710	\$ 43,172
First Quarter 2013				
January 22	Hyatt Place	Chicago (Hoffman Estates), IL	\$ 9,230	\$
January 22	Hyatt Place	Orlando (Convention), FL	12,252	
January 22	Hyatt Place	Orlando (Universal), FL	11,843	
February 11	Holiday Inn Express & Suites (1)	San Francisco, CA	60,500	23,423
March 11	SpringHill Suites by Marriott	New Orleans, LA	33,095	
March 11	Courtyard by Marriott	New Orleans (Convention), LA	30,827	
March 11	Courtyard by Marriott	New Orleans (French Quarter), LA	25,683	
March 11	Courtyard by Marriott	New Orleans (Metairie), LA	23,539	
March 11	Residence Inn by Marriott	New Orleans (Metairie), LA	19,890	
Total Three Months Ended March 31, 2013		9 hotel properties	\$ 226,859	\$ 23,423

(1) This hotel property was acquired by a joint venture in which we own an 80% controlling interest.

The allocation of the aggregate purchase prices to the fair value of assets and liabilities acquired for the above acquisitions follows (in thousands):

	2014	March 31,	2013
Land	\$ 8,600	\$	33,476
Hotel buildings and improvements	114,713		187,754

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

Furniture, fixtures and equipment	3,389	5,629
Other assets	11,542	7,443
Total assets acquired	138,244	234,302
Less debt assumed	(43,172)	(23,423)
Less other liabilities	(1,402)	(545)
Net assets acquired	\$ 93,670	\$ 210,334

The allocations for certain of the acquisitions for the three months ended March 31, 2014 are based on preliminary information and are, therefore, subject to change.

[Table of Contents](#)
SUMMIT HOTEL PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Total revenues and net income for hotel properties acquired for the three months ended March 31, 2014 and 2013, which are included in our consolidated statements of operations follows (in thousands):

	For the Three Months Ended March 31,		2013 Acquisitions	
	2014 Acquisitions		2014	2013
	2014			
Revenues	\$ 4,898	\$	15,741	\$ 6,779
Net income	\$ 233	\$	2,076	\$ 1,136

The results of operations of acquired hotel properties are included in the consolidated statements of operations beginning on their respective acquisition dates. The following unaudited condensed pro forma financial information presents the results of operations as if all acquisitions in 2013 and first quarter 2014 had taken place on January 1, 2013. The unaudited condensed pro forma information excludes discontinued operations, is for comparative purposes only, and is not necessarily indicative of what actual results of operations would have been had the hotel property acquisitions taken place on January 1, 2013. This information does not purport to represent results of operations for future periods.

The unaudited condensed pro forma financial information for the three months ended March 31, 2014 and 2013 follows (in thousands, except per share amounts):

	For the Three Months Ended March 31,		2013	
	2014			
Revenues	\$ 91,659	\$	85,342	
Net income	\$ 2,990	\$	3,794	
Net income (loss) per share attributable to common stockholders - basic and diluted	\$ (0.01)	\$	0.02	

NOTE 4 - INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties includes (in thousands):

March 31,

December 31,

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

	2014	2013
Land	\$ 163,359	\$ 154,831
Hotel buildings and improvements	1,112,152	993,372
Construction in progress	33,188	24,242
Furniture, fixtures and equipment	151,955	142,976
	1,460,654	1,315,421
Less accumulated depreciation	(180,399)	(165,454)
	\$ 1,280,255	\$ 1,149,967

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 5 - ASSETS HELD FOR SALE**

Assets held for sale and related debt include (in thousands):

	March 31, 2014	December 31, 2013
Land	\$ 960	\$ 1,183
Hotel building and improvements	8,369	10,290
Furniture, fixtures and equipment	394	751
	\$ 9,723	\$ 12,224

At March 31, 2014, assets held for sale include a land parcel in Spokane, WA, which is under contract to sell and the Hampton Inn in Fort Smith, AR.

At December 31, 2013, assets held for sale include the AmericInn Hotel & Suites and the Aspen Hotel & Suites in Fort Smith, AR which were sold on January 17, 2014, and a land parcel in Spokane, WA, which is under contract to sell and the Hampton Inn in Fort Smith, AR.

NOTE 6 - DEBT

Our debt is comprised of a senior unsecured revolving credit facility and mortgage loans secured by various hotel properties. The weighted average interest rate, after giving effect to our interest rate derivatives, for all borrowings was 4.61% at March 31, 2014 and 5.03% at December 31, 2013, respectively. Our total fixed-rate and variable-rate debt, after giving effect to our interest rate derivatives, follows (in thousands):

	March 31, 2014	December 31, 2013
Fixed-rate debt	\$ 474,428	\$ 358,590
Variable-rate debt	92,968	76,999
	\$ 567,396	\$ 435,589

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

Information about the fair value of our fixed-rate debt that is not recorded at fair value follows (in thousands):

	March 31, 2014		December 31, 2013		Valuation Technique
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Fixed-rate debt not recorded at fair value	\$ 370,737	\$ 359,006	\$ 329,544	\$ 319,429	Level 2 - Market approach

At March 31, 2014 and December 31, 2013, we had variable rate debt of \$194.7 million and \$104.0 million, respectively, which had effectively been converted to fixed interest rates through derivative financial instruments which are carried at fair value. Differences between carrying value and fair value of our fixed-rate debt are primarily due to changes in interest rates. Inherently, fixed-rate debt is subject to fluctuations in fair value.

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Senior Unsecured Credit Facility

At March 31, 2014, we have a \$300.0 million senior unsecured credit facility. Deutsche Bank AG New York Branch (Deutsche Bank) is the administrative agent and Deutsche Bank Securities Inc. is the sole lead arranger. The syndication of lenders includes Deutsche Bank; Bank of America, N.A.; Royal Bank of Canada; Key Bank; Regions Bank; Fifth Third Bank; Raymond James Bank, N.A.; and U.S. Bank National Association. Certain of our existing and future subsidiaries that own or lease an unencumbered asset will be required to guaranty this credit facility.

The senior unsecured credit facility is comprised of a \$225.0 million revolving credit facility (the \$225 Million Revolver) and a \$75.0 million term loan (the \$75 Million Term Loan). This credit facility has an accordion feature which will allow us to increase the commitments by an aggregate of \$100.0 million on the \$225 Million Revolver and the \$75 Million Term Loan prior to October 10, 2017. The \$225 Million Revolver will mature on October 10, 2017, which can be extended to October 10, 2018 at our option, subject to certain conditions. The \$75 Million Term Loan will mature on October 10, 2018.

At March 31, 2014, the maximum amount of borrowing permitted under the senior unsecured credit facility was \$300.0 million, of which, we had \$166.0 million borrowed, \$13.9 million in standby letters of credit, and \$120.1 million available to borrow.

Term Loans

At March 31, 2014, we had \$476.4 million in term loans outstanding. These term loans are secured primarily by first mortgage liens on hotel properties.

On January 9, 2014, as part of our acquisition of the 182-guestroom Hilton Garden Inn in Houston, TX, we assumed a \$17.9 million mortgage loan with a fixed interest rate of 6.22%, an amortization period of 30 years, and a maturity date of November 1, 2016.

On January 10, 2014, as part of our acquisition of the 98-guestroom Hampton Inn in Santa Barbara (Goleta), CA, we assumed a \$12.0 million mortgage loan with a fixed interest rate of 6.133%, an amortization period of 25 years, and a maturity date of November 11, 2021.

On March 14, 2014, as part of our acquisition of the 210-guestroom DoubleTree by Hilton in San Francisco, CA, we assumed a \$13.3 million mortgage loan with a fixed interest rate of 5.98%, an original amortization period of 30 years, and a maturity date of March 8, 2016.

On March 28, 2014, we amended our loan with GE Capital Financial cross-collateralized by the Courtyard by Marriott and the SpringHill Suites by Marriott, both located in Scottsdale, AZ. The loan was amended to bear interest at a fixed rate of 5.39% and the maturity date was extended to April 1, 2020.

On March 28, 2014, we amended two loans with General Electric Capital Corp. cross-collateralized by the Hilton Garden Inn (Lakeshore) and the Hilton Garden Inn (Liberty Park), both located in Birmingham, AL. Both loans were amended to bear interest at a fixed rate of 5.39% and the maturity dates were extended to April 1, 2020.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Pending Hotel Property Acquisitions

At March 31, 2014, we had a purchase agreement for \$37.7 million that has not been closed as of the issuance of these financial statements. This acquisition is contingent upon customary closing conditions; therefore, there is no assurance that it will be completed.

Litigation

We are involved from time to time in litigation arising in the ordinary course of business; however, there are currently no actions pending against us that we believe would have a material impact on our financial condition or results of operations.

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8 - EQUITY

Common Stock

On January 3, 2013, we issued 1,974,669 shares of common stock to limited partners of the Operating Partnership upon redemption of their Common Units.

On January 14, 2013, we completed an underwritten public offering of 17,250,000 shares of common stock. Net proceeds were \$148.1 million, after the underwriting discount and offering-related expenses of \$7.2 million.

On March 1, 2013, we issued 292,090 shares of common stock to our executive officers pursuant to our 2011 Equity Incentive Plan. On March 22, 2013, we issued 1,614 shares of common stock to one of our independent directors in lieu of cash for director fees.

Preferred Stock

On March 20, 2013, we completed a public offering of 3,400,000 shares of 7.125% Series C Cumulative Redeemable Preferred Stock for net proceeds of \$81.7 million, after the underwriting discount and offering-related expenses of \$3.3 million.

Our Series A, Series B and Series C preferred stock have a \$25 per share liquidation preference and pay dividends at an annual rate of \$2.3125 per share of Series A, \$1.96875 per share of Series B, and \$1.78125 per share of Series C preferred stock. Dividend payments are made quarterly in arrears on or about the last day of February, May, August and November of each year.

Noncontrolling Interests in Operating Partnership

Pursuant to the limited partnership agreement, beginning on February 14, 2012, the unaffiliated third parties who hold Common Units in our Operating Partnership have the right to cause us to redeem their Common Units in exchange for cash based upon the fair value of an equivalent number of our shares of common stock at the time of redemption, or at our option, shares of our common stock on a one-for-one basis. The number of shares of our common stock issuable upon redemption of Common Units may be adjusted upon the occurrence of certain events such

as share dividend payments, share subdivisions or combinations.

On January 3, 2013, we redeemed 1,974,669 Common Units for 1,974,669 shares of our common stock.

On January 2, 2014, we redeemed 126,155 Common Units for 126,155 shares of our common stock.

On January 10, 2014, as part of our acquisition of the Hampton Inn in Santa Barbara (Goleta), CA, we issued 412,174 Common Units in our Operating Partnership valued at \$3.7 million.

At March 31, 2014 and December 31, 2013, unaffiliated third parties owned 1,097,444 and 811,425, respectively, of Common Units of the Operating Partnership, representing an approximate 1% limited partnership interest in the Operating Partnership.

We classify outstanding Common Units held by unaffiliated third parties as noncontrolling interests in the Operating Partnership, a component of equity in the Company's consolidated balance sheets. The portion of net income (loss) allocated to these Common Units is reported on the Company's consolidated statement of operations as net income (loss) attributable to noncontrolling interests of the Operating Partnership.

Noncontrolling Interests in Joint Venture

On February 11, 2013, we formed a joint venture with an affiliate of IHG to purchase a Holiday Inn Express & Suites in San Francisco, CA. We own an 80% controlling interest in the joint venture and our partner owns a 20% interest. We classify our partner's 20% interest as noncontrolling interest in joint

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

venture on our consolidated balance sheets. The portion of net income (loss) allocated to our partner is reported on our consolidated statements of operations as net income (loss) attributable to noncontrolling interests of joint venture.

NOTE 9 - EQUITY-BASED COMPENSATION

Our equity-based awards were issued under our 2011 Equity Incentive Plan which provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other equity-based award or incentive awards up to an aggregate of 2,318,290 shares of common stock. Stock options granted may be either incentive stock options or nonqualified stock options. Vesting terms may vary with each grant, and stock option terms are generally five to ten years. We have outstanding equity-based awards in the form of stock options and restricted stock awards. All of our existing equity-based awards are classified as equity awards.

Stock Options

Stock option activity for the three months ended March 31, 2014 follows:

	Number of Options	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Terms (In years)	Aggregate Intrinsic Value (Current Value Less Exercise Price) (in thousands)
Outstanding, December 31, 2013	893,000	\$ 9.75	7.2	\$
Granted				
Exercised				
Forfeited				
Outstanding, March 31, 2014	893,000	\$ 9.75	6.9	\$
Exercisable, March 31, 2014	535,800	\$ 9.75	6.9	\$

Time-Based Restricted Stock Awards

On March 1, 2013, we awarded time-based restricted stock awards for 106,518 shares of common stock to our executive officers. These awards vest over a three year period based on continued service (25% on February 28, 2014 and 2015 and 50% on February 28, 2016), or upon a change

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

in control, and are subject to the other conditions described in our 2011 Equity Incentive Plan. The holders of these awards have the right to vote the related shares of common stock and receive all dividends declared and paid whether or not vested.

The fair value of time-based restricted stock awards granted is calculated based on the market value on the date of grant.

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Time-based restricted stock activity for the three months ended March 31, 2014 follows:

	Number of Shares	Weighted Average Grant Date Fair Value (Per share)	Aggregate Current Value (In thousands)
Non-vested, December 31, 2013	161,587	\$ 9.10	\$ 1,454
Granted		\$	
Vested	26,630	\$ 9.78	
Forfeited		\$	
Non-vested, March 31, 2014	134,957	\$ 9.10	\$ 1,252

Performance-Based Restricted Stock Awards

On March 1, 2013, we awarded performance-based restricted stock awards for 185,572 shares of common stock to our executive officers. These awards vest ratably over the next three years (2013, 2014 and 2015) subject to the attainment of certain performance goals and continued service, or upon a change in control, and are subject to the other conditions described in our 2011 Equity Incentive Plan. The holders of these awards have the right to vote the related shares of common stock and any dividends declared will be accumulated and will be subject to the same vesting conditions as the awards.

Our performance-based restricted stock awards are market-based awards and are accounted for based on the fair value of our common stock on the grant date. These awards vest based on a performance measurement that requires the Company's total shareholder return (TSR) to exceed the TSR for the SNL U.S. Lodging REIT Index for a designated one, two or three year performance period. The fair value of performance-based restricted stock awards granted was estimated using a Monte Carlo simulation valuation model.

No performance-based restricted stock awards vested during the three months ended March 31, 2014 because performance goals were not met.

Performance-based restricted stock activity for the three months ended March 31, 2014 follows:

--	--	--	--

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

Non-vested, December 31, 2013	268,174	\$	7.30	\$	2,414
Vested		\$			

Table of Contents**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Director Stock Awards

Our directors have the option to receive shares of our common stock in lieu of cash for their director fees. In the three months ended March 31, 2014, we issued no shares of common stock for director fees.

Equity-Based Compensation Expense

Equity-based compensation expense for the three months ended March 31, 2014 and 2013 follows (in thousands):

	For the Three Months Ended March 31,	
	2014	2013
Included in corporate general and administrative salaries and other compensation in the statements of operations:		
Stock options	\$ 155	\$ 156
Time-based restricted stock	167	109
Performance-based restricted stock	145	140
	467	405
Included in corporate general and administrative other in the statements of operations:		
Director stock		16
	\$ 467	\$ 421

The amount of expense may be subject to adjustment in future periods depending upon the attainment of specific goals, which affect the vesting of the performance-based restricted stock, or a change in the forfeiture assumptions.

Unrecognized equity-based compensation expense for all non-vested awards was \$3.0 million at March 31, 2014. We expect to recognize this cost over a remaining weighted-average period of 1.5 years.

NOTE 10 - LOSS ON IMPAIRMENT OF ASSETS

Edgar Filing: Summit Hotel Properties, Inc. - Form 10-Q

In the three months ended March 31, 2013, we recognized a loss on impairment of assets of \$1.5 million related to the SpringHill Suites in Lithia Springs, GA and the Courtyard by Marriott in Memphis, TN. These hotel properties were classified as held for sale at March 31, 2013 and subsequently sold in 2013. Their operating results, including impairment charges, are included in discontinued operations.

[Table of Contents](#)**SUMMIT HOTEL PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING**

Information about our derivative financial instruments at March 31, 2014 and December 31, 2013 follows (dollars in thousands):

	Number of Instruments	March 31, 2014 Notional Amount	Fair Value	Number of Instruments	December 31, 2013 Notional Amount	Fair Value
Interest rate swaps (asset)	3	\$ 28,957	\$ 208	3	\$ 29,273	\$ 253
Interest rate swaps (liability)	1	75,000	(1,796)	1	75,000	(1,772)
	4	\$ 103,957	\$ (1,588)	4	\$ 104,273	\$ (1,519)

Our interest rate swaps are designated as cash flow hedges and are valued using a market approach, which is a Level 2 valuation technique, and are all in a liability position. At March 31, 2014, we had not posted any collateral related to these agreements and were not in breach of any financial provisions of the agreements. If we had breached any agreement provisions, we could have been required to settle our obligations under these agreements at their aggregate termination value of \$1.8 million at March 31, 2014.

Details of the location in the financial statements of the loss recognized on derivative financial instruments designated as cash flow hedges follows (in thousands):

	For the Three Months Ended March 31,	
	2014	2013
Gain (loss) recognized in accumulated other comprehensive income on derivative financial instruments (effective portion)	\$ (495)	\$ 21
Loss reclassified from accumulated other comprehensive income to interest expense (effective portion)	\$ (427)	\$ (86)

Amounts reported in accumulated other comprehensive income (loss) related to derivative financial instruments will be reclassified to interest expense as interest payments are made on the hedged variable-rate debt.

NOTE 12 INCOME TAXES

Income taxes for the interim periods presented have been included in our consolidated financial statements on the basis of an estimated annual effective tax rate. Our effective tax rate is impacted by the mix of earnings and losses by taxing jurisdictions. Our earnings (losses), other than in our TRSSs, are not generally subject to federal corporate and state income taxes due to our REIT election.

Due to the decrease in cumulative losses over the past three years, management believes that sufficient positive evidence could become available in the future to reach a conclusion that the valuation allowance will no longer be needed, in whole or in part. Acceleration of improved operating results or significant taxable income from specific non-recurring transactions could further impact this assessment. The likelihood of realizing the benefit of deferred tax assets and the related need for a valuation allowance is assessed on an ongoing basis. This assessment requires estimates and significant management judgment as to future operating results, as well as an evaluation of the effectiveness of our tax planning strategies. At this time, we are not able to reasonably estimate when sufficient positive evidence will require reversal of the valuation allowance or the impact such reversal will have on our effective tax rate.

For the first quarter of 2014 and 2013, we recorded an income tax provision attributable to continuing operations of \$0.1 million and \$0.2 million, respectively. We had no unrecognized tax benefits at March 31, 2014. We expect no significant changes in unrecognized tax benefits within the next year. We recognize interest expense and penalties associated with unrecognized tax benefits as a component of income tax expense.

NOTE 13 FAIR VALUE

The following table presents information about our financial instruments measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Table of Contents

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Disclosures concerning financial instruments measured at fair value are as follows (in thousands):

	Fair Value Measurements at March 31, 2014 using			Total
	Level 1	Level 2	Level 3	
Assets:				
Assets held for sale	\$	\$ 9,723	\$	\$ 9,723
Interest rate swaps (asset)		208		208
Liabilities:				
Interest rate swaps (liability)		1,796		1,796
Fixed-rate debt		359,006		359,006

	Fair Value Measurements at December 31, 2013 using			Total
	Level 1	Level 2	Level 3	
Assets:				