

Summit Hotel Properties, Inc.  
Form 10-Q  
October 30, 2018

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, 2018

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: 001-35074

SUMMIT HOTEL PROPERTIES, INC.  
(Exact name of registrant as specified in its charter)

---

|   |                                      |
|---|--------------------------------------|
| Maryland  | 27-2962512                           |
| (State or other jurisdiction<br>of incorporation or organization) | (I.R.S. Employer Identification No.) |

13215 Bee Cave Parkway, Suite B-300  
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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

As of October 22, 2018, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 104,760,836.

---

TABLE OF CONTENTS

|  | Page      |
|--|-----------|
| <u>PART I — FINANCIAL INFORMATION</u>  |           |
| <u>Item 1. Financial Statements</u>  | <u>1</u>  |
| <u>Condensed Consolidated Balance Sheets — September 30, 2018 (Unaudited) and December 31, 2017</u>                                    | <u>1</u>  |
| <u>Condensed Consolidated Statements of Operations (Unaudited) — Three and Nine Months Ended September 30, 2018 and 2017</u>           | <u>2</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) — Three and Nine Months Ended September 30, 2018 and 2017</u> | <u>3</u>  |
| <u>Condensed Consolidated Statements of Changes in Equity (Unaudited) — Nine Months Ended September 30, 2018 and 2017</u>              | <u>4</u>  |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) — Nine Months Ended September 30, 2018 and 2017</u>                     | <u>5</u>  |
| <u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>  | <u>6</u>  |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                                   | <u>25</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>  | <u>40</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>40</u> |
| <u>PART II — OTHER INFORMATION</u>   |           |
| <u>Item 1. Legal Proceedings</u>   | <u>41</u> |
| <u>Item 1A. Risk Factors</u>   | <u>41</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>41</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>   | <u>41</u> |
| <u>Item 4. Mine Safety Disclosures</u>   | <u>41</u> |
| <u>Item 5. Other Information</u>   | <u>41</u> |
| <u>Item 6. Exhibits</u>  | <u>42</u> |

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## Summit Hotel Properties, Inc.

## Condensed Consolidated Balance Sheets

(in thousands, except share amounts)

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Investment in hotel properties, net  | \$ 2,082,605          | \$ 2,059,492         |
| Investment in hotel properties under development   | —                     | 23,793               |
| Land held for development  | 2,942                 | 2,942                |
| Assets held for sale, net  | 1,193                 | 1,193                |
| Investment in real estate loans, net   | 29,387                | 12,356               |
| Cash and cash equivalents  | 60,533                | 36,545               |
| Restricted cash  | 31,567                | 29,462               |
| Trade receivables, net   | 23,969                | 16,985               |
| Prepaid expenses and other   | 6,254                 | 9,454                |
| Deferred charges, net  | 4,854                 | 5,221                |
| Other assets   | 19,627                | 12,431               |
| Total assets   | \$ 2,262,931          | \$ 2,209,874         |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| Liabilities:   |                       |                      |
| Debt, net of debt issuance costs   | \$ 969,146            | \$ 868,236           |
| Accounts payable   | 5,200                 | 7,774                |
| Accrued expenses and other   | 71,350                | 56,488               |
| Total liabilities  | 1,045,696             | 932,498              |
| Commitments and contingencies (Note 8)   |                       |                      |
| Equity:  |                       |                      |
| Preferred stock, \$0.01 par value per share, 100,000,000 shares authorized:  |                       |                      |
| 7.125% Series C - 3,400,000 shares issued and outstanding at December 31, 2017<br>(aggregate liquidation preference of \$85,522 at December 31, 2017)  | —                     | 34                   |
| 6.45% Series D - 3,000,000 shares issued and outstanding at September 30, 2018 and<br>December 31, 2017 (aggregate liquidation preference of \$75,403 and \$75,417 at<br>September 30, 2018 and December 31, 2017, respectively)   | 30                    | 30                   |
| 6.25% Series E - 6,400,000 shares issued and outstanding at September 30, 2018 and<br>December 31, 2017 (aggregate liquidation preference of \$160,833 and \$160,861 at<br>September 30, 2018 and December 31, 2017, respectively) | 64                    | 64                   |
| Common stock, \$0.01 par value per share, 500,000,000 shares authorized, 104,745,710<br>and 104,287,128 shares issued and outstanding at September 30, 2018 and<br>December 31, 2017, respectively                                 | 1,047                 | 1,043                |
| Additional paid-in capital   | 1,183,694             | 1,262,679            |
| Accumulated other comprehensive income   | 8,033                 | 1,451                |
| Retained earnings  | 21,648                | 9,201                |
| Total stockholders' equity   | 1,214,516             | 1,274,502            |
| Non-controlling interests in operating partnership   | 2,719                 | 2,874                |
| Total equity   | 1,217,235             | 1,277,376            |
| Total liabilities and equity   | \$ 2,262,931          | \$ 2,209,874         |

See Notes to the Condensed Consolidated Financial Statements

1

---

Summit Hotel Properties, Inc.  
Condensed Consolidated Statements of Operations  
(Unaudited)  
(in thousands, except per share amounts)

|  | For the<br>Three Months Ended<br>September 30, |           | For the<br>Nine Months Ended<br>September 30, |           |
|--|--|-----------|---|-----------|
|  | 2018   | 2017      | 2018  | 2017      |
| Revenues:  |  |           |   |           |
| Room   | \$131,429                                      | \$127,246 | \$401,651                                     | \$358,110 |
| Food and beverage  | 5,817  | 5,465     | 18,663  | 15,718    |
| Other  | 5,094  | 3,876     | 14,447  | 9,804     |
| Total revenues   | 142,340  | 136,587   | 434,761                                       | 383,632   |
| Expenses:  |  |           |   |           |
| Room   | 30,854   | 28,976    | 90,972  | 80,435    |
| Food and beverage  | 4,684  | 4,444     | 14,790  | 12,277    |
| Other hotel operating expenses                           | 40,437   | 38,284    | 121,473                                       | 106,721   |
| Property taxes, insurance and other                      | 10,220   | 10,189    | 32,250  | 27,371    |
| Management fees  | 4,188  | 4,177     | 14,928  | 13,969    |
| Depreciation and amortization                            | 24,941   | 23,594    | 75,141  | 62,052    |
| Corporate general and administrative                     | 4,852  | 4,550     | 17,079  | 14,998    |
| Hotel property acquisition costs                         | —  | —         | —   | 354       |
| Total expenses   | 120,176  | 114,214   | 366,633                                       | 318,177   |
| Operating income   | 22,164   | 22,373    | 68,128  | 65,455    |
| Other income (expense):                                  |  |           |   |           |
| Interest expense   | (10,848 )                                      | (7,768 )  | (30,579 )                                     | (21,486 ) |
| Gain on disposal of assets, net                          | 24,826   | 7,725     | 42,114  | 43,531    |
| Other income (expense), net                              | 1,327  | (116 )    | 5,586   | 2,847     |
| Total other income (expense)                             | 15,305   | (159 )    | 17,121  | 24,892    |
| Income from continuing operations before income taxes    | 37,469   | 22,214    | 85,249  | 90,347    |
| Income tax benefit (expense) (Note 10)                   | 532  | 231       | 120   | (613 )    |
| Net income   | 38,001   | 22,445    | 85,369  | 89,734    |
| Non-controlling interest in Operating Partnership        | (100 )   | (55 )     | (204 )  | (289 )    |
| Net income attributable to Summit Hotel Properties, Inc. | 37,901   | 22,390    | 85,165  | 89,445    |
| Preferred dividends                                      | (3,710 )                                       | (4,200 )  | (12,962 )                                     | (12,600 ) |
| Premium on redemption of preferred stock                 | —  | —         | (3,277 )                                      | —         |
| Net income attributable to common stockholders           | \$34,191                                       | \$18,190  | \$68,926                                      | \$76,845  |
| Earnings per share:                                      |  |           |   |           |
| Basic  | \$0.33   | \$0.18    | \$0.66  | \$0.78    |
| Diluted  | \$0.33   | \$0.17    | \$0.66  | \$0.78    |
| Weighted average common shares outstanding:              |  |           |   |           |
| Basic  | 103,666  | 103,253   | 103,603                                       | 98,105    |
| Diluted  | 103,821  | 103,632   | 103,868                                       | 98,471    |

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)  
(in thousands)

|   | For the<br>Three Months<br>Ended<br>September 30, |          | For the<br>Nine Months<br>Ended<br>September 30, |           |
|---|---|----------|--|-----------|
|   | 2018  | 2017     | 2018   | 2017      |
| Net income  | \$38,001  | \$22,445 | \$85,369   | \$89,734  |
| Other comprehensive income, net of tax:   |   |          |  |           |
| Changes in fair value of derivative financial instruments                                     | 2,495   | 157      | 6,601  | 680       |
| Comprehensive income  | 40,496  | 22,602   | 91,970   | 90,414    |
| Comprehensive income attributable to non-controlling interests:                               |   |          |  |           |
| Less - Comprehensive income attributable to non-controlling interest in Operating Partnership | (107 )  | (56 )    | (223 )   | (292 )    |
| Comprehensive income attributable to Summit Hotel Properties, Inc.                            | 40,389  | 22,546   | 91,747   | 90,122    |
| Preferred dividends   | (3,710 )  | (4,200 ) | (12,962 )  | (12,600 ) |
| Premium on redemption of preferred stock  | —   | —        | (3,277 )   | —         |
| Comprehensive income attributable to common stockholders                                      | \$36,679  | \$18,346 | \$75,508   | \$77,522  |

See Notes to the Condensed Consolidated Financial Statements

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

Summit Hotel Properties, Inc.  
 Condensed Consolidated Statements of Changes in Equity  
 For the Nine Months Ended September 30, 2018 and 2017  
 (Unaudited)  
 (in thousands, except share amounts)

|  | Shares<br>of<br>Preferred<br>Stock | Preferred<br>Stock | Shares<br>of Common<br>Stock | Common<br>Stock | Additional<br>Paid-In Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings<br>(Deficit) and<br>Distributions | Total<br>Stockholders'<br>Equity | Non-controlling<br>Interests<br>in<br>Operating<br>Partnership | Total<br>Equity |
|--|------------------------------------|--------------------|------------------------------|-----------------|-------------------------------|---|--|----------------------------------|--|-----------------|
| Balance at<br>December 31,<br>2017                             | 12,800,000                         | \$ 128             | 104,287,128                  | \$ 1,043        | \$ 1,262,679                  | \$ 1,451  | \$ 9,201   | \$ 1,274,502                     | \$ 2,874   | \$ 1,277,376    |
| Redemption of<br>preferred stock                               | (3,400,000 )                       | (34 )              | —                            | —               | (81,689 )                     | —   | (3,277 )   | (85,000 )                        | —  | (85,000 )       |
| Common stock<br>redemption of<br>common units                  | —                                  | —                  | 25,839                       | —               | 227                           | —   | —  | 227                              | (227 )   | —               |
| Dividends  | —                                  | —                  | —                            | —               | —                             | —   | (69,441 )  | (69,441 )                        | (167 )   | (69,608 )       |
| Equity-based<br>compensation                                   | —                                  | —                  | 620,593                      | 6               | 5,345                         | —   | —  | 5,351                            | 16   | 5,367           |
| Shares acquired<br>for employee<br>withholding<br>requirements | —                                  | —                  | (187,850 )                   | (2 )            | (2,722 )                      | —   | —  | (2,724 )                         | —  | (2,724 )        |
| Other  | —                                  | —                  | —                            | —               | (146 )                        | —   | —  | (146 )                           | —  | (146 )          |
| Other<br>comprehensive<br>income                               | —                                  | —                  | —                            | —               | —                             | 6,582   | —  | 6,582                            | 19   | 6,601           |
| Net income   | —                                  | —                  | —                            | —               | —                             | —   | 85,165   | 85,165                           | 204  | 85,369          |
| Balance at<br>September 30,<br>2018                            | 9,400,000                          | \$ 94              | 104,745,710                  | \$ 1,047        | \$ 1,183,694                  | \$ 8,033  | \$ 21,648  | \$ 1,214,516                     | \$ 2,719   | \$ 1,217,235    |
| Balance at<br>December 31,<br>2016                             | 9,400,000                          | \$ 94              | 93,525,469                   | \$ 935          | \$ 1,011,412                  | \$(977 )  | \$(1,422 )   | \$ 1,010,042                     | \$ 3,428   | \$ 1,013,470    |
| Net proceeds<br>from sale of<br>common stock                   | —                                  | —                  | 10,350,000                   | 104             | 163,516                       | —   | —  | 163,620                          | —  | 163,620         |
| Common stock<br>redemption of<br>common units                  | —                                  | —                  | 52,808                       | 1               | 466                           | —   | —  | 467                              | (467 )   | —               |
| Dividends  | —                                  | —                  | —                            | —               | —                             | —   | (63,240 )  | (63,240 )                        | (184 )   | (63,424 )       |
| Equity-based<br>compensation                                   | —                                  | —                  | 397,421                      | 4               | 4,462                         | —   | —  | 4,466                            | 17   | 4,483           |
| Shares acquired<br>for employee<br>withholding<br>requirements | —                                  | —                  | (59,111 )                    | (1 )            | (960 )                        | —   | —  | (961 )                           | —  | (961 )          |



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

|                               |           |      |             |         |             |          |          |             |         |             |
|-------------------------------|-----------|------|-------------|---------|-------------|----------|----------|-------------|---------|-------------|
| Other comprehensive income    | —         | —    | —           | —       | —           | 677      | —        | 677         | 3       | 680         |
| Net income                    | —         | —    | —           | —       | —           | —        | 89,445   | 89,445      | 289     | 89,734      |
| Balance at September 30, 2017 | 9,400,000 | \$94 | 104,266,587 | \$1,043 | \$1,178,896 | \$(300 ) | \$24,783 | \$1,204,516 | \$3,086 | \$1,207,600 |

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(in thousands)

|   | For the<br>Nine Months<br>Ended<br>September 30,<br>2018      2017 |                  |
|---|--|------------------|
| <b>OPERATING ACTIVITIES</b>   |  |                  |
| Net income  | \$85,369   | \$89,734         |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                  |
| Depreciation and amortization   | 75,141   | 62,052           |
| Amortization of deferred financing costs  | 1,495  | 1,553            |
| Equity-based compensation   | 5,367  | 4,483            |
| Realization of deferred gain  | —  | (15,000 )        |
| Gain on disposal of assets, net   | (42,114 )  | (28,531 )        |
| Other   | (1,386 )   | 51               |
| Changes in operating assets and liabilities:                                      |  |                  |
| Trade receivables, net  | (7,054 )   | (9,140 )         |
| Prepaid expenses and other  | 2,729  | 1,817            |
| Accounts payable  | (627 )   | (233 )           |
| Accrued expenses and other  | 10,040   | 9,780            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>128,960</b>   | <b>116,566</b>   |
| <b>INVESTING ACTIVITIES</b>   |  |                  |
| Acquisitions of hotel properties  | (71,002 )  | (424,734)        |
| Investment in hotel properties under development                                  | (12,208 )  | (15,954 )        |
| Improvements to hotel properties  | (49,523 )  | (25,252 )        |
| Proceeds from asset dispositions, net of closing costs                            | 103,587  | 120,901          |
| Funding of real estate loans  | (15,245 )  | —                |
| Proceeds from collection of real estate loans                                     | —  | 32,500           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(44,391 )</b>   | <b>(312,539)</b> |
| <b>FINANCING ACTIVITIES</b>   |  |                  |
| Proceeds from issuance of debt  | 470,000  | 485,000          |
| Principal payments on debt  | (369,147)  | (365,087)        |
| Proceeds from equity offerings, net of issuance costs                             | —  | 163,620          |
| Redemption of preferred stock   | (85,000 )  | —                |
| Dividends paid  | (69,755 )  | (63,148 )        |
| Financing fees on debt and other issuance costs                                   | (1,850 )   | (1,642 )         |
| Repurchase of common shares for withholding requirements                          | (2,724 )   | (961 )           |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                        | <b>(58,476 )</b>   | <b>217,782</b>   |
| Net change in cash, cash equivalents and restricted cash                          | 26,093   | 21,809           |
| <b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>                                 |  |                  |
| Beginning of period   | 66,007   | 59,575           |
| End of period   | \$92,100   | \$81,384         |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |  |                  |
| Cash payments for interest  | \$29,038   | \$20,242         |
| Accrued acquisition costs and improvements to hotel properties                    | \$7,853  | \$3,482          |
| Capitalized interest  | \$446  | \$172            |
| Cash payments for income taxes, net of refunds                                    | \$749  | \$600            |

See Notes to the Condensed Consolidated Financial Statements

5

---

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONDENSED 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. Unless the context otherwise requires, “we,” “us,” and “our” refer to the Company and its consolidated subsidiaries.

We focus on owning primarily premium-branded, select-service hotels. At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms located in 26 states. We have elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, all of our hotels are leased to subsidiaries (“TRS Lessees”) of our taxable REIT subsidiary (“TRS”). We indirectly own 100% of the outstanding equity interests in all of our TRS Lessees.

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of the Company consolidate the accounts of the Company and all entities that are controlled by the Company’s ownership of a majority voting interest in such entities, as well as variable interest entities for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in the Condensed Consolidated Financial Statements.

We prepare our Condensed 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 Securities and Exchange Act of 1934 (the “Exchange Act”). Accordingly, the Condensed Consolidated Financial Statements 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 items) considered necessary for a fair presentation in accordance with GAAP have been included. Results for the three and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the full year of 2018. For further information, please read the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Investment in Hotel Properties

The Company allocates the purchase price of acquired hotel properties based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Intangible assets may include certain value associated with the on-going operations of the hotel business being acquired as part of the hotel property acquisition. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers, including using a discounted cash flow analysis that uses appropriate discount or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions.

If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the asset or asset group is not considered a business. When we conclude that an

acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties.

Our hotel properties and related assets are recorded at cost, less accumulated depreciation. We capitalize hotel development costs and the costs of significant additions and improvements that materially upgrade, increase the value or extend the useful life of the property. These costs may include hotel development, refurbishment, renovation, and remodeling expenditures, as well as certain indirect internal costs related to construction projects. If an asset requires a period of time in which to carry out the activities necessary to bring it to the condition necessary for its intended use, the interest cost incurred during that period as a result of expenditures for the asset is capitalized as part of the cost of the asset. We expense the cost of repairs and maintenance as incurred.

We monitor events and changes in circumstances for indicators that the carrying value of a hotel property or land held for development may be impaired. Additionally, we perform at least annual reviews to monitor the factors that could trigger an impairment. Factors that we consider for an impairment analysis include, among others: i) significant underperformance relative to historical or anticipated operating results, ii) significant changes in the manner of use of a property or the strategy of our overall business, including changes in the estimated holding periods for hotel properties and land parcels, iii) a significant increase in competition, iv) a significant adverse change in legal factors or regulations, and v) significant negative industry or economic trends. When such factors are identified, we prepare an estimate of the undiscounted future cash flows of the specific property and determine if the carrying amount of the asset is recoverable. If an impairment is identified, we estimate the fair value of the property based on discounted cash flows or sales price if the property is under contract and an adjustment is made to reduce the carrying value of the property to its estimated fair value.

In certain circumstances, we provide loan financing to developers of hotel properties for development projects. We record these loans as Investment in real estate loans, net unless we determine that we are the primary beneficiary of a variable interest entity through the loan provisions or other agreements. If we are the primary beneficiary of a variable interest entity, then the loan is recorded in Investment in hotel properties under development in our Condensed Consolidated Balance Sheets. If classified as Investment in hotel properties under development, no interest income is recognized on the loan and interest expense is capitalized as part of our investment in the hotel property during the construction period.

#### Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, cash on deposit may exceed the federally insured limit. We maintain our cash with high credit quality financial institutions.

#### Restricted Cash

Restricted cash consists of certain funds maintained in escrow for property taxes, insurance, and certain capital expenditures. Funds may be disbursed from the account upon proof of expenditures and approval from the lender or other party requiring the restricted cash reserves.

On January 1, 2018, we adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. As a result, we report changes in cash, cash equivalents and restricted cash on our Condensed Consolidated Statement of Cash Flows.

#### Revenue Recognition

On January 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers. In accordance with ASU No. 2014-09, revenues from the operation of our hotels are recognized when guestrooms are occupied, services have been rendered or fees have been earned. Revenues are recorded net of any discounts and sales and other taxes collected from customers. Revenues consist of room sales, food and beverage sales, and other hotel revenues and are presented on a disaggregated basis on our Condensed Consolidated Statements of Operations.

Room revenue is generated through short-term contracts with customers whereby customers agree to pay a daily rate for the right to occupy hotel rooms for one or more nights. Our performance obligations are fulfilled at the end of each night that the customers have the right to occupy the rooms. Room revenues are recognized daily at the contracted room rate in effect for each room night.

Food and beverage revenues are generated when customers purchase food and beverage at a hotel's restaurant, bar or other facilities. Our performance obligations are fulfilled at the time that food and beverage is purchased and provided to our customers.

Other revenues such as for parking, meeting space or telephone services are recognized at the point in time or over the time period that the associated good or service is provided. Ancillary services such as parking at certain hotels are provided by third parties and we assesses whether we are the principal or agent in such arrangements. If we are determined to be the agent, revenue is recognized based upon the commission paid to us by the third party for the services rendered to our customers. If we are determined to be the principal, revenues are recognized based upon the gross contract price of the service provided. Certain of our hotels have retail spaces, restaurants or other spaces that we lease to third parties. Lease revenues are recognized on a straight– line basis over the respective lease terms and are included in Other income on our Condensed Consolidated Statement of Operations.

Cash received prior to customer arrival is recorded as an advance deposit from the customer and is recognized as revenue at the time of occupancy.

#### Equity-Based Compensation

Our 2011 Equity Incentive Plan, which was amended and restated effective June 15, 2015 (as amended, the “Equity Plan”), provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other stock-based awards. We account for the stock options granted upon completion of our IPO at fair value using the Black-Scholes option-pricing model and we account for all other awards of equity, including time-based and performance-based stock awards, using the grant date fair value of those equity awards. Restricted stock awards with performance-based vesting conditions are market-based awards tied to total stockholder return and are valued using a Monte Carlo simulation model in accordance with ASC Topic 718, Compensation — Stock Compensation. We expense the fair value of awards under the Equity Plan ratably over the vesting period and market-based awards are not adjusted for performance. The amount of stock-based compensation expense may be subject to adjustment in future periods due to a change in forfeiture assumptions or modification of previously granted awards.

On January 1, 2018, we adopted ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. As such, we account for certain changes to share-based payment awards using modification accounting, which may result in incremental stock-based compensation expense based on the remeasurement of the award on the modification date.

#### Derivative Financial Instruments and Hedging

We use interest rate derivatives to hedge our risks on variable-rate debt. Interest rate derivatives could include swaps, caps and floors. We assess the effectiveness of each hedging relationship by comparing changes in fair value or cash flows of the derivative financial instrument with the changes in fair value or cash flows of the designated hedged item or transaction. All derivative financial instruments are recorded at fair value as a net asset or liability in our Condensed Consolidated Balance Sheets.

During 2017, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Accordingly, beginning in 2017, the change in the fair value of the hedging instruments is recorded in Other comprehensive income. Amounts deferred in Other comprehensive income will be reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings.

#### Income Taxes

We have elected to be 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 stockholders 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 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 at regular corporate income tax rates) to the extent we distribute 100% of our REIT taxable income to our stockholders. 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.

#### 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 information, which require a reporting entity to develop its own assumptions.

8

---

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.

On January 1, 2018, we adopted ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Accordingly, we have elected a measurement alternative for equity investments, such as our purchase options, that do not have readily determinable fair values. Under the alternative, our purchase options are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, if any.

#### Use of Estimates

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

#### Reclassifications

Certain amounts reported in the Condensed Consolidated Statements of Operations in previous periods have been disaggregated and reclassified to conform to the current period presentation. Revenues have been disaggregated into Rooms, Food and beverage, and Other. Direct and Indirect expense has been reclassified into Room, Food and beverage, and Other hotel operating expenses. Property taxes, insurance and other, and Management expenses are also separately reported.

We have also reclassified certain intangible assets related to our acquisitions of hotel properties from Other assets to Investment in hotel properties, net, on the Condensed Consolidated Balance Sheet. See "Note 3 - Investment in Hotel Properties, net" for further details.

These reclassifications, made at September 30, 2018 and for the three and nine months then ended, had no net effect on the previously reported financial position or results of operations.

#### New Accounting Standards

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which enhances the reporting requirements for the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. We adopted ASU No. 2016-01 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-01 did not have a material effect on our

consolidated financial position or our results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. ASU No. 2016-02 is effective for our fiscal year commencing on January 1, 2019, but early adoption is permitted. We anticipate that we will adopt ASU No. 2016-02 for our fiscal year commencing on January 1, 2019. We expect to apply the modified retrospective approach such that we will account for leases that commenced before the effective date of ASU No. 2016-02 in accordance with previous GAAP unless the lease is modified, except we will recognize right-of-use assets and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. We are currently in the process of analyzing our leases. We expect that the adoption of ASU No. 2016-02 will result in the recognition of right-of-use assets and related lease liability accounts on the consolidated balance sheet but is not expected to have a material effect on our consolidated financial position or our results of operations.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses the Statement of Cash Flows classification and presentation of certain cash transactions. We adopted ASU No. 2016-15 for our fiscal year commencing on January 1, 2018. The effect of this amendment has been applied retrospectively. The adoption of ASU No. 2016-15 did not have a material effect on our consolidated financial position or our results of operations.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies how companies should present restricted cash and restricted cash equivalents in the Statement of Cash Flows. This guidance requires companies to show the changes in the total of cash, cash equivalents and restricted cash in the Statement of Cash Flows. We retrospectively adopted ASU No. 2016-18 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-18 did not have a material effect on our consolidated financial position or our results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with ASC No. 718, Compensation - Stock Compensation. We adopted ASC No. 2017-09 for our fiscal year commencing on January 1, 2018. This guidance is to be applied prospectively to an award modified on or after the adoption date. We applied the requirements of ASU No. 2017-09 to the modification of certain stock awards as described in "Note 9 - Equity-Based Compensation."

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies how an entity should measure certain equity securities. ASU 2018-03 is effective for our fiscal year commencing on January 1, 2019, but we have early adopted ASU No. 2018-03 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2018-03 did not have a material effect on our consolidated financial position or results of operations.

### NOTE 3 - INVESTMENT IN HOTEL PROPERTIES, NET

Investment in Hotel Properties, net

Investment in hotel properties, net at September 30, 2018 and December 31, 2017 is as follows (in thousands):

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Land   | \$ 290,782            | \$ 272,932           |
| Hotel buildings and improvements                 | 1,899,906             | 1,868,273            |
| Intangible assets                                | 22,064                | 22,764               |
| Construction in progress                         | 20,219                | 12,464               |
| Furniture, fixtures and equipment                | 189,457               | 174,126              |
|  | 2,422,428             | 2,350,559            |
| Less - accumulated depreciation and amortization | (339,823 )            | (291,067 )           |
|  | \$ 2,082,605          | \$ 2,059,492         |

### Recently Developed Properties

We completed the development and commenced operations of the new 168-guestroom Hyatt House Across From Orlando Universal Resort™ on June 27, 2018. The total construction cost for this hotel was \$32.7 million, excluding

land that we acquired in a prior-year transaction. The carrying amount for this hotel includes internal capitalized costs of \$1.6 million. Total costs of \$37.1 million, including the carrying amount of the land, were reclassified as Investment in hotel properties, net upon completion of construction.

#### Asset Sales

On September 28, 2018, we sold the Hyatt Place in Fort Myers, FL and adjacent land for \$16.5 million. The sale of this property resulted in the realization of a net gain of \$2.2 million during the three and nine months ended September 30, 2018.

On July 24, 2018, we completed the sale of three hotel properties, the Hilton Garden Inn - Smyrna, TN, the Hampton Inn & Suites - Smyrna, TN, and the Hyatt Place Phoenix North - Phoenix, AZ, for an aggregate sales price of \$46.5 million. The sales of these three properties resulted in the realization of an aggregate net gain of \$23.0 million during the three and nine months ended September 30, 2018. The proceeds from these sales were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$22.2 million.

On June 29, 2018, we sold the Holiday Inn Express & Suites in Sandy, UT and the Hampton Inn in Provo, UT, for an aggregate selling price of \$19.0 million. On June 29, 2018 we also sold the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA for an aggregate selling price of \$24.9 million. The sales of these four properties resulted in the realization of an aggregate net gain of \$17.4 million during the nine months ended September 30, 2018. We provided seller financing of \$3.6 million, on the sale of the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA, under two three-and-a-half-year second mortgage notes with a blended interest rate of 7.38%.

On July 21, 2017, we completed the sale of three hotel properties in Fort Worth, TX for an aggregate sales price of \$27.8 million, resulting in a net gain of \$8.1 million during the three and nine months ended September 30, 2017. The proceeds from this sale were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$8.6 million.

On June 2, 2017, we completed the sale of the Courtyard by Marriott in El Paso, TX for \$11.2 million. The sale of this property resulted in the realization of a net gain of \$0.4 million during the nine months ended September 30, 2017.

On April 27, 2017, we completed the sale of seven hotels to Hospitality Investors Trust, Inc. ("HIT") for a total purchase price of \$66.8 million, resulting in a net gain of \$16.0 million during the nine months ended September 30, 2017.

On March 30, 2017, we completed the sale of the Hyatt Place in Atlanta, GA for \$14.5 million and repaid a related mortgage loan totaling \$6.5 million. The sale of this property resulted in the realization of a net gain of \$4.8 million during the nine months ended September 30, 2017.

Dispositions to Affiliates of Hospitality Investors Trust, Inc. (formerly American Realty Capital Hospitality Trust, Inc.)

On June 8, 2015, we entered into multiple sales agreements with affiliates of HIT for the sale of a portfolio of hotels to HIT. The agreements were modified on various occasions between 2015 and 2017 such that we sold 23 hotels containing 2,448 guestrooms to HIT in three tranches over that time period for a combined price of approximately \$325.1 million (collectively, the "HIT Sale") as follows (dollars in thousands):

| Tranche | Closing Date  | Hotels |             |
|---------|---------------|--------|-------------|
|         |               | Sold   | Sales Price |
| 1       | October 2015  | 10     | \$ 150,000  |
| 2       | February 2016 | 6      | 108,300     |
| 3       | April 2017    | 7      | 66,800      |
|         |               | 23     | \$ 325,100  |

In connection with the HIT Sale, the Operating Partnership entered into a loan agreement with HIT, as borrower, which provided for a loan by us to HIT in the amount of \$27.5 million (the "Loan"). The proceeds of the Loan were applied by HIT as follows: (i) \$20.0 million was applied toward the payment of a portion of the \$108.3 million purchase price for six hotels acquired in the second tranche; and (ii) the remaining \$7.5 million was applied by HIT to fund the escrow deposit required for the purchase of hotels in the third tranche. We deferred \$20.0 million of gain from the sale of the hotels in the second tranche as a result of the Loan structure. We recognized the deferred gain as principal payments on the Loan were received, and we recognized the final \$15.0 million of gain when the Loan was

paid in full on March 31, 2017.

11

---

## Hotel Property Acquisitions

A summary of the hotel properties acquired during the nine months ended September 30, 2018 and 2017 is as follows (in thousands):

| Date Acquired                                | Franchise/Brand           | Location                       | Guestrooms | Purchase Price |
|--|---------------------------|--------------------------------|------------|----------------|
| For the nine months ended September 30, 2018 |                           |                                |            |                |
| September 12, 2018                           | Residence Inn by Marriott | Boston (Watertown), MA         | 150        | \$71,000       |
|  |                           |                                | 150        | \$71,000 (1)   |
| For the nine months ended September 30, 2017 |                           |                                |            |                |
| March 1, 2017                                | Homewood Suites           | Aliso Viejo (Laguna Beach), CA | 129        | \$38,000       |
| March 30, 2017                               | Hyatt Place               | Phoenix (Mesa), AZ             | 152        | 22,200         |
| May 23, 2017                                 | Courtyard by Marriott     | Fort Lauderdale, FL            | 261        | 85,000         |
| June 9, 2017                                 | Courtyard by Marriott     | Charlotte, NC                  | 181        | 56,250         |
| June 21, 2017                                | Courtyard by Marriott     | Fort Worth, TX                 | 203        | 40,000         |
| June 21, 2017                                | Courtyard by Marriott     | Kansas City, MO                | 123        | 24,500         |
| June 21, 2017                                | Courtyard by Marriott     | Pittsburgh, PA                 | 182        | 42,000         |
| June 21, 2017                                | Hampton Inn & Suites      | Baltimore, MD                  | 116        | 18,000         |
| June 21, 2017                                | Residence Inn by Marriott | Baltimore, MD                  | 188        | 38,500         |
| July 13, 2017                                | AC Hotel by Marriott      | Atlanta, GA                    | 255        | 57,500         |
|  |                           |                                | 1,790      | \$421,950(2)   |

(1) The net assets acquired totaled \$71.0 million due to the purchase at settlement of \$0.1 million of net working capital liabilities and capitalized transaction costs of \$0.1 million.

(2) The net assets acquired totaled \$424.8 million due to the purchase at settlement of \$0.6 million of net working capital assets and capitalized transaction costs of \$2.2 million.

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

|                                   | For the<br>Nine Months Ended<br>September 30, |           |
|-----------------------------------|---|-----------|
|                                   | 2018  | 2017      |
| Land                              | \$25,083                                      | \$63,339  |
| Hotel buildings and improvements  | 42,676  | 328,395   |
| Intangible assets                 | —   | 16,162    |
| Furniture, fixtures and equipment | 3,300   | 16,294    |
| Other assets                      | 185   | 1,937     |
| Total assets acquired             | 71,244  | 426,127   |
| Less - other liabilities assumed  | (242 )  | (1,354 )  |
| Net assets acquired               | \$71,002                                      | \$424,773 |

All hotel purchases completed in 2018 and 2017 were deemed to be the acquisition of assets. Therefore, acquisition costs related to these transactions have been capitalized as part of the recorded amount of the acquired assets.



The results of operations of acquired hotel properties are included in the Condensed Consolidated Statements of Operations beginning on their respective acquisition dates. The following unaudited pro forma information includes operating results for 77 hotels owned as of September 30, 2018 as if all such hotels had been owned by us since January 1, 2017. For hotels acquired by us after January 1, 2017 (the "Acquired Hotels"), we have included in the pro forma information the financial results of each of the Acquired Hotels for the period from January 1, 2017 to the date the Acquired Hotels were purchased by us (the "Preacquisition Period"). The financial results for the Pre-Acquisition Period were provided by the third-party owner of such Acquired Hotel prior to purchase by us and such information has not been audited or reviewed by our auditors or adjusted by us. For hotels sold by us between January 1, 2017 and September 30, 2018 (the "Disposed Hotels"), the unaudited pro forma information excludes the financial results, including gains on disposal of assets, of each of the Disposed Hotels for the period of ownership by us from January 1, 2017 through the date that the Disposed Hotels were sold by us. The unaudited pro forma information is included to enable comparison of results for the current reporting period to results for the comparable period of the prior year and is not indicative of what actual results of operations would have been had the hotel acquisitions and dispositions taken place on or before January 1, 2017. The pro forma amounts exclude the gain or loss on the sale of hotel properties during the three and nine months ended September 30, 2017 and 2018, respectively. This information does not purport to be indicative of or represent results of operations for future periods.

The unaudited condensed pro forma financial information for the 77 hotel properties owned at September 30, 2018 for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands, except per share):

|  | For the<br>Three Months<br>Ended<br>September 30, |           | For the<br>Nine Months Ended<br>September 30, |           |
|--|---|-----------|---|-----------|
|  | 2018  | 2017      | 2018  | 2017      |
| Revenues   | \$143,609   | \$140,582 | \$424,745                                     | \$414,604 |
| Income from hotel operations   | \$53,423  | \$53,515  | \$158,869                                     | \$158,756 |
| Net income <sup>(1)</sup>  | \$14,142  | \$17,539  | \$43,113                                      | \$64,416  |
| Net income attributable to common stockholders, net of amount allocated to participating securities <sup>(1) (2)</sup> | \$10,280  | \$13,225  | \$26,546                                      | \$51,317  |
| Basic and diluted net income per share attributable to common stockholders <sup>(1) (2)</sup>                          | \$0.10  | \$0.13    | \$0.26  | \$0.52    |

(1) Pro forma amounts include depreciation expense, property tax expense, interest expense, income tax expense, and other corporate expenses totaling \$48.0 million and \$43.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$145.2 million and \$118.5 million for the nine months ended September 30, 2018 and 2017, respectively.

(2) Pro forma amounts for the nine months ended September 30, 2018 include the effect of the premium on redemption of preferred stock of \$3.3 million.

#### Assets Held for Sale

Assets held for sale at September 30, 2018 and December 31, 2017 included land parcels in Spokane, WA and Flagstaff, AZ. The land in Spokane, WA is under contract for sale and is expected to close in the fourth quarter of 2018.

## NOTE 4 - DEBT

At September 30, 2018, our indebtedness was comprised of borrowings under our \$450.0 million senior unsecured revolving credit and term loan facility (described below), the 2018 Term Loan (as defined below), the 2017 Term Loan (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. At December 31, 2017, our indebtedness was comprised of borrowings under our \$450.0 million senior unsecured credit and term loan facility, the 2017 Term Loan (as defined below), the 2015 Term Loan (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. The weighted average interest rate, after giving effect to our interest rate derivatives, for all borrowings was 4.31% at September 30, 2018 and 3.89% at December 31, 2017.

Debt, net of debt issuance costs, is as follows (in thousands):

|                                  | September 30, December 31, |            |
|----------------------------------|----------------------------|------------|
|                                  | 2018                       | 2017       |
| Revolving debt                   | \$ 65,000                  | \$ 15,000  |
| Term loans                       | 600,000                    | 515,000    |
| Mortgage loans                   | 308,962                    | 343,109    |
|                                  | 973,962                    | 873,109    |
| Unamortized debt issuance costs  | (4,816 )                   | (4,873 )   |
| Debt, net of debt issuance costs | \$ 969,146                 | \$ 868,236 |

We have entered into five interest rate swaps to partially fix the interest rates on a portion of our variable interest rate unsecured indebtedness and term loans. See "Note 5- Derivative Financial Instruments and Hedging" to the Condensed Consolidated Financial Statements for additional information. Our total fixed-rate and variable-rate debt, after considering our interest rate derivative agreements that are currently effective, is as follows (in thousands):

|                    | September 30, (1) Percentage |     | December 31, Percentage |     |
|--------------------|------------------------------|-----|-------------------------|-----|
|                    | 2018                         |     | 2017                    |     |
| Fixed-rate debt    | \$ 627,833                   | 64% | \$ 386,313              | 44% |
| Variable-rate debt | 346,129                      | 36% | 486,796                 | 56% |
|                    | \$ 973,962                   |     | \$ 873,109              |     |

(1) Excludes the effect of a \$125 million interest rate swap agreement that becomes effective December 31, 2018.

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

|                 | September 30, 2018 |            | December 31, 2017 |            |                           |
|-----------------|--------------------|------------|-------------------|------------|---------------------------|
|                 | Carrying Value     | Fair Value | Carrying Value    | Fair Value | Valuation Technique       |
| Fixed-rate debt | \$277,833          | \$272,177  | \$311,313         | \$310,535  | Level 2 - Market approach |

At September 30, 2018 and December 31, 2017, we had \$350.0 million and \$75.0 million, respectively, of debt with variable interest rates that had 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 as a result of changes in the current market rate of interest on the valuation date. For additional information on our use of derivatives as interest rate hedges, refer to "Note 5 — Derivative Financial Instruments and Hedging."



## \$450 Million Senior Unsecured Credit and Term Loan Facility

On January 15, 2016, the Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the loan documentation as a subsidiary guarantor, entered into a \$450.0 million senior unsecured revolving credit and term loan facility (the "2016 Unsecured Credit Facility"). The 2016 Unsecured Credit Facility is comprised of a \$300.0 million revolving credit facility (the "\$300 Million Revolver") and a \$150.0 million term loan (the "\$150 Million Term Loan"). At September 30, 2018, the maximum amount of borrowing provided by the 2016 Unsecured Credit Facility was \$450.0 million, of which we had borrowed \$150.0 million under the \$150 Million Term Loan and \$65.0 million under the \$300 Million Revolver and we had \$235.0 million available to borrow.

The 2016 Unsecured Credit Facility has an accordion feature which will allow the Company to increase the total commitments by an aggregate of up to \$150.0 million. The \$300 Million Revolver will mature on March 31, 2020 and can be extended to March 31, 2021 at the Company's option, subject to certain conditions. The \$150 Million Term Loan will mature on March 31, 2021.

The Company pays interest on revolving credit advances at varying rates based upon, at the Company's option, either (i) 1-, 2-, 3- or 6-month LIBOR, plus a margin of between 1.50% and 2.25%, depending upon the Company's leverage ratio (as defined in the 2016 Unsecured Credit Facility agreement), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin of between 0.50% and 1.25%, depending upon the Company's leverage ratio. The interest rate at September 30, 2018 was 4.06%.

**Financial and Other Covenants.** We are required to comply with a series of financial and other covenants to borrow under this credit facility. At September 30, 2018, we were in compliance with all required covenants.

**Unencumbered Assets.** The 2016 Unsecured Credit Facility is unsecured. However, borrowings under the 2016 Unsecured Credit Facility are limited by the value of hotel assets that qualify as unencumbered assets. At September 30, 2018, the Company had 47 unencumbered hotel properties (the "Unencumbered Properties") supporting the 2016 Unsecured Credit Facility. In addition, the Company has one other hotel with a total of 150 guestrooms unencumbered by mortgage debt that is available to be used as collateral for future loans.

## Unsecured Term Loans

### 2018 Term Loan

On February 15, 2018, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a new \$225.0 million unsecured term loan (the "2018 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation. The 2018 Term Loan has an accordion feature that allows us to increase the total commitments by \$150.0 million prior to the maturity date of February 14, 2025, subject to certain conditions. At closing, we drew \$140.0 million of the \$225.0 million available under the 2018 Term Loan and used the proceeds to pay off and replace the 2015 Term Loan. On May 16, 2018, we drew the remaining \$85.0 million available under the 2018 Term Loan and used the proceeds to pay down the \$300 Million Revolver.

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.80% and 2.55%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.80% and 1.55%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2018 was 4.31%.

**Financial and Other Covenants.** We are required to comply with a series of financial and other covenants to draw and maintain borrowings under the 2018 Term Loan. At September 30, 2018, we were in compliance with all financial covenants.

**Unencumbered Assets.** The 2018 Term Loan is unsecured. However, borrowings under the term loan are limited by the value of the assets that qualify as unencumbered assets. At September 30, 2018, the Unencumbered Properties also supported the 2018 Term Loan.

### 2017 Term Loan

On September 26, 2017, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a \$225.0 million unsecured term loan (the "2017 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation.

The 2017 Term Loan has an accordion feature which allows us to increase the total commitments by an aggregate of \$175.0 million prior to the maturity date, subject to certain conditions. The 2017 Term Loan matures on November 25, 2022.

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.45% and 2.20%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.45% and 1.20%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2018 was 4.01%.

**Financial and Other Covenants.** We are required to comply with a series of financial and other covenants to draw and maintain borrowings under the 2017 Term Loan. At September 30, 2018 we were in compliance with all financial covenants.

**Unencumbered Assets.** The 2017 Term Loan is unsecured. However, borrowings under the term loan are limited by the value of the assets that qualify as unencumbered assets. At September 30, 2018, the Unencumbered Properties also supported the 2017 Term Loan.

### 2015 Term Loan

On April 7, 2015, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into an unsecured term loan (the "2015 Term Loan"), with an original principal amount of \$125.0 million, that was later increased to \$140.0 million, upon exercise of an accordion feature.

On February 15, 2018, we repaid the \$140.0 million outstanding balance with funds received from the 2018 Term Loan.

### Metabank Loan

On June 30, 2017, we entered into a \$47.6 million secured, non-recourse loan with MetaBank (the "MetaBank Loan"). As of December 31, 2017, we had drawn the entire \$47.6 million balance available under the loan and used the proceeds to pay down the principal balance of our \$300 Million Revolver. The MetaBank Loan provides for a fixed interest rate of 4.44% and interest-only payments for 18 months following the closing date. After this 18 month period, the loan is amortized over 25-years through the maturity date of July 1, 2027. The MetaBank Loan is secured by the Residence Inn in Salt Lake City, UT, the Four Points by Sheraton Hotel & Suites in South San Francisco, CA, and the Hyatt Place in Mesa, AZ.

### Mortgage and Term Loans

On April 2, 2018, we repaid four mortgage loans with Western Alliance Bank totaling \$23.9 million that had a blended interest rate of 5.39%. There were no prepayment penalties associated with the repayment of these loans. The

properties that secured the mortgage loans are now unencumbered and have been added to our unencumbered pool to support our 2016 Unsecured Credit Facility, 2017 Term Loan and 2018 Term Loan.

At September 30, 2018, we had \$909.0 million in secured mortgage loans and unsecured term loans outstanding (including the 2018 Term Loan, the 2017 Term Loan, and the \$150 Million Term Loan). Term loans totaling \$309.0 million, including the Metabank Loan, are secured primarily by first mortgage liens on certain hotel properties.

## NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Information about our derivative financial instruments at September 30, 2018 and December 31, 2017 is as follows (dollars in thousands):

| Contract date     | Effective Date     | Expiration Date    | Notional Amount         |                         | Fair Value         |                   |
|-------------------|--------------------|--------------------|-------------------------|-------------------------|--------------------|-------------------|
|                   |                    |                    | September 30, 2018      | December 31, 2017       | September 30, 2018 | December 31, 2017 |
| September 5, 2013 | January 2, 2014    | October 1, 2018    | \$75,000 <sup>(1)</sup> | \$75,000 <sup>(1)</sup> | \$—                | \$(190 )          |
| October 2, 2017   | January 29, 2018   | January 31, 2023   | 100,000 <sup>(2)</sup>  | 100,000                 | 3,707              | 722               |
| October 2, 2017   | January 29, 2018   | January 31, 2023   | 100,000 <sup>(2)</sup>  | 100,000                 | 3,779              | 787               |
| June 11, 2018     | September 28, 2018 | September 30, 2024 | 75,000 <sup>(3)</sup>   | —                       | 180                | —                 |
| June 11, 2018     | December 31, 2018  | December 31, 2025  | 125,000 <sup>(4)</sup>  | —                       | 254                | —                 |
|                   |                    |                    | \$475,000               | \$275,000               | \$7,920            | \$1,319           |

- (1) Interest rate swap is related to a portion of our 2016 Unsecured Credit Facility and converts LIBOR from a floating rate to an average annual fixed rate of 2.04%.
- (2) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 1.98%.
- (3) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.87%.
- (4) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.93%.

Our interest rate swaps have been designated as cash flow hedges and are valued using a market approach, which is a Level 2 valuation technique. At September 30, 2018, all of our interest rate swaps were in an asset position. At December 31, 2017, two of our interest rate swaps were in an asset position and one was in a liability position. We are not required to post any collateral related to these agreements and are not in breach of any financial provisions of the agreements.

Changes in the fair value of the hedging instruments are deferred in Other comprehensive income and are reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings. In the next twelve months, we estimate that \$0.9 million will be reclassified from Other comprehensive income and recorded as a reduction to Interest expense.

The table below details the location in the financial statements of the gain or loss recognized on derivative financial instruments designated as cash flow hedges (in thousands):

|   | For the<br>Three Months<br>Ended<br>September 30,<br>2018 |         | For the<br>Nine Months<br>Ended<br>September 30,<br>2017 |         |
|---|---|---------|--|---------|
| Gain recognized in Other comprehensive income on derivative financial instruments | \$2,555   | \$2     | \$6,401  | \$92    |
| Gain (loss) reclassified from Other comprehensive income to Interest expense      | \$60  | \$(155) | \$(200 )   | \$(588) |

## NOTE 6 - EQUITY

Common Stock



The Company is authorized to issue up to 500,000,000 shares of common stock, \$0.01 par value per share. Each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as may be provided with respect to any other class or series of stock, the holders of such shares possess the exclusive voting power.

On May 9, 2017, the Company and the Operating Partnership entered into an underwriting agreement relating to the issuance and sale of 9,000,000 shares of the Company’s common stock, \$0.01 par value per share, at a public offering price of \$16.50 per share, less an underwriting discount of \$0.66 per share. Pursuant to the terms of the underwriting agreement, the Company granted the underwriters a 30-day option to purchase up to an additional 1,350,000 shares of common stock on the same terms, which the underwriters exercised in full on May 10, 2017. The closing of the offering occurred on May 15, 2017 for net proceeds of \$163.8 million, after the underwriting discount and offering-related expenses of \$7.0 million.

On May 25, 2017, the Company filed a prospectus supplement to sell up to \$200.0 million in common shares under a new “at the market” offering program (the “2017 ATM program”). At the same time, the Company terminated its prior ATM program. To date, we have not sold any shares of our common stock under the 2017 ATM Program.

Changes in common stock during the nine months ended September 30, 2018 and 2017 were as follows:

|   | For the<br>Nine Months Ended<br>September 30, |             |
|---|---|-------------|
|   | 2018  | 2017        |
| Beginning common shares outstanding                       | 104,287,128                                   | 93,525,469  |
| Stock offering  | —   | 10,350,000  |
| Grants under the Equity Plan                              | 583,738                                       | 366,679     |
| Common Unit redemptions                                   | 25,839  | 52,808      |
| Annual grants to independent directors                    | 34,130  | 28,426      |
| Common stock issued for director fees                     | 3,543   | 3,553       |
| Forfeitures   | (818  | ) (1,237    |
| Shares retained for employee tax withholding requirements | (187,850                                      | ) (59,111   |
| Ending common shares outstanding                          | 104,745,710                                   | 104,266,587 |

#### Preferred Stock

The Company is authorized to issue up to 100,000,000 shares of preferred stock, \$0.01 par value per share, of which 90,600,000 is currently undesignated, 3,000,000 shares have been designated as 6.45% Series D Cumulative Redeemable Preferred Stock (the "Series D preferred shares") and 6,400,000 shares have been designated as 6.25% Series E Cumulative Redeemable Preferred Stock (the "Series E preferred shares").

On March 20, 2018, the Company paid \$85.3 million to redeem all 3,400,000 of its outstanding 7.125% Series C Cumulative Redeemable Preferred Stock at a redemption price of \$25 per share plus accrued and unpaid dividends.

The Company's outstanding shares of preferred stock (collectively, “Preferred Shares”) rank senior to our common stock and on parity with each other with respect to the payment of dividends and distributions of assets in the event of a liquidation, dissolution, or winding up. The Preferred Shares do not have any maturity date and are not subject to mandatory redemption or sinking fund requirements. The Company may not redeem the Series D or Series E preferred shares prior to June 28, 2021 and November 13, 2022, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or in connection with certain changes in control. After those dates, the Company may, at its option, redeem the applicable Preferred Shares, in whole or from time to time in part, by payment of \$25 per share, plus any accumulated, accrued and unpaid distributions up to, but not including, the date of redemption. If the Company does not exercise its rights to redeem the Preferred Shares upon certain changes in control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each Series D preferred share is 3.9216 shares of common stock and each Series E preferred share is 3.1686

shares of common stock, all subject to certain adjustments.

The Company pays dividends at an annual rate of \$1.6125 for each Series D preferred share and \$1.5625 for each Series E preferred share. Dividend payments are made quarterly in arrears on or about the last day of February, May, August and November of each year.

18

---

## Non-controlling Interests in Operating Partnership

Pursuant to the limited partnership agreement of our Operating Partnership, the unaffiliated third parties who hold common units of limited partnership interest ("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; however, the Company has the option to redeem Common Units with 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.

At September 30, 2018 and December 31, 2017, unaffiliated third parties owned 297,552 and 323,391 Common Units of the Operating Partnership, respectively, representing less than a 1% limited partnership interest in the Operating Partnership for each period.

We classify outstanding Common Units held by unaffiliated third parties as non-controlling interests in the Operating Partnership, a component of equity in the Company's Condensed Consolidated Balance Sheets. The portion of net income allocated to these Common Units is reported on the Company's Condensed Consolidated Statement of Operations as net income attributable to non-controlling interests of the Operating Partnership.

## NOTE 7 - FAIR VALUE MEASUREMENT

The following table presents information about our financial instruments measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, we classify assets and liabilities based on the lowest level of input that is significant to the fair value measurement. 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.

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

|   | Fair Value Measurements at<br>September 30, 2018 using |          |          |
|---|--|----------|----------|
|   | Level 2  | Level 3  | Total    |
| Assets:   |  |          |          |
| Interest rate swaps                                   | \$ —   | \$ 7,920 | \$ 7,920 |
| Purchase options related to real estate loans         | —  | 6,120    | 6,120    |
| Fair Value Measurements at<br>December 31, 2017 using |  |          |          |
|   | Level 2  | Level 3  | Total    |
| Assets:   |  |          |          |
| Interest rate swaps                                   | \$ —   | \$ 1,509 | \$ 1,509 |
| Purchase options related to real estate loans         | —  | 6,078    | 6,078    |
| Liabilities:  |  |          |          |
| Interest rate swaps                                   | —  | 190      | 190      |

We are a mezzanine lender on three construction loans to fund up to an aggregate of \$29.6 million for the development of three hotel properties. The three real estate loans closed in the fourth quarter of 2017 and each has a stated interest rate of 8% and an initial term of approximately three years. As of September 30, 2018, we have funded the full amount of \$29.6 million. We have separate options related to each loan (each the "Initial Option") to purchase a 90% interest in each joint venture that owns the respective hotel upon completion of construction. We also have the

right to purchase the remaining interests in each joint venture at future dates, generally five years after we exercise our Initial Option. We have recorded the aggregate estimated fair values of the Initial Options totaling \$6.1 million in Other assets and as a discount to the related real estate loans. The discount will be amortized as a component of interest income over the term of the real estate loans using the straight-line method, which approximates the interest method. We recorded amortization of the discount of \$0.5 million during the three months ended September 30, 2018 and \$1.5 million during the nine months ended September 30, 2018.

Our purchase options do not have readily determinable fair values. The fair value of each purchase option was estimated using a binomial lattice model. The estimated fair values of the purchase options were based on unobservable inputs for which there is little or no market information available and required us to develop our own assumptions as follows (dollar amounts in thousands):

|   | Real Estate<br>Loan 1 | Real<br>Estate<br>Loan 2 | Real<br>Estate<br>Loan 3 |   |  |  |
|---|-----------------------|--------------------------|--------------------------|---|--|--|
| Exercise price                            | \$ 15,143             | \$ 17,377                | \$ 5,503                 |   |  |  |
| First option exercise date                | 12/31/2018            | 3/31/2019                | 5/31/2019                |   |  |  |
| Last option exercise date                 | 11/1/2020             | 12/5/2020                | 12/1/2020                |   |  |  |
| Expected volatility                       | 32.0                  | % 38.0                   | % 37.0                   | % |  |  |
| Risk free rate                            | 1.7                   | % 1.8                    | % 1.9                    | % |  |  |
| Expected annualized equity dividend yield | 6.8                   | % 9.9                    | % 6.5                    | % |  |  |

#### NOTE 8 - COMMITMENTS AND CONTINGENCIES

##### Restricted Cash

The Company maintains reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at some of our hotel properties in accordance with management, franchise or mortgage loan agreements. These agreements generally require us to reserve cash ranging from 3% to 5% of the revenues of the individual hotel in restricted cash escrow accounts. Any unused restricted cash balances revert to us upon the termination of the underlying agreement or may be released to us from the restricted cash escrow accounts upon proof of expenditures and approval from the lender or other party requiring the restricted cash reserves. At September 30, 2018 and December 31, 2017, approximately \$31.6 million and \$29.5 million, respectively, was available in restricted cash reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at our hotel properties.

##### Ground Leases

At September 30, 2018 and December 31, 2017, we had two prepaid ground leases for two hotel properties in Portland, OR which expire in June 2084. These ground leases had prepaid balances of approximately \$3.2 million at both September 30, 2018 and December 31, 2017. We have one option to extend these leases for an additional 14 years. We lease land for one hotel property in Houston (Galleria Area), TX under the terms of an operating ground lease agreement with an initial termination date of April 20, 2053 and one option to extend for an additional 10 years. We lease land for one hotel property in Austin, TX with an initial lease termination date of May 31, 2050. We lease land for one hotel property in Baltimore (Hunt Valley), MD with a lease termination date of December 31, 2019 and twelve remaining options to extend for five additional years per extension. At December 31, 2017, we had an additional ground lease for one hotel property in Duluth, GA. The hotel property was sold on June 29, 2018 and the ground lease was transferred to the buyer. See "Note 3 - Investment in Hotel Properties, net" to the Condensed Consolidated Financial Statements for additional information.

Total rent expense for ground leases for each of the three months ended September 30, 2018 and 2017 was \$0.4 million. Total rent expense for ground leases for each of the nine months ended September 30, 2018 and 2017 was \$1.3 million.

In addition, we lease land for one hotel property in Garden City, NY under a PILOT (payment in lieu of taxes) lease. We pay a reduced amount of property tax each year of the lease as rent. The lease expires on December 31, 2019.

Upon expiration of the lease, we expect to exercise our right to acquire a fee simple interest in the hotel for nominal consideration.

#### Franchise Agreements

During the three months ended September 30, 2018 and 2017, we expensed fees related to our franchise agreements of \$11.7 million and \$11.4 million, respectively. During the nine months ended September 30, 2018 and 2017, we expensed fees related to our franchise agreements of \$36.2 million and \$30.8 million, respectively.

## Management Agreements

Our hotel properties operate pursuant to management agreements with various professional third-party management companies. We pay base management fees that are a percentage of gross room revenues and incentive management fees based on achievement of certain financial targets pursuant to contracts that generally have remaining terms of less than five years.

## Litigation

We are involved from time to time in litigation arising in the ordinary course of business. There are currently no pending legal actions that we believe would have a material effect on our financial position or results of operations.

## NOTE 9 - EQUITY-BASED COMPENSATION

Our currently outstanding equity-based awards were issued under the Equity Plan which provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other equity-based awards or incentive awards.

Stock options granted may be either incentive stock options or non-qualified 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 outstanding equity-based awards are classified as equity awards.

The Company's former Chief Financial Officer retired on March 31, 2018. In connection with his retirement, the Company recorded \$1.0 million of additional stock-based compensation expense during the nine months ended September 30, 2018 related to the modification of certain stock award agreements.

### Stock Options Granted Under our Equity Plan

As of September 30, 2018, we had 235,000 outstanding and exercisable stock options with a weighted average exercise price of \$9.75 per share, weighted average contractual term of 2.4 years and an aggregate intrinsic value of \$0.9 million.

### Time-Based Restricted Stock Awards Made Pursuant to Our Equity Plan

The following table summarizes time-based restricted stock award activity under our Equity Plan for the nine months ended September 30, 2018:

|                                  | Number<br>of Shares | Weighted Average<br>Grant Date<br>Fair Value<br>(per share) | Aggregate<br>Current Value<br>(in thousands) |
|----------------------------------|---------------------|---|--|
| Non-vested at December 31, 2017  | 391,477             | \$ 13.52  | \$ 5,962                                     |
| Granted                          | 185,930             | 13.15   |  |
| Vested                           | (205,619)           | 13.41   |  |
| Forfeited                        | (818 )              | 12.84   |  |
| Non-vested at September 30, 2018 | 370,970             | \$ 13.40  | \$ 5,019                                     |

The awards granted to our non-executive employees generally vest over a four-year period based on continuous service (20% on the first, second and third anniversary of the grant date and 40% on the fourth anniversary of the



grant date).

The awards granted to our executive officers generally vest over a three-year period based on continuous service (25% on the first and second anniversary of the grant date and 50% on the third anniversary of the grant date) or in certain circumstances upon a change in control.

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 of our common stock on the date of grant.

## Performance-Based Restricted Stock Awards Made Pursuant to Our Equity Plan

The following table summarizes performance-based restricted stock activity under the Equity Plan for the nine months ended September 30, 2018:

|                                  | Number<br>of Shares | Weighted Average<br>Grant Date<br>Fair Value (1)<br>(per share) | Aggregate<br>Current Value<br>(in thousands) |
|----------------------------------|---------------------|---|--|
| Non-vested at December 31, 2017  | 619,429             | \$ 16.16  | \$ 9,434                                     |
| Granted                          | 397,808             | 15.69   |  |
| Vested                           | (309,010)           | 18.78   |  |
| Non-vested at September 30, 2018 | 708,227             | \$ 14.75  | \$ 9,582                                     |

(1) The amounts included in this column represent the expected future value of the performance-based restricted stock awards calculated using the Monte Carlo simulation valuation model.

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. The fair value of the performance-based restricted stock awards granted was estimated using a Monte Carlo simulation valuation model. These awards generally vest over a three-year period based on our percentile ranking within the SNL U.S. REIT Hotel Index at the end of the period or upon a change in control. The awards require continued service during the measurement period and are subject to the other conditions described in the Equity Plan or award document.

The number of shares the executive officers may earn under these awards range from zero shares to twice the number of shares granted based on our percentile ranking within the index at the end of the measurement period. In addition, a portion of the performance-based shares may be earned based on the Company's absolute total shareholder return calculated during the performance period. The holders of these grants have the right to vote the granted shares of common stock and any dividends declared will be accumulated and will be subject to the same vesting conditions as the awards. Further, if additional shares are earned based on our percentile ranking within the index, dividend payments will be issued as if the additional shares had been held throughout the measurement period.

## Equity-Based Compensation Expense

Equity-based compensation expense included in Corporate general and administrative expenses in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 was as follows (in thousands):

|                                    | For the<br>Three Months<br>Ended<br>September 30,<br>2018 |         | For the<br>Nine Months<br>Ended<br>September 30,<br>2017 |         |
|------------------------------------|---|---------|--|---------|
| Time-based restricted stock        | \$518   | \$541   | \$1,870  | \$1,607 |
| Performance-based restricted stock | 784   | 849     | 2,943  | 2,333   |
| Director stock                     | 17  | 99      | 554  | 543     |
|                                    | \$1,319   | \$1,489 | \$5,367  | \$4,483 |

We recognize equity-based compensation expense ratably over the vesting periods. The amount of expense may be subject to adjustment in future periods due to a change in the forfeiture assumptions.

Unrecognized equity-based compensation expense for all non-vested awards pursuant to our Equity Plan was \$7.9 million at September 30, 2018 and will be recorded as follows (in thousands):

|                                    | Total   | 2018    | 2019    | 2020    | 2021  | 2022 |
|------------------------------------|---------|---------|---------|---------|-------|------|
| Time-based restricted stock        | \$3,310 | \$518   | \$1,617 | \$957   | \$205 | \$13 |
| Performance-based restricted stock | 4,577   | 784     | 2,320   | 1,287   | 186   | —    |
|                                    | \$7,887 | \$1,302 | \$3,937 | \$2,244 | \$391 | \$13 |

#### NOTE 10 - INCOME TAXES

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the "TCJA"), was enacted. The TCJA made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Pursuant to this legislation, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37% (through taxable years ending in 2025), (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. stockholders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not "capital gain dividends" or "qualified dividend income," subject to certain limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years ending in 2025). The maximum rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. The reduced corporate tax rate will apply to our TRS and any other TRS that we form.

The reduced 21% federal income tax rate applicable to corporations will apply to taxable earnings reported for the full 2018 fiscal year. Accordingly, the Company remeasured its net deferred tax assets as a result of the TCJA at December 31, 2017 using the lower federal tax rate that will apply when these amounts are expected to reverse. At September 30, 2018, we have completed our accounting for all the enactment-date income tax effects of the act under ASC 740, Income Taxes. No subsequent adjustments have been necessary.

Income taxes for the interim periods presented have been included in our Condensed Consolidated Financial Statements on the basis of an estimated annual effective tax rate. Our effective tax rate is affected by the mix of earnings and losses by taxing jurisdictions. Our earnings, other than from our TRS, are not generally subject to federal and state corporate income taxes due to our REIT election, provided that we distribute 100% of our taxable income to our shareholders. However, there are a limited number of local and state jurisdictions that tax the taxable income of the Operating Partnership. Accordingly, we provide for income taxes in these jurisdictions for the Operating Partnership.

We recorded an income tax benefit of \$0.5 million and \$0.2 million for the three months ended September 30, 2018 and 2017, respectively. We recorded an income tax benefit of \$0.1 million for the nine months ended September 30, 2018 and an income tax expense related to net income from continuing operations of \$0.6 million for the nine months ended September 30, 2017. The Company had deferred tax assets of \$2.4 million and \$1.6 million at September 30, 2018 and December 31, 2017, respectively.

We had no unrecognized tax benefits at September 30, 2018. We expect no significant changes in unrecognized tax benefits within the next year.

#### NOTE 11 - EARNINGS PER SHARE

We apply the two-class method of computing earnings per share, which requires the calculation of separate earnings per share amounts for our non-vested time-based restricted stock awards with non-forfeitable dividends and for our common stock. Our non-vested time-based restricted stock awards with non-forfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. Under the two-class computation method, net losses are not allocated to participating securities unless the holder of the security has a contractual obligation to share in the losses. Our non-vested time-based restricted stock awards with non-forfeitable dividends do not have such an obligation so they are not allocated losses.



Below is a summary of the components used to calculate basic and diluted earnings per share (in thousands, except per share):

|   | For the<br>Three Months<br>Ended<br>September 30,<br>2018 |          | For the<br>Nine Months<br>Ended<br>September 30,<br>2017 |           |
|---|---|----------|--|-----------|
| Numerator:  |   |          |  |           |
| Net income  | \$38,001  | \$22,445 | \$85,369   | \$89,734  |
| Less: Preferred dividends   | (3,710 )  | (4,200 ) | (12,962 )  | (12,600 ) |
| Premium on redemption of preferred stock  | —   | —        | (3,277 )   | —         |
| Allocation to participating securities  | (122 )  | (69 )    | (249 )   | (305 )    |
| Attributable to non-controlling interest  | (100 )  | (55 )    | (204 )   | (289 )    |
| Net income attributable to common stockholders, net of amount allocated to participating securities | \$34,069  | \$18,121 | \$68,677   | \$76,540  |
| Denominator:  |   |          |  |           |
| Weighted average common shares outstanding - basic  | 103,666   | 103,253  | 103,603  | 98,105    |
| Dilutive effect of equity-based compensation awards   | 155   | 379      | 265  | 366       |
| Weighted average common shares outstanding - diluted  | 103,821   | 103,632  | 103,868  | 98,471    |
| Earnings per share:   |   |          |  |           |
| Basic   | \$0.33  | \$0.18   | \$0.66   | \$0.78    |
| Diluted   | \$0.33  | \$0.17   | \$0.66   | \$0.78    |

All outstanding stock options were included in the computation of diluted earnings per share for the three and nine months ended September 30, 2018 and 2017 due to their dilutive effect. The Common Units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income would also be added to derive net income attributable to common stockholders. We had unvested performance-based restricted stock awards of 453,664 shares for the three and nine months ended September 30, 2018 and 464,924 shares for the three and nine months ended September 30, 2017, which were excluded from the denominator of the diluted earnings per share as the awards had not achieved the requisite performance conditions for vesting at each period end.

#### NOTE 12 - SUBSEQUENT EVENTS

##### Dividends

On October 26, 2018, our Board of Directors declared cash dividends of \$0.18 per share of common stock, \$0.403125 per share of 6.45% Series D Cumulative Redeemable Preferred Stock, and \$0.390625 per share of 6.25% Series E Cumulative Redeemable Preferred Stock. These dividends are payable November 30, 2018 to stockholders of record on November 16, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2017 and our unaudited interim Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Unless stated otherwise or the context otherwise requires, references in this report to "we," "our," "us," "our company" or "the company" mean Summit Hotel Properties, Inc. and its consolidated subsidiaries.

Cautionary Statement about Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "forecast," "project," "continue," "likely," "will," "would" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- financing risks, including the risk of leverage and the corresponding risk of default on our existing indebtedness and potential inability to refinance or extend the maturities of our existing indebtedness as well as the risk of default by borrowers to which we lend or provide seller financing;
- global, national, regional and local economic and geopolitical conditions;
- levels of spending for business and leisure travel, as well as consumer confidence;
- supply and demand factors in our markets or sub-markets;
- adverse changes in, or declining rates of growth with respect to, occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR") and other hotel operating metrics;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
- financial condition of, and our relationships with, third-party property managers and franchisors;
- the degree and nature of our competition;
- increased interest rates;
- increased operating costs;
- increased renovation costs, which may cause actual renovation costs to exceed our current estimates;
- changes in zoning laws and increases in real property taxes;
- risks associated with hotel acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history or that require substantial amounts of capital improvements for us to earn stabilized economic returns consistent with our expectations at the time of acquisition, and risks associated with dispositions of hotel properties, including our ability to successfully complete the sale of hotel properties under contract to be sold, including the risk that the purchaser may not have access to the capital needed to complete the purchase;
- the nature of our structure and transactions such that our federal and state taxes are complex and there is risk of successful challenges to our tax positions by the Internal Revenue Service ("IRS") or other federal and state taxing

authorities;

the recognition of taxable gains from the sale of hotel properties as a result of the inability to complete certain like-kind exchanges in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the "IRC");

availability of and our ability to retain qualified personnel;

our failure to maintain our qualification as a real estate investment trust ("REIT") under the IRC;

changes in our business or investment strategy;

availability, terms and deployment of capital;

general volatility of the capital markets and the market price of our common stock;

environmental uncertainties and risks related to natural disasters;

our ability to recover fully under our existing insurance policies for insurable losses and our ability to maintain

adequate or full replacement cost "all-risk" property insurance policies on our properties on commercially reasonable terms;

25

---



the effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks beyond insurance coverages or indemnities from service providers;  
 current and future changes to the IRC; and  
 the other factors discussed under the heading "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

#### Overview

Summit Hotel Properties, Inc. is a self-managed hotel investment company that was organized in June 2010 and completed its initial public offering in February 2011. We focus on owning primarily premium-branded, select-service hotels. At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms located in 26 states. We own our hotels in fee simple, except for six hotels, five of which are subject to ground leases and one of which is subject to a PILOT (payment in lieu of taxes) lease. Our hotels are typically located in markets with multiple demand generators such as corporate offices and headquarters, retail centers, airports, state capitols, convention centers, and leisure attractions.

The vast majority of our hotels operate under premium franchise brands owned by Marriott® International, Inc. ("Marriott"), Hilton® Worldwide ("Hilton"), Hyatt® Hotels Corporation ("Hyatt") and InterContinental® Hotels Group ("IHG").

We have elected to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2011. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, all of our hotels are leased to wholly-owned subsidiaries (our "TRS lessees") of Summit Hotel TRS, Inc., our taxable REIT subsidiary. All of our hotels are operated pursuant to hotel management agreements between our TRS lessees and professional third-party hotel management companies that are not affiliated with us as follows:

| Management Company   | Number of Properties | Number of Guestrooms |
|--|----------------------|----------------------|
| Interstate Management Company, LLC and its affiliate Noble Management Group, LLC   | 33                   | 4,734                |
| OTO Development, LLC   | 13                   | 1,797                |
| Select Hotels Group, LLC, an affiliate of Hyatt  | 9                    | 1,322                |
| Affiliates of Marriott, including Courtyard Management Corporation, SpringHill SMC Corporation and Residence Inn by Marriott, Inc. | 7                    | 1,176                |
| Stonebridge Realty Advisors, Inc.  | 5                    | 755                  |
| White Lodging Services Corporation   | 4                    | 791                  |
| American Liberty Hospitality, Inc.   | 2                    | 372                  |
| Aimbridge Hospitality  | 2                    | 199                  |
| Fillmore Hospitality   | 1                    | 261                  |
| Intercontinental Hotel Group Resources, Inc., an affiliate of IHG  | 1                    | 252                  |
| Total  | 77                   | 11,659               |

Our typical hotel management agreement requires us to pay a base fee to our hotel manager calculated as a percentage of hotel revenues. In addition, our hotel management agreements generally provide that the hotel manager can earn an incentive fee for revenue or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") over certain thresholds or based on a return over our required preferred return. Our TRS lessees may employ other hotel managers

in the future. We do not, and will not, have any ownership or economic interest in any of the hotel management companies engaged by our TRS lessees.

Our revenues are derived from hotel operations and consist of room revenue, food and beverage revenue and other hotel operations revenue. Revenues from our other hotel operations consist of ancillary revenues related to meeting rooms and other customer services provided at certain of our hotel properties.

## Industry Trends and Outlook

Room-night demand in the U.S. lodging industry is generally correlated to macroeconomic trends. Key drivers of demand include growth in gross domestic product, corporate profits, capital investments and employment. Volatility in the economy and lodging demand and risks arising from global and domestic political or economic conditions may cause economic growth to slow or stall. Also, increasing supply in the industry, and specifically in our markets or sub-markets, may reduce RevPAR growth expectations.

According to the PricewaterhouseCoopers, LLP industry report, "Hospitality Directions: August 2018," RevPAR growth in the U.S. for Upscale hotels (the Smith Travel Research segment in which the majority of our hotel properties are included) is forecasted to be 2.4% for 2018. We continue to have a positive outlook on national macroeconomic conditions and their potential effects on RevPAR growth. We are encouraged by the relative strength of leisure demand and some of the more recent positive indicators suggesting improved business travel conditions. However, the industry and the Upscale chain scale in particular, experienced a deceleration in RevPAR growth in 2017, based in part on slower corporate demand growth and accelerating supply growth. These trends have continued throughout 2018 as room starts have increased and industry demand growth has moderated.

## Our Hotel Property Portfolio

At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms. According to current chain scales as defined by STR, Inc., two of our hotel properties with 280 guestrooms are categorized as Upper-upscale hotels, 61 of our hotel properties with 9,480 guestrooms are categorized as Upscale hotels and 14 of our hotel properties with 1,899 guestrooms are categorized as Upper-midscale hotels. Information about our hotel properties as of September 30, 2018 is as follows:

| Franchise/Brand                    | Number of Hotel Properties | Number of Guestrooms |
|------------------------------------|----------------------------|----------------------|
| Marriott                           |                            |                      |
| Courtyard by Marriott              | 15                         | 2,760                |
| Residence Inn by Marriott          | 10                         | 1,445                |
| SpringHill Suites by Marriott      | 6                          | 874                  |
| AC Hotel by Marriott               | 1                          | 255                  |
| Fairfield Inn & Suites by Marriott | 1                          | 140                  |
| Four Points by Sheraton            | 1                          | 101                  |
| Marriott                           | 1                          | 165                  |
| Total Marriott                     | 35                         | 5,740                |
| Hilton                             |                            |                      |
| Hampton Inn & Suites               | 7                          | 1,044                |
| Hilton Garden Inn                  | 7                          | 962                  |
| Hampton Inn                        | 2                          | 240                  |
| Homewood Suites                    | 2                          | 251                  |
| DoubleTree by Hilton               | 1                          | 210                  |
| Total Hilton                       | 19                         | 2,707                |
| Hyatt                              |                            |                      |
| Hyatt Place                        | 14                         | 2,035                |
| Hyatt House                        | 3                          | 466                  |
| Total Hyatt                        | 17                         | 2,501                |
| IHG                                |                            |                      |
| Holiday Inn Express & Suites       | 2                          | 345                  |
| Holiday Inn Express                | 1                          | 66                   |
| Hotel Indigo                       | 1                          | 115                  |
| Staybridge Suites                  | 1                          | 121                  |
| Total IHG                          | 5                          | 647                  |
| Carlson                            |                            |                      |
| Country Inn & Suites by Carlson    | 1                          | 64                   |
| Total                              | 77                         | 11,659               |

## Hotel Property Portfolio Activity

We continuously consider ways in which to refine our portfolio of properties to drive growth and create value. In the normal course of business, we evaluate opportunities to acquire additional properties that meet our investment criteria and opportunities to recycle capital through the disposition of properties. As such, the composition and size of our portfolio of properties may change materially over time. Significant changes to our portfolio of properties would have a material effect on our Condensed Consolidated Financial Statements.



## Asset Sales

On September 28, 2018, we sold the Hyatt Place in Fort Myers, FL and adjacent land for \$16.5 million. The sale of this property resulted in the realization of a net gain of \$2.2 million during the three and nine months ended September 30, 2018.

On July 24, 2018, we completed the sale of three hotel properties, the Hilton Garden Inn - Smyrna, TN, the Hampton Inn & Suites - Smyrna, TN, and the Hyatt Place Phoenix North - Phoenix, AZ, for an aggregate sales price of \$46.5 million. The sales of these three properties resulted in the realization of an aggregate net gain of \$23.0 million during the three and nine months ended September 30, 2018. The proceeds from these sales were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$22.2 million.

On June 29, 2018, we sold the Holiday Inn Express & Suites in Sandy, UT and the Hampton Inn in Provo, UT for an aggregate selling price of \$19.0 million. On June 29, 2018, we also sold the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA for an aggregate selling price of \$24.9 million. The sales of these four properties resulted in the realization of an aggregate net gain of \$17.4 million during the nine months ended September 30, 2018. We provided seller financing of \$3.6 million, on the sale of the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA under two three-and-a-half-year second mortgage notes with a blended interest rate of 7.38%.

See “Note 3 - Investment in Hotel Properties, net” to the Condensed Consolidated Financial Statements for additional information concerning our asset acquisitions, development and dispositions.

## Hotel Property Acquisitions

On September 12, 2018, the Company completed the acquisition of the 150-guestroom Residence Inn by Marriott Boston Watertown for a purchase price of \$71.0 million. The acquisition was funded by advances on our \$300 Million Revolver, cash generated from the sale of properties, and operating cash flows.

## Recently Developed Properties

We completed the development and commenced operations of the new 168-guestroom Hyatt House Across From Orlando Universal Resort™ on June 27, 2018. The total construction cost for this hotel was \$32.7 million, excluding land that we acquired in a prior-year transaction. The carrying amount for this hotel includes internal capitalized costs of \$1.6 million. Total costs of \$37.1 million, including the carrying amount of the land, were reclassified as Investment in hotel properties, net upon completion of construction during the nine months ended September 30, 2018.

## Results of Operations

The comparisons that follow should be reviewed in conjunction with the unaudited interim Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

## Comparison of the Three Months Ended September 30, 2018 with the Three Months Ended September 30, 2017

The following table contains key operating metrics for our total portfolio and our same-store portfolio for the three months ended September 30, 2018 compared with the three months ended September 30, 2017 (dollars in thousands, except ADR and RevPAR). We define same-store hotels as properties that we owned or leased as of September 30, 2018 and that we have owned or leased at all times since January 1, 2017.

|                                | For the Three Months Ended September 30, |                                     |                                |                                     | Quarter-over-Quarter              |                                     | Quarter-over-Quarter              |                                     |
|--------------------------------|--|-------------------------------------|--------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
|                                | 2018                                     |                                     | 2017                           |                                     | Dollar Change                     |                                     | Percentage/Basis Point Change     |                                     |
|                                | Total Portfolio<br>(77 hotels)           | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(79 hotels) | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(77/79 hotels) | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(77/79 hotels) | Same-Store Portfolio<br>(61 hotels) |
| <b>Revenues:</b>               |  |                                     |                                |                                     |                                   |                                     |                                   |                                     |
| Room                           | \$131,429                                | \$100,311                           | \$127,246                      | \$100,572                           | \$ 4,183                          | \$ (261 )                           | 3.3 %                             | (0.3 )%                             |
| Food and beverage              | 5,817                                    | 4,063                               | 5,465                          | 4,037                               | 352                               | 26                                  | 6.4 %                             | 0.6 %                               |
| Other                          | 5,094                                    | 3,276                               | 3,876                          | 2,868                               | 1,218                             | 408                                 | 31.4 %                            | 14.2 %                              |
| Total                          | \$142,340                                | \$107,650                           | \$136,587                      | \$107,477                           | \$ 5,753                          | \$ 173                              | 4.2 %                             | 0.2 %                               |
| <b>Expenses:</b>               |  |                                     |                                |                                     |                                   |                                     |                                   |                                     |
| Room                           | \$30,854                                 | \$23,854                            | \$28,976                       | \$23,080                            | \$ 1,878                          | \$ 774                              | 6.5 %                             | 3.4 %                               |
| Food and beverage              | 4,684                                    | 3,254                               | 4,444                          | 3,216                               | 240                               | 38                                  | 5.4 %                             | 1.2 %                               |
| Other hotel operating expenses | 40,437                                   | 29,992                              | 38,284                         | 29,316                              | 2,153                             | 676                                 | 5.6 %                             | 2.3 %                               |
| Total                          | \$75,975                                 | \$57,100                            | \$71,704                       | \$55,612                            | \$ 4,271                          | \$ 1,488                            | 6.0 %                             | 2.7 %                               |
| <b>Operational Statistics:</b> |  |                                     |                                |                                     |                                   |                                     |                                   |                                     |
| Occupancy                      | 79.1 %                                   | 79.3 %                              | 80.5 %                         | 81.4 %                              | n/a                               | n/a                                 | (141 ) bps                        | (209 ) bps                          |
| ADR                            | \$153.55                                 | \$154.56                            | \$147.84                       | \$151.11                            | \$ 5.71                           | \$ 3.45                             | 3.9 %                             | 2.3 %                               |
| RevPAR                         | \$121.44                                 | \$122.54                            | \$119.02                       | \$122.97                            | \$ 2.42                           | \$ (0.43 )                          | 2.0 %                             | (0.3 )%                             |

Revenue. The \$5.8 million increase in total portfolio revenues for the three months ended September 30, 2018 compared to the same period of 2017 is the result of incremental revenues of \$12.5 million generated as a result of the acquisition of fourteen hotels in 2017 and two hotels in 2018 (the “2017/2018 Acquisitions”) and an increase in same-store revenues of \$0.2 million, partially offset by a decline in revenues of \$6.9 million related to properties sold after June 30, 2017.

The 2.0% increase in RevPAR for the total portfolio for the three months ended September 30, 2018 compared to the same period of 2017 is the result of the purchase of higher RevPAR hotel properties with the 2017/2018 Acquisitions, which produced an aggregate RevPAR of \$123.14 for the three months ended September 30, 2018, and the sale of lower RevPAR hotels since September 30, 2017, which produced an aggregate RevPAR of \$87.02 for the three months ended September 30, 2017.

Expenses. The \$4.3 million increase in total portfolio expenses for the three months ended September 30, 2018 compared to the same period of 2017 is the result of incremental expenses of \$6.5 million due to the 2017/2018 Acquisitions and an increase in same-store expenses of \$1.5 million, partially offset by a decline in expenses of \$3.7 million related to properties sold after June 30, 2017. The increase in total portfolio and same-store expenses for the three months ended September 30, 2018 compared to the same period of 2017 were primarily driven by increased labor costs and sales and marketing expenses, such as travel agent commissions. We anticipate that labor costs are likely to continue to grow particularly in certain markets with more supply growth or lower unemployment rates.

Depreciation and amortization. Depreciation and amortization expenses increased \$1.3 million, or 5.7%, in the three months ended September 30, 2018, primarily due to incremental depreciation expense associated with the 2017/2018 Acquisitions.



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

Corporate, general and administrative. Corporate general and administrative expenses increased by \$0.3 million, or 6.6%, during the three months ended September 30, 2018 compared with the three months ended September 30, 2017, primarily due to changes in incentive compensation costs.

Gain on disposal of assets, net. Gain on disposal of assets, net increased \$17.1 million for the three months ended September 30, 2018 compared to the same period of 2017 due to the sale of four hotels during the three months ended September 30, 2018 for a net gain of \$25.2 million compared to the sale of three hotels during the three months ended September 30, 2017 for a net gain of \$8.1 million.

Other income, net. Other income, net increased by \$1.4 million during the three months ended September 30, 2018 compared with the three months ended September 30, 2017 primarily due to an increase in Investment in real estate loans, net that resulted in additional interest income during the three months ended September 30, 2018 of approximately \$1.1 million.

Comparison of the Nine Months Ended September 30, 2018 with the Nine Months Ended September 30, 2017

The following table contains key operating metrics for our total portfolio and our same-store portfolio for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 (dollars in thousands, except ADR and RevPAR). We define same-store hotels as properties that we owned or leased as of September 30, 2018 and that we have owned or leased at all times since January 1, 2017.

|                                | For the Nine Months Ended September 30, |                                     |                                |                                     | Period-over-Period                |                                     | Period-over-Period                |                                     |          |
|--------------------------------|---|-------------------------------------|--------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|----------|
|                                | 2018                                    |                                     | 2017                           |                                     | Dollar Change                     |                                     | Percentage/Basis Point Change     |                                     |          |
|                                | Total Portfolio<br>(77 hotels)          | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(79 hotels) | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(77/79 hotels) | Same-Store Portfolio<br>(61 hotels) | Total Portfolio<br>(77/79 hotels) | Same-Store Portfolio<br>(61 hotels) |          |
| <b>Revenues:</b>               |   |                                     |                                |                                     |                                   |                                     |                                   |                                     |          |
| Room                           | \$401,651                               | \$297,233                           | \$358,110                      | \$296,566                           | \$43,541                          | \$ 667                              | 12.2 %                            | 0.2                                 | %        |
| Food and beverage              | 18,663                                  | 12,708                              | 15,718                         | 12,694                              | 2,945                             | 14                                  | 18.7 %                            | 0.1                                 | %        |
| Other                          | 14,447                                  | 9,300                               | 9,804                          | 8,245                               | 4,643                             | 1,055                               | 47.4 %                            | 12.8                                | %        |
| <b>Total</b>                   | <b>\$434,761</b>                        | <b>\$319,241</b>                    | <b>\$383,632</b>               | <b>\$317,505</b>                    | <b>\$51,129</b>                   | <b>\$ 1,736</b>                     | <b>13.3 %</b>                     | <b>0.5</b>                          | <b>%</b> |
| <b>Expenses:</b>               |   |                                     |                                |                                     |                                   |                                     |                                   |                                     |          |
| Room                           | \$90,972                                | \$68,797                            | \$80,435                       | \$66,346                            | \$10,537                          | \$ 2,451                            | 13.1 %                            | 3.7                                 | %        |
| Food and beverage              | 14,790                                  | 9,916                               | 12,277                         | 9,695                               | 2,513                             | 221                                 | 20.5 %                            | 2.3                                 | %        |
| Other hotel operating expenses | 121,473                                 | 87,864                              | 106,721                        | 86,229                              | 14,752                            | 1,635                               | 13.8 %                            | 1.9                                 | %        |
| <b>Total</b>                   | <b>\$227,235</b>                        | <b>\$166,577</b>                    | <b>\$199,433</b>               | <b>\$162,270</b>                    | <b>\$27,802</b>                   | <b>\$ 4,307</b>                     | <b>13.9 %</b>                     | <b>2.7</b>                          | <b>%</b> |
| <b>Operational Statistics:</b> |   |                                     |                                |                                     |                                   |                                     |                                   |                                     |          |
| Occupancy                      | 79.0                                    | % 79.0                              | % 79.9                         | % 80.2                              | % n/a                             | n/a                                 | (98 )                             | bps (120 )                          | bps      |
| ADR                            | \$154.22                                | \$154.99                            | \$147.03                       | \$152.43                            | \$7.19                            | \$ 2.56                             | 4.9 %                             | 1.7                                 | %        |
| RevPAR                         | \$121.77                                | \$122.40                            | \$117.53                       | \$122.20                            | \$4.24                            | \$ 0.20                             | 3.6 %                             | 0.2                                 | %        |

Revenue. The \$51.1 million increase in total portfolio revenues for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of incremental revenues of \$69.4 million generated as a result of the 2017/2018 Acquisitions and an increase in same-store revenues of \$1.7 million, partially offset by a decline in

revenues of \$20.0 million related to properties sold after December 31, 2016.

The 3.6% increase in RevPAR for the total portfolio for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of an increase in same-store RevPAR of 0.2%, the purchase of higher RevPAR hotel properties with the 2017/2018 Acquisitions, which produced an aggregate RevPAR of \$127.79 for the nine months ended September 30, 2018, and the sale of lower RevPAR hotels since September 30, 2017, which produced an aggregate RevPAR of \$92.22 for the nine months ended September 30, 2017.

Expenses. The \$27.8 million increase in total portfolio expenses for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of incremental expenses of \$35.2 million due to the 2017/2018 Acquisitions and an increase in same-store expenses of \$4.3 million, partially offset by a decline in expenses of \$11.7 million related to properties sold after December 31, 2016. The increase in total portfolio and same-store expenses for the nine months ended

September 30, 2018 compared to the same period of 2017 were primarily driven by increased labor costs and sales and marketing expenses, such as travel agent commissions. We anticipate that labor costs are likely to continue to grow particularly in certain markets with more supply growth or lower unemployment rates.

Property taxes, insurance and other. The increase in property taxes, insurance and other of \$4.9 million for the nine months ended September 30, 2018 compared to the same period of 2017 is primarily due to an increase in property taxes related to the 2017/2018 Acquisitions.

Management fees. The increase in management fees of \$1.0 million for the nine months ended September 30, 2018 compared to the same period of 2017 is primarily due to the increase in revenue from the 2017/2018 Acquisitions.

Depreciation and amortization. Depreciation and amortization expenses increased \$13.1 million, or 21.1%, in the nine months ended September 30, 2018, primarily due to incremental depreciation expense associated with the 2017/2018 Acquisitions.

Corporate, general and administrative. Corporate general and administrative expenses increased by \$2.1 million, or 13.9%, during the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017, primarily due to increases in stock-based compensation and incentive compensation costs. The increase in stock-based compensation expense related primarily to the modification of grants to our former Chief Financial Officer who retired on March 31, 2018.

Gain on disposal of assets, net. Gain on disposal of assets, net decreased \$1.4 million for the nine months ended September 30, 2018 compared to the same period of 2017 primarily due to the sale of eight hotels during the nine months ended September 30, 2018 for a net gain of \$42.6 million compared to the sale of twelve hotels during the nine months ended September 30, 2017 for a net gain of \$44.3 million, including the recognition of the remaining \$15.0 million of deferred gain during the nine months ended September 30, 2017 related to the repayment of the HIT Loan.

Other income, net. Other income, net increased by \$2.7 million during the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017. In April 2018, we reached a settlement agreement related to a third-party-caused industrial disaster that occurred in a prior period and affected several of our coastal properties. As a result, we received a net recovery of \$2.0 million during the nine months ended September 30, 2018 that we recorded as Other income. We also had an increase in Investment in real estate loans, net that resulted in additional interest income during the nine months ended September 30, 2018 of approximately \$0.8 million.

#### Non-GAAP Financial Measures

We disclose certain “non-GAAP financial measures,” which are measures of our historical financial performance. Non-GAAP financial measures are financial measures not prescribed by Generally Accepted Accounting Principles (“GAAP”). These measures are as follows: (i) Funds From Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”), (ii) Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”), Earnings before Interest, Taxes, Depreciation and Amortization for Real Estate (“EBITDAre”) and Adjusted EBITDAre (as described below). We caution investors that amounts presented in accordance with our definitions of non-GAAP financial measures may not be comparable to similar measures disclosed by other companies, since not all companies calculate these non-GAAP financial measures in the same manner. Our non-GAAP financial measures should be considered along with, but not as alternatives to, net income (loss) as a measure of our operating performance. Our non-GAAP financial measures may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, debt service obligations and other commitments and uncertainties. Although we believe that our non-GAAP financial measures can enhance the understanding of our financial condition and results of operations, these non-GAAP financial measures are not necessarily better indicators

of any trend as compared to a comparable measure prescribed by GAAP such as net income (loss).

#### FFO and AFFO

As defined by Nareit, FFO represents net income or loss (computed in accordance with GAAP), excluding preferred dividends, gains (or losses) from sales of real property, impairment losses on real estate assets, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization related to real estate assets, and adjustments for unconsolidated partnerships and joint ventures. AFFO represents FFO excluding amortization of deferred financing costs, franchise fees, equity-based compensation expense, debt transaction costs, premiums on redemption of preferred shares, losses from net casualties, non-cash interest income and non-cash income tax related adjustments to our deferred tax asset. Unless otherwise indicated, we present FFO and AFFO applicable to our common shares

and common units. We present FFO and AFFO because we consider FFO and AFFO an important supplemental measure of our operational performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO and AFFO when reporting their results. FFO and AFFO are intended to exclude GAAP historical cost depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO and AFFO exclude depreciation and amortization related to real estate assets, gains and losses from real property dispositions and impairment losses on real estate assets, FFO and AFFO provide performance measures that, when compared year over year, reflect the effect to operations from trends in occupancy, guestroom rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. Our computation of FFO differs slightly from the computation of Nareit-defined FFO related to the reporting of corporate depreciation and amortization expense. Our computation of FFO may also differ from the methodology for calculating FFO used by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO and AFFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. Where indicated in this Quarterly Report on Form 10-Q, FFO is based on our computation of FFO and not the computation of Nareit-defined FFO unless otherwise noted.

The following is a reconciliation of our GAAP net income to FFO and AFFO for the three and nine months ended September 30, 2018 and 2017 (in thousands, except per share/unit amounts):

|  | For the<br>Three Months Ended<br>September 30, |           | For the<br>Nine Months Ended<br>September 30, |            |
|--|--|-----------|---|------------|
|  | 2018   | 2017      | 2018  | 2017       |
| Net income   | \$ 38,001                                      | \$ 22,445 | \$ 85,369                                     | \$ 89,734  |
| Preferred dividends  | (3,710 )                                       | (4,200 )  | (12,962 )                                     | (12,600 )  |
| Premium on redemption of preferred stock                           | —  | —         | (3,277 )                                      | —          |
| Net income applicable to common shares and common units            | 34,291   | 18,245    | 69,130  | 77,134     |
| Real estate-related depreciation                                   | 24,828   | 23,484    | 74,786  | 61,766     |
| Amortization of lease-related intangible assets, net               | 255  | —         | 617   | —          |
| Gain on disposal of assets, net                                    | (24,826 )                                      | (7,725 )  | (42,114 )                                     | (43,531 )  |
| FFO applicable to common shares and common units                   | 34,548   | 34,004    | 102,419                                       | 95,369     |
| Amortization of deferred financing costs                           | 497  | 539       | 1,495   | 1,553      |
| Amortization of franchise fees                                     | 113  | 110       | 355   | 286        |
| Equity-based compensation  | 1,319  | 1,489     | 5,367   | 4,483      |
| Hotel property acquisition costs                                   | —  | —         | —   | 354        |
| Debt transaction costs   | 48   | 23        | 265   | 180        |
| Premium on redemption of preferred stock                           | —  | —         | 3,277   | —          |
| Non-cash interest income   | (517 )   | —         | (1,528 )                                      | —          |
| Casualty losses (recoveries), net                                  | 118  | 488       | (1,950 )                                      | 387        |
| AFFO applicable to common shares and common units                  | \$ 36,126                                      | \$ 36,653 | \$ 109,700                                    | \$ 102,612 |
| Weighted average diluted common shares/common units <sup>(1)</sup> | 104,230  | 104,149   | 104,343                                       | 99,062     |
| FFO per common share/common unit                                   | \$ 0.33  | \$ 0.33   | \$ 0.98                                       | \$ 0.96    |
| AFFO per common share/common unit                                  | \$ 0.35  | \$ 0.35   | \$ 1.05                                       | \$ 1.04    |

<sup>(1)</sup> Includes common units in the Operating Partnership held by limited partners (other than us and our subsidiaries) because the common units are redeemable for cash or, at our election, shares of our common stock.



## EBITDA, EBITDAre and Adjusted EBITDAre

### EBITDA

EBITDA represents net income or loss, excluding: (i) interest, (ii) income tax expense and (iii) depreciation and amortization. We believe EBITDA is useful to an investor in evaluating our operating performance because it provides investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our asset base (primarily depreciation and amortization) from our operating results. Our management team also uses EBITDA as one measure in determining the value of acquisitions and dispositions.

### EBITDAre and Adjusted EBITDAre

In September 2017, Nareit proposed a standardized performance measure, called EBITDAre, which is based on EBITDA and is expected to provide additional relevant information about REITs as real estate companies in support of growing interest among generalist investors. The conclusion was reached that, while dedicated REIT investors have long been accustomed to utilizing the industry's supplemental measures such as FFO and net operating income ("NOI") to evaluate the investment quality of REITs as real estate companies, it would be helpful to generalist investors for REITs as real estate companies to also present EBITDAre as a more widely known and understood supplemental measure of performance. EBITDAre is intended to be a supplemental non-GAAP performance measure that is independent of a company's capital structure and will provide a uniform basis to measure the enterprise value of a company compared to other REITs.

Nareit recommended that companies report EBITDAre in all financial reports for periods beginning after December 31, 2017. We have adopted Nareit's presentation of EBITDAre for this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2018.

EBITDAre, as defined by Nareit, is calculated as EBITDA, excluding: (i) loss and gains on disposition of property and (ii) asset impairments, if any. We believe EBITDAre is useful to an investor in evaluating our operating performance because it provides investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our asset base (primarily depreciation and amortization) from our operating results.

We make additional adjustments to EBITDAre when evaluating our performance because we believe that the exclusion of certain additional non-recurring or unusual items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Adjusted EBITDAre, when combined with the primary GAAP presentation of net income, is useful to an investor in evaluating our operating performance because it provides investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our asset base (primarily depreciation and amortization) from our operating results.

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

The following is a reconciliation of our GAAP net income to EBITDA, EBITDAre and Adjusted EBITDAre for the three and nine months ended September 30, 2018 and 2017 (in thousands):

|  | For the<br>Three Months Ended<br>September 30, |          | For the<br>Nine Months Ended<br>September 30, |           |
|--|--|----------|---|-----------|
|  | 2018   | 2017     | 2018  | 2017      |
| Net income   | \$38,001                                       | \$22,445 | \$85,369                                      | \$89,734  |
| Depreciation and amortization                        | 24,941   | 23,594   | 75,141  | 62,052    |
| Amortization of lease-related intangible assets, net | 255  | —        | 617   | —         |
| Interest expense                                     | 10,848   | 7,768    | 30,579  | 21,486    |
| Interest income                                      | (92 )  | (20 )    | (161 )  | (89 )     |
| Income tax (benefit) expense                         | (532 )   | (231 )   | (120 )  | 613       |
| EBITDA   | 73,421   | 53,556   | 191,425                                       | 173,796   |
| Gain on disposal of assets, net                      | (24,826 )                                      | (7,725 ) | (42,114 )                                     | (43,531 ) |
| EBITDAre   | 48,595   | 45,831   | 149,311                                       | 130,265   |
| Equity-based compensation                            | 1,319  | 1,489    | 5,367   | 4,483     |
| Hotel property acquisition costs                     | —  | —        | —   | 354       |
| Debt transaction costs                               | 48   | 23       | 265   | 180       |
| Non-cash interest income                             | (517 )   | —        | (1,528 )                                      | —         |
| Casualty losses (recoveries), net                    | 118  | 488      | (1,950 )                                      | 387       |
| Adjusted EBITDAre                                    | \$49,563                                       | \$47,831 | \$151,465                                     | \$135,669 |

## Liquidity and Capital Resources

### Liquidity Requirements

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures directly associated with our hotel properties, recurring maintenance and capital expenditures necessary to maintain our hotel properties in accordance with internal and brand standards, capital expenditures to improve our hotel properties, hotel development costs, acquisitions, interest expense, settlement of interest rate swaps, scheduled principal payments on outstanding indebtedness, restricted cash funding obligations, mezzanine loan funding commitments, and distributions to our stockholders. Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovations and other non-recurring capital expenditures that periodically are made with respect to our hotel properties and scheduled debt payments, including maturing loans.

To satisfy the requirements for qualification as a REIT, we must meet a number of organizational and operational requirements, including that we distribute annually at least 90% of our REIT taxable income to our stockholders, determined without regard to the deduction for dividends paid and excluding any net capital gains. We intend to distribute a sufficient amount of our taxable income to maintain our status as a REIT and to avoid tax on undistributed income. Therefore, if sufficient funds are not available to us from hotel dispositions, our 2016 Unsecured Credit Facility and additional mortgage and other loans, we will need to raise capital to grow our business and invest in additional hotel properties.

We expect to satisfy our liquidity requirements with cash provided by operations, working capital, short-term borrowings under our 2016 Unsecured Credit Facility, borrowings of term debt, repayment of notes receivable, the strategic sale of hotels and the release of restricted cash upon satisfaction of certain requirements. In addition, we may fund the purchase price of hotel acquisitions, hotel development costs, and cost of required capital improvements by borrowing under our 2016 Unsecured Credit Facility, assuming mortgage debt from the seller on acquired hotels, issuing securities (including common units issued by our Operating Partnership), or incurring mortgage or other types



of debt. Further, we may seek to meet our liquidity requirements by raising capital through public or private offerings of our equity or debt securities. However, certain factors may have an adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties, borrowing restrictions imposed by lenders, volatility in the equity and debt capital markets and other market conditions. We will continue to analyze which sources of capital are most advantageous to us at any particular point in time, but financing may not be consistently available to us on terms that are attractive, or at all. We believe that our

cash provided by operations, working capital, borrowings available under our various credit facilities and other sources of funds available to us will be sufficient to meet our ongoing liquidity requirements for at least the next 12 months.

We are a mezzanine lender on three construction loans to fund up to an aggregate of \$29.6 million for the development of three hotel properties. The three real estate loans closed in the fourth quarter of 2017 and each has a stated interest rate of 8.0% and an initial term of approximately three years. As of September 30, 2018, we have funded the full amount of \$29.6 million.

#### Outstanding Indebtedness

At October 22, 2018, we had borrowed \$195.0 million on our 2016 Unsecured Credit Facility, which included borrowings of \$150.0 million on our \$150 Million Term Loan and \$45.0 million on our \$300 Million Revolver. Additionally, we had \$225.0 million outstanding on our 2017 Term Loan and \$225.0 million outstanding on our 2018 Term Loan. Each of the credit facilities were supported by the 47 hotel properties included in the credit facility borrowing base. In addition, we have one other hotel with a total of 150 guestrooms unencumbered by mortgage debt that is available to be used as collateral for future loans.

On February 15, 2018, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a new \$225.0 million unsecured term loan (the "2018 Term Loan"). The 2018 Term Loan has an accordion feature that allows us to increase the total commitments by \$150.0 million prior to the maturity date of February 14, 2025, subject to certain conditions. At closing, we drew \$140.0 million of the \$225.0 million available under the 2018 Term Loan and used the proceeds to pay off and replace the 2015 Term Loan (as defined in "Note 4 - Debt" to the Condensed Consolidated Financial Statements). On May 16, 2018, we drew the remaining \$85.0 million available under the 2018 Term Loan and used the proceeds to pay down the \$300 Million Revolver. See "Note 4 - Debt" to the Condensed Consolidated Financial Statements for additional information.

At September 30, 2018, we have scheduled debt principal amortization payments during the next 12 months totaling \$6.2 million and debt maturities during the next 12 months totaling \$106.3 million. Although we believe that we will have the capacity to satisfy these debt maturities and pay these scheduled principal debt payments or that we will be able to fund them using draws under our \$300 Million Revolver, there can be no assurances that our credit facility will be available to repay such amortizing debt as draws under our credit facility are subject to meeting certain financial covenants. At September 30, 2018, we were in compliance with all of our covenants under the 2016 Unsecured Credit Facility.

On April 2, 2018, we repaid four mortgage loans with Western Alliance Bank totaling \$23.9 million. There were no prepayment penalties associated with the repayment of these loans.

We intend to secure or assume term loan financing or use our \$300 Million Revolver, together with other sources of financing, for use in debt repayments, funding future acquisitions, hotel development costs, and capital improvements. We may not succeed in obtaining new financing on favorable terms, or at all, and we cannot predict the size or terms of future financings. Our failure to obtain new financing could adversely affect our ability to grow our business.

We intend to maintain a prudent capital structure and, while the ratio will vary from time to time, we generally intend to limit our ratio of indebtedness to EBITDA to no more than 6.5x. For purposes of calculating this ratio, we exclude preferred stock from indebtedness.

We have obtained financing through debt instruments having staggered maturities and intend to continue to do so in the future. Our debt includes, and may include in the future, debt secured by first priority mortgage liens on certain hotel properties and unsecured debt. We believe that we will have adequate liquidity to meet the requirements for scheduled maturities and principal repayments. However, we can provide no assurance that we will be able to refinance our indebtedness as it becomes due and, if refinanced, whether such refinancing will be available on favorable terms.

See "Note 4 - Debt" to the Condensed Consolidated Financial Statements for additional information concerning our financial arrangements.

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

A summary of our gross debt at September 30, 2018 is as follows (dollars in thousands):

| Lender  | Interest Rate     | Amortization<br>Period<br>(Years) | Maturity Date         | Number of<br>Encumbered<br>Properties | Principal<br>Amount<br>Outstanding |
|---|-------------------|-----------------------------------|-----------------------|---------------------------------------|------------------------------------|
| \$450 Million Senior Unsecured Credit Facility            |                   |                                   |                       |                                       |                                    |
| Deutsche Bank AG New York Branch, as Administrative Agent |                   |                                   |                       |                                       |                                    |
| \$300 Million Revolver                                    | 4.06%<br>Variable | n/a                               | March 31, 2020        | n/a                                   | \$ 65,000                          |
| \$150 Million Term Loan                                   | 4.01%<br>Variable | (1)n/a                            | March 31, 2021        | n/a                                   | 150,000                            |
| Total Senior Unsecured Credit Facility                    |                   |                                   |                       |                                       | 215,000                            |
| Unsecured Term Loans                                      |                   |                                   |                       |                                       |                                    |
| KeyBank National Association, as Administrative Agent     |                   |                                   |                       |                                       |                                    |
| Term Loan   | 4.01%<br>Variable | n/a                               | November 25,<br>2022  | n/a                                   | 225,000                            |
| KeyBank National Association, as Administrative Agent     |                   |                                   |                       |                                       |                                    |
| Term Loan   | 4.31%<br>Variable | n/a                               | February, 14,<br>2025 | n/a                                   | 225,000                            |
| Secured Mortgage Indebtedness                             |                   |                                   |                       |                                       |                                    |
| Voya (formerly ING Life Insurance and Annuity)            |                   |                                   |                       |                                       |                                    |
|   | 5.18% Fixed       | 20                                | March 1, 2019         | 2                                     | (2)38,985                          |
|   | 5.18% Fixed       | 20                                | March 1, 2019         | 3                                     | (2)31,253                          |
|   | 5.18% Fixed       | 20                                | March 1, 2019         | 2                                     | (2)22,535                          |
|   | 5.18% Fixed       | 20                                | March 1, 2019         | 1                                     | (2)15,270                          |
| MetaBank  | 4.44% Fixed       | 25                                | July 1, 2027          | 3                                     | 47,640                             |
| KeyBank National Association                              |                   |                                   |                       |                                       |                                    |
|   | 4.46% Fixed       | 30                                | February 1, 2023      | 4                                     | 26,503                             |
|   | 4.52% Fixed       | 30                                | April 1, 2023         | 3                                     | 20,555                             |
|   | 4.30% Fixed       | 30                                | April 1, 2023         | 4                                     | 19,888                             |
|   | 4.95% Fixed       | 30                                | August 1, 2023        | 2                                     | 35,586                             |
| Bank of the Cascades                                      |                   |                                   |                       |                                       |                                    |
|   | 4.26%<br>Variable | 25                                | December 19,<br>2024  | 1                                     | (3)8,823                           |
|   | 4.30% Fixed       | 25                                | December 19,<br>2024  | —                                     | (3)8,823                           |
| Compass Bank  | 4.66%<br>Variable | 25                                | May 6, 2020           | 3                                     | 22,306                             |
| U.S. Bank, NA   | 6.13% Fixed       | 25                                | November 11,<br>2021  | 1                                     | 10,795                             |
| Total Mortgage Loans                                      |                   |                                   |                       |                                       | 308,962                            |
| Total Debt  |                   |                                   |                       |                                       | 29<br>\$ 973,962                   |

(1) Our interest rate swap fixed a portion of the interest rate on this loan. See "Note 5 - Derivative Financial Instruments and Hedging" to the Condensed Consolidated Financial Statements.

The four Voya mortgage loans are cross-defaulted and cross-collateralized. The four loans were modified on April (2)27, 2018 resulting in reallocation of principal balances between the loans and release of the mortgage on one property.

(3)The Bank of Cascades mortgage loans are secured by the same collateral and cross-defaulted.

#### Equity Transactions

On January 1, 2018, the performance-based restricted stock awards granted on March 3, 2015 vested. Based on our percentile ranking within the SNL U.S. REIT Hotel Index for the measurement period, the executive officers earned twice the number of shares granted. The executive officers were also entitled to dividends as if the additional shares had been outstanding throughout the measurement period. As a result of this vesting, we issued a total of 309,010 shares to our executive officers and paid dividends totaling \$0.5 million.

On March 20, 2018, the Company paid \$85.3 million to redeem all 3,400,000 shares of its outstanding Series C preferred stock at a redemption price of \$25 per share plus accrued and unpaid dividends.

The Company's former Chief Financial Officer retired on March 31, 2018. In connection with his retirement, the Company recorded \$1.0 million of additional stock-based compensation expense during the nine months ended September 30, 2018 related to the modification of certain stock award agreements.

## Capital Expenditures

During the nine months ended September 30, 2018, we funded \$49.5 million in capital expenditures. We anticipate spending an estimated \$10.0 million to \$15.0 million on capital expenditures in the remainder of 2018. We expect to fund these expenditures through a combination of cash provided by operations, working capital, borrowings under our \$300 Million Revolver, or other potential sources of capital, to the extent available to us.

## Cash Flows

|  | For the<br>Nine Months Ended<br>September 30, |            |           |
|--|---|------------|-----------|
|  | 2018  | 2017       | Change    |
|  | (in thousands)                                |            |           |
| Net cash provided by operating activities                | \$128,960                                     | \$116,566  | \$12,394  |
| Net cash used in investing activities                    | (44,391 )                                     | (312,539 ) | 268,148   |
| Net cash (used in) provided by financing activities      | (58,476 )                                     | 217,782    | (276,258) |
| Net change in cash, cash equivalents and restricted cash | \$26,093                                      | \$21,809   | \$4,284   |

The increase in net cash provided by operating activities of \$12.4 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 primarily resulted from an increase in net income, after adjusting for non-cash items, of \$9.5 million and changes in net working capital of \$2.9 million due to timing.

The decrease in net cash used in investing activities of \$268.1 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 is primarily due to a reduction in acquisitions of hotel properties of \$353.7 million and a reduction in hotel development costs of \$3.7 million, partially offset by a decrease in receipts of principal payments on real estate loans of \$32.5 million, a decrease in proceeds from asset dispositions of \$17.3 million, an increase in the funding of real estate loans of \$15.2 million and an increase in capital expenditures of \$24.3 million.

The decrease in net cash from financing activities of \$276.3 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 is primarily due to the redemption of preferred shares of \$85.0 million during the nine months ended September 30, 2018, proceeds from common stock offerings of \$163.6 million during the nine months ended September 30, 2017, a decrease in net borrowings of \$19.1 million and an increase in dividends of \$6.6 million.

## Contractual Obligations

The following table outlines the timing of required payments related to our long-term debt and other contractual obligations at September 30, 2018 (in thousands):

|   | Payments Due By Period |                       |                       |                       |                         |
|---|------------------------|-----------------------|-----------------------|-----------------------|-------------------------|
|   | Total                  | Less than<br>One Year | One to Three<br>Years | Four to Five<br>Years | More than<br>Five Years |
| Debt obligations <sup>(1)</sup>             | \$973,962              | \$112,483             | \$255,439             | \$224,071             | \$381,969               |
| Currently projected interest <sup>(2)</sup> | 191,511                | 39,724                | 70,610                | 48,336                | 32,841                  |
| Operating lease obligations <sup>(3)</sup>  | 86,337                 | 1,810                 | 3,761                 | 3,067                 | 77,699                  |
| Purchase obligations <sup>(4)</sup>         | 17,575                 | 17,575                | —                     | —                     | —                       |
| Total                                       | \$1,269,385            | \$171,592             | \$329,810             | \$275,474             | \$492,509               |

- (1) Amounts shown include amortization of principal and debt maturities.
- (2) Interest payments on our variable rate debt have been estimated using the interest rates in effect at September 30, 2018, after giving effect to our interest rate swaps.
- (3) Amounts consist primarily of non-cancelable ground lease and corporate office lease obligations.
- (4) This amount represents purchase orders and executed contracts for development or renovation projects at our hotel properties.

Critical Accounting Policies

For critical accounting policies, see "Note 2 - Summary of Significant Accounting Policies" to the Condensed Consolidated Financial Statements.



## Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market-sensitive instruments. In pursuing our business strategies, the primary market risk to which we are exposed is interest rate risk. Our primary interest rate exposure is to 30-day LIBOR. We primarily use derivative financial instruments to manage interest rate risk.

At September 30, 2018, we were party to five interest rate derivative agreements pursuant to which we receive variable-rate payments in exchange for making fixed-rate payments (dollars in thousands):

| Contract date     | Effective Date     | Expiration Date    | Notional Amount<br>September 30, 2018 |
|-------------------|--------------------|--------------------|---------------------------------------|
| September 5, 2013 | January 2, 2014    | October 1, 2018    | \$ 75,000                             |
| October 2, 2017   | January 29, 2018   | January 31, 2023   | 100,000                               |
| October 2, 2017   | January 29, 2018   | January 31, 2023   | 100,000                               |
| June 11, 2018     | September 28, 2018 | September 30, 2024 | 75,000                                |
| June 11, 2018     | December 31, 2018  | December 31, 2025  | 125,000                               |
|                   |                    |                    | \$ 475,000                            |

At September 30, 2018, considering our interest rate derivative agreements that are currently effective, \$627.8 million, or 64.5%, of our debt had fixed interest rates and \$346.1 million, or 35.5%, had variable interest rates. At December 31, 2017, after giving effect to our interest rate derivative agreements, \$386.3 million, or 44.2%, of our debt had fixed interest rates and \$486.8 million, or 55.8%, had variable interest rates. Assuming no increase in the level of our variable rate debt outstanding at September 30, 2018 and after consideration of expiring and newly effective interest rate swaps during the remainder of 2018, if interest rates increased by 1.0%, then our interest cost would increase by approximately \$3.0 million per year.

As our fixed-rate debts mature, they will become subject to interest rate risk. In addition, as our variable-rate debts mature, lenders may impose interest rate floors on new financing arrangements because of the low interest rates experienced during the past few years. At September 30, 2018, we have scheduled debt principal amortization payments during the next 12 months totaling \$6.2 million and debt maturities during the next 12 months totaling \$106.3 million.

## Item 4. Controls and Procedures.

## Controls and Procedures

## Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2018. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2018, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period covered by this Quarterly Report on Form 10-Q, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6.

Exhibits.

The following exhibits are filed as part of this report:

Exhibit

| Number         | Description of Exhibit   |
|----------------|--|
| <u>31.1</u> †  | <u>Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2</u> †  | <u>Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1</u> †† | <u>Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>   |
| <u>32.2</u> †† | <u>Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>   |
| 101.INS        | XBRL Instance Document <sup>(1)</sup>  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document <sup>(1)</sup>   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document <sup>(1)</sup>   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document <sup>(1)</sup>  |
| 101.LAB        | XBRL Taxonomy Extension Labels Linkbase Document <sup>(1)</sup>  |
| 101.PRE        | XBRL Taxonomy Presentation Linkbase Document <sup>(1)</sup>  |

† - Filed herewith  
†† - Furnished herewith  
(1) - Submitted electronically herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SUMMIT HOTEL PROPERTIES, INC. (registrant)

Date: October 30, 2018 By: /s/ Jonathan P. Stanner

Jonathan P. Stanner

Executive Vice President, Chief Financial Officer and Treasurer

(principal financial officer)