Summit Hotel OP, LP
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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.)
Commission File Number: 001-54273 (Summit Hotel OP, LP)

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

Maryland (Summit Hotel Properties, Inc.) Delaware (Summit Hotel OP, LP) (State or other jurisdiction of incorporation or organization)	27-2962512 (Summit Hotel Properties, Inc.) 27-2966616 (Summit Hotel OP, LP) (I.R.S. Employer Identification No.)

2701 South Minnesota Avenue, Suite 6
Sioux Falls, SD 57105
(Address of principal executive offices, including zip code)

(605) 361-9566
(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.

[ ] No [ ] No

Summit Hotel Properties, Inc. [x] Yes	Summit Hotel OP, LP [x] Yes

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Summit Hotel Properties, Inc. [x] Yes	[ ] No	Summit Hotel OP, LP [x] Yes	[ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act.

Summit Hotel Properties, Inc.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [x]	Smaller reporting company [ ]

Summit Hotel OP, LP

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [x]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Summit Hotel Properties, Inc. [ ] Yes [x] No	Summit Hotel OP, LP [ ] Yes [x] No

As of November 7, 2011, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 27,278,000 and the number of outstanding units of partnership interest in Summit Hotel OP, LP designated as "Common Units" was 37,378,000, including Common Units held by Summit Hotel Properties, Inc. and its wholly owned subsidiary which is the general partner of Summit Hotel OP, LP.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three months ended September 30, 2011 of Summit Hotel Properties, Inc., a Maryland corporation, and Summit Hotel OP, LP, a Delaware limited partnership.

Unless stated otherwise or the context otherwise requires, references in this report to:

“Summit REIT” mean Summit Hotel Properties, Inc., a Maryland corporation;

“Summit OP” mean Summit Hotel OP, LP, a Delaware limited partnership, our operating partnership, and its consolidated subsidiaries;

“our predecessor” mean Summit Hotel Properties, LLC, a South Dakota limited liability company that was merged into Summit OP on February 14, 2011 and is considered the acquiror for accounting purposes; and

“we,” “our,” “us,” “our company” or “the company” mean Summit REIT, Summit OP and their consolidat subsidiaries taken together as one enterprise. When this report discusses or refers to activities occurring prior to February 14, 2011, the date on which our operations commenced, these references refer to our predecessor.

Summit REIT is the sole member of Summit Hotel GP, LLC, a Delaware limited liability company, which is the sole general partner (the “General Partner”) of Summit OP. Effective as of February 14, 2011, our predecessor merged with and into Summit OP, with the former members of our predecessor exchanging their membership interests in our predecessor for common units of partnership interest of Summit OP (“Common Units”) and Summit OP succeeding to the business and assets of our predecessor. Also, on February 14, 2011, Summit REIT completed its initial public offering (“IPO”) and a concurrent private placement of its common stock and contributed the net proceeds of the IPO and concurrent private placement to Summit OP in exchange for Common Units. As of September 30, 2011, Summit REIT owned approximately 73% of the issued and outstanding Common Units, including the sole general partnership interest held by the General Partner. As the sole member of the General Partner, Summit REIT has exclusive control of Summit OP’s day-to-day management. The remaining interests in Summit OP are owned by third parties, including the former members of our predecessor.

We believe combining the Quarterly Reports on Form 10-Q of Summit REIT and Summit OP into this single report provides the following benefits:

it enhances investors’ understanding of Summit REIT and Summit OP by enabling investors to view the business as a whole in the same manner as management views and operates the business;

it eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both Summit REIT and Summit OP; and

it creates time and cost efficiencies for both companies through the preparation of one combined report instead of two separate reports.

We also believe it is important to understand the few differences between Summit REIT and Summit OP in the context of how Summit REIT and Summit OP operate as a consolidated company. Summit REIT intends to elect and qualify to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), for its short taxable year ending December 31, 2011.

As of September 30, 2011, Summit REIT's only material assets were its ownership of Common Units of Summit OP and its ownership of the membership interests in the General Partner. As a result, Summit REIT does not conduct business itself, other than controlling, through the General Partner, Summit OP, raising capital through issuances of equity securities from time to time and guaranteeing certain debt of Summit OP and its subsidiaries. Summit OP and its subsidiaries hold all the assets of the consolidated company. Except for net proceeds from securities issuances by Summit REIT, which are contributed to Summit OP in exchange for partnership units of Summit OP, Summit OP and its subsidiaries generate capital from the operation of our business and through borrowings and the issuance of partnership units of Summit OP.

Stockholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Summit REIT and those of Summit OP. As of September 30, 2011, Summit OP's capital interests include Common Units representing general and limited partnership interests. The Common Units owned by limited partners other than Summit REIT and its subsidiaries are accounted for in partners' capital in Summit OP's consolidated financial statements and within stockholders' equity in Summit REIT's consolidated financial statements as noncontrolling interests.

In order to highlight the differences between Summit REIT and Summit OP, there are sections in this report that separately discuss Summit REIT and Summit OP, including separate financial statements and notes thereto and separate Exhibit 31 and Exhibit 32 certifications. In the sections that combine disclosure for Summit REIT and Summit OP (i.e., where the disclosure refers to the consolidated company), this report refers to actions or holdings as our actions or holdings and, unless otherwise indicated, means the actions or holdings of Summit REIT and Summit OP and their respective subsidiaries, as one consolidated enterprise.

As the sole member of the General Partner, Summit REIT consolidates Summit OP for financial reporting purposes, and Summit REIT does not have assets other than its investment in the General Partner and Summit OP. Therefore, while stockholders' equity and partners' capital differ as discussed above, revenues and expenses, and the assets and liabilities of Summit REIT and Summit OP are the same on their respective financial statements.

Finally, we refer to a number of other entities in this report as follows. Unless the context otherwise requires or indicates, references in this report to:

"our predecessor" include Summit Group of Scottsdale, Arizona, LLC ("Summit of Scottsdale");

"our TRSs" refer to Summit Hotel TRS, Inc., a Delaware corporation, and Summit Hotel TRS II, Inc., a Delaware corporation, and any other taxable REIT subsidiaries ("TRSs") that we may form in the future;

"our TRS lessees" refer to our TRSs and the wholly owned subsidiaries of our TRSs that lease our hotels from Summit OP or subsidiaries of Summit OP; and

"The Summit Group" refer to The Summit Group, Inc., our predecessor's hotel management company, Company Manager and Class C Member, which is wholly owned by our Executive Chairman, Kerry W. Boekelheide.

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Item 1. Financial Statements

SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

	Summit Hotel Properties, Inc. 2011	Summit Hotel Properties, LLC (Predecessor) 2010
ASSETS		
Cash and cash equivalents	$17,118,080	$7,977,418
Restricted cash	1,529,487	1,933,268
Trade receivables	5,478,840	2,665,076
Receivable due from affiliate	-	4,620,059
Prepaid expenses and other	2,233,465	1,738,645
Land held for development	20,294,973	20,294,973
Property and equipment, net	493,902,474	445,715,804
Deferred charges and other assets, net	9,032,280	4,051,295
Other assets	3,581,178	4,011,992
TOTAL ASSETS	$553,170,777	$493,008,530
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$899,535	$864,560
Related party accounts payable	-	771,066
Accrued expenses	15,408,319	11,092,131
Mortgages and notes payable	257,591,082	420,437,207
TOTAL LIABILITIES	273,898,936	433,164,964
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Members' equity	-	61,468,029
Common stock, $.01 par value per share, 450,000,000 shares authorized, 27,278,000 issued and oustanding as of September 30, 2011	272,780	-
Additional paid-in capital	240,921,363	-
Accumulated deficit and distributions	(5,311,755)	-
Total stockholders' equity	235,882,388	61,468,029
Noncontrolling interest	43,389,453	(1,624,463)
TOTAL EQUITY	279,271,841	59,843,566

TOTAL LIABILITIES AND EQUITY	$553,170,777	$493,008,530

(See Notes to Condensed Consolidated Financial Statements)

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SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	Summit Hotel Properties, Inc. Three Months Ended 9/30/11	Summit Hotel Properties, LLC (Predecessor) Three Months Ended 9/30/10	Summit Hotel Properties, Inc. Period 2/14/11 through 9/30/11	Summit Hotel Properties, LLC (Predecessor) Period 1/1/11 through 2/13/11	Summit Hotel Properties, LLC (Predecessor) Nine Months Ended 9/30/10
REVENUES					
Room revenues	$41,482,931	$ 36,935,600	$97,754,726	$14,268,042	$102,874,263
Other hotel operations revenues	846,774	664,897	1,972,692	330,251	1,938,680
Total Revenue	42,329,705	37,600,497	99,727,418	14,598,293	104,812,943
EXPENSES					
Hotel operating expenses					
Rooms	12,289,038	10,628,993	28,932,738	4,960,450	30,677,033
Other direct	5,544,425	4,781,468	12,696,842	2,657,760	13,068,150
Other indirect	10,766,957	9,596,484	24,880,526	4,686,274	27,277,580
Other	243,434	157,990	517,519	73,038	460,351
Total hotel operating expenses	28,843,854	25,164,935	67,027,625	12,377,522	71,483,114
Depreciation and amortization	8,391,915	6,805,779	18,640,738	3,429,216	20,327,601
Corporate general and administrative:					
Salaries and other compensation	739,843	-	1,853,875	-	-
Other	625,609	-	2,127,420	-	-
Equity based compensation	51,201	-	353,685	-	-
Hotel property acquisition costs	181,892	73,836	181,892	-	130,355
Total Expenses	38,834,314	32,044,550	90,185,235	15,806,738	91,941,070
INCOME (LOSS) FROM OPERATIONS	3,495,391	5,555,947	9,542,183	(1,208,445)	12,871,873
OTHER INCOME (EXPENSE)					
Interest income	553	12,055	14,780	7,139	35,614
Interest expense	(3,456,335)	(6,818,469)	(9,975,104)	(4,666,216)	(19,519,570)
Gain (loss) on disposal of assets	-	(334)	(36,031)	-	(39,723)
Total Other Income (Expense)	(3,455,782)	(6,806,748)	(9,996,355)	(4,659,077)	(19,523,679)
INCOME (LOSS) FROM CONTINUING OPERATIONS	39,609	(1,250,801)	(454,172)	(5,867,522)	(6,651,806)
INCOME TAX (EXPENSE) BENEFIT	1,813	(45,000)	(514,666)	(339,034)	(273,185)

NET INCOME (LOSS)	41,422	(1,295,801)	(968,838)	(6,206,556)	(6,924,991)
NET INCOME (LOSS) ALLOCATED TO NONCONTROLLING INTEREST	11,184	-	(261,586)	-	-
NET INCOME (LOSS) ALLOCATED TO COMMON STOCKHOLDERS	$30,238	$ (1,295,801)	$(707,252)	$(6,206,556)	$(6,924,991)
Net income (loss) per share:					
Basic and diluted	$0.00		$(0.03)		
Weighted-average common shares outstanding:					
Basic and diluted	27,278,000		27,278,000		

(See Notes to Condensed Consolidated Financial Statements)

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SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	# of Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit and Distributions	Total Stockholders'/ Members' Equity	Noncontrolling Interest	Total Equity
Predecessor BALANCES, JANUARY 1, 2011	-	$ -	$ -	$ -	$ 61,468,029	$ (1,624,463)	$ 59,843,566
Net income (loss)	-	-	-	-	(6,206,556)	-	(6,206,556)
Distributions to members	-	-	-	-	(8,282,935)	-	(8,282,935)
BALANCES, FEBRUARY 13, 2011	-	$ -	$ -	$ -	$ 46,978,538	$ (1,624,463)	$ 45,354,075
Summit Hotel Properties, Inc.							
Equity from Predecessor	-	$ -	$ -	$ -	$ -	$ 45,354,075	$ 45,354,075
Net proceeds from sale of common stock	27,278,000	272,780	240,567,678	-	240,840,458	-	240,840,458
Dividends paid	-	-	-	(4,604,503)	(4,604,503)	(1,703,036)	(6,307,539)
Equity-based compensation	-	-	353,685	-	353,685	-	353,685
Net income (loss)	-	-	-	(707,252)	(707,252)	(261,586)	(968,838)
BALANCES, SEPTEMBER 30, 2011	27,278,000	$ 272,780	$ 240,921,363	$ (5,311,755)	$ 235,882,388	$ 43,389,453	$ 279,271,841

(See Notes to Condensed Consolidated Financial Statements)

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SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	$(7,175,394)	$(6,924,991)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	22,069,954	20,327,601
Amortization of prepaid lease	35,550	35,550
Equity-based compensation	353,685	-
(Gain) loss on disposal of assets	36,031	39,723
Changes in operating assets and liabilities:		
Trade receivables	(2,448,764)	(2,164,776)
Prepaid expenses and other	4,125,239	(2,113,426)
Accounts payable and related party accounts payable	(736,091)	145,008
Accrued expenses	3,918,188	3,022,345
Restricted cash released (funded)	403,781	(1,409,446)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	20,582,179	10,957,588
INVESTING ACTIVITIES		
Land and hotel acquisitions and construction in progress	(50,017,000)	(1,191,422)
Purchases of other property and equipment	(21,234,766)	(1,050,096)
Proceeds from asset dispositions, net of closing costs	359,936	10,980
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(70,891,830)	(2,230,538)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	65,382,528	4,271,847
Principal payments on debt	(228,228,653)	(8,256,596)
Financing fees on debt	(3,953,546)	(1,199,196)
Proceeds from sale of common stock, net of offering costs	240,840,458	-
Distributions to members and dividends paid	(14,590,474)	(535,261)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	59,450,313	(5,719,206)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,140,662	3,007,844
CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	7,977,418	8,239,225
END OF PERIOD	$17,118,080	$11,247,069

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$15,632,256	$19,069,854
Cash payments for state income taxes, net of refunds	$616,276	$(3,726)

(See Notes to Condensed Consolidated Financial Statements)

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SUMMIT HOTEL OP, LP AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

	Summit Hotel OP, LP 2011	Summit Hotel Properties, LLC (Predecessor) 2010
ASSETS		
Cash and cash equivalents	$17,118,080	$7,977,418
Restricted cash	1,529,487	1,933,268
Trade receivables	5,478,840	2,665,076
Receivable due from affiliate	-	4,620,059
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Land held for development	20,294,973	20,294,973
Property and equipment, net	493,902,474	445,715,804
Deferred charges and other assets, net	9,032,280	4,051,295
Other assets	3,581,178	4,011,992
TOTAL ASSETS	$553,170,777	$493,008,530
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$899,535	$864,560
Related party accounts payable	-	771,066
Accrued expenses	15,408,319	11,092,131
Mortgages and notes payable	257,591,082	420,437,207
TOTAL LIABILITIES	273,898,936	433,164,964
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Members' equity	-	61,468,029
Partners' equity:		
Summit Hotel Properties, Inc., 27,278,000 units outstanding	235,882,388	-
Unaffiliated limited partners, 10,100,000 units outstanding	43,389,453	-
Total members'/partners' equity	279,271,841	61,468,029
Noncontrolling interest	-	(1,624,463)
TOTAL EQUITY	279,271,841	59,843,566
TOTAL LIABILITIES AND EQUITY	$553,170,777	$493,008,530

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	Summit Hotel OP, LP Three Months Ended 9/30/11	Summit Hotel Properties, LLC (Predecessor) Three Months Ended 9/30/10	Summit Hotel OP, LP Period 2/14/11 through 9/30/11	Summit Hotel Properties, LLC (Predecessor) Period 1/1/11 through 2/13/11	Summit Hotel Properties, LLC (Predecessor) Nine Months Ended 9/30/10
REVENUES					
Room revenues	$41,482,931	$ 36,935,600	$97,754,726	$14,268,042	$102,874,263
Other hotel operations revenues	846,774	664,897	1,972,692	330,251	1,938,680
Total Revenue	42,329,705	37,600,497	99,727,418	14,598,293	104,812,943
EXPENSES					
Hotel operating expenses					
Rooms	12,289,038	10,628,993	28,932,738	4,960,450	30,677,033
Other direct	5,544,425	4,781,468	12,696,842	2,657,760	13,068,150
Other indirect	10,766,957	9,596,484	24,880,526	4,686,274	27,277,580
Other	243,434	157,990	517,519	73,038	460,351
Total hotel operating expenses	28,843,854	25,164,935	67,027,625	12,377,522	71,483,114
Depreciation and amortization	8,391,915	6,805,779	18,640,738	3,429,216	20,327,601
Corporate general and administrative:					
Salaries and other compensation	739,843	-	1,853,875	-	-
Other	625,609	-	2,127,420	-	-
Equity based compensation	51,201	-	353,685	-	-
Hotel property acquisition costs	181,892	73,836	181,892	-	130,355
Total Expenses	38,834,314	32,044,550	90,185,235	15,806,738	91,941,070
INCOME (LOSS) FROM OPERATIONS	3,495,391	5,555,947	9,542,183	(1,208,445)	12,871,873
OTHER INCOME (EXPENSE)					
Interest income	553	12,055	14,780	7,139	35,614
Interest expense	(3,456,335)	(6,818,469)	(9,975,104)	(4,666,216)	(19,519,570)
Gain (loss) on disposal of assets	-	(334)	(36,031)	-	(39,723)
Total Other Income (Expense)	(3,455,782)	(6,806,748)	(9,996,355)	(4,659,077)	(19,523,679)
INCOME (LOSS) FROM CONTINUING OPERATIONS	39,609	(1,250,801)	(454,172)	(5,867,522)	(6,651,806)
INCOME TAX (EXPENSE) BENEFIT	1,813	(45,000)	(514,666)	(339,034)	(273,185)

NET INCOME (LOSS)	41,422	(1,295,801)	(968,838)	(6,206,556)	(6,924,991)
Net income (loss) per unit:					
Basic and diluted	$0.00		$(0.03)		
Weighted-average units outstanding:					
Basic and diluted	37,378,000		37,378,000		

(See Notes to Condensed Consolidated Financial Statements)

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SUMMIT HOTEL OP, LP AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	Summit Hotel Properties, Inc.	Total Members'/ Unaffiliated Limited Partners' Equity	Noncontrolling Interest	Total Equity
Predecessor				
BALANCES, JANUARY 1, 2011	$-	$61,468,029	$ (1,624,463)	$59,843,566
Net income (loss)	-	(6,206,556)	-	(6,206,556)
Distributions to members	-	(8,282,935)	-	(8,282,935)
BALANCES, FEBRUARY 13, 2011	$-	$46,978,538	$ (1,624,463)	$45,354,075
Summit Hotel OP, LP				
Equity from predecessor/limited partners	$-	$45,354,075	$ -	$45,354,075
Contributions	240,840,458	-	-	240,840,458
Distributions	(4,604,503)	(1,703,036)	-	(6,307,539)
Equity-based compensation	353,685	-	-	353,685
Net income (loss)	(707,252)	(261,586)	-	(968,838)
BALANCES, SEPTEMBER 30, 2011	$235,882,388	$43,389,453	$ -	$279,271,841

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	$(7,175,394)	$(6,924,991)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	22,069,954	20,327,601
Amortization of prepaid lease	35,550	35,550
Equity-based compensation	353,685	-
(Gain) loss on disposal of assets	36,031	39,723
Changes in operating assets and liabilities:		
Trade receivables	(2,448,764)	(2,164,776)
Prepaid expenses and other	4,125,239	(2,113,426)
Accounts payable and related party accounts payable	(736,091)	145,008
Accrued expenses	3,918,188	3,022,345
Restricted cash released (funded)	403,781	(1,409,446)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	20,582,179	10,957,588
INVESTING ACTIVITIES		
Land and hotel acquisitions and construction in progress	(50,017,000)	(1,191,422)
Purchases of other property and equipment	(21,234,766)	(1,050,096)
Proceeds from asset dispositions, net of closing costs	359,936	10,980
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(70,891,830)	(2,230,538)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	65,382,528	4,271,847
Principal payments on debt	(228,228,653)	(8,256,596)
Financing fees on debt	(3,953,546)	(1,199,196)
Contributions	240,840,458	-
Distributions	(14,590,474)	(535,261)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	59,450,313	(5,719,206)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,140,662	3,007,844
CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	7,977,418	8,239,225
END OF PERIOD	$17,118,080	$11,247,069

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$15,632,256	$19,069,854
Cash payments for state income taxes, net of refunds	$616,276	$(3,726)

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS

Basis of Presentation

Summit Hotel Properties, Inc. (the "Company") is a self-advised hotel investment company that was organized on June 30, 2010 as a Maryland corporation. The Company holds both general and limited partnership interests in Summit Hotel OP, LP (the "Operating Partnership"), a Delaware limited partnership also organized on June 30, 2010. On February 14, 2011, the Company closed on its initial public offering ("IPO") of 26,000,000 shares of common stock and a concurrent private placement of 1,274,000 shares of common stock. Effective February 14, 2011, the Operating Partnership and Summit Hotel Properties, LLC (the Predecessor") completed the merger of the Predecessor with and into the Operating Partnership (the "Merger"). At the effective time of the Merger, the outstanding Class A, Class A-1, Class B and Class C membership interests in the Predecessor were issued and converted into, and cancelled in exchange for, a total of 9,993,992 common units of limited partnership interest in the Operating Partnership ("Common Units"), and the members of the Predecessor were admitted as limited partners of the Operating Partnership. Also effective February 14, 2011, The Summit Group, Inc., the parent company of the Predecessor ("The Summit Group"), contributed its 36% Class B membership interest in Summit Group of Scottsdale, Arizona LLC ("Summit of Scottsdale") to the Operating Partnership in exchange for 74,829 Common Units and an unaffiliated third-party investor contributed its 15% Class C membership interest in Summit of Scottsdale to the Operating Partnership in exchange for 31,179 Common Units. Effective February 14, 2011, the Company contributed the net proceeds of the IPO and the concurrent private placement to the Operating Partnership in exchange for an aggregate of 27,274,000 Common Units, including Common Units representing the sole general partnership interest in the Operating Partnership, which are held by a wholly owned subsidiary of the Company as the sole general partner of the Operating Partnership. Unless the context otherwise requires, "we" and "our" refer to the Company and the Operating Partnership collectively.

While the Operating Partnership was the survivor of and the legal acquirer of the Predecessor in the merger, for accounting and financial reporting purposes, the Predecessor is considered the accounting acquirer in the Merger. As a result, the historical consolidated financial statements of the Predecessor are presented as the historical consolidated financial statements of the Company and the Operating Partnership after completion of the Merger and the contributions of the Class B and C membership interests in Summit of Scottsdale to the Operating Partnership (collectively, the "Reorganization Transaction").

As a result of the Reorganization Transaction, the Operating Partnership and its subsidiaries acquired sole ownership of the 65 hotels in its initial portfolio. In addition, the Operating Partnership and its subsidiaries assumed the liabilities, including indebtedness, of the Predecessor and its subsidiaries.

As of September 30, 2011, our real estate investment portfolio consists of 70 upscale, upper midscale and midscale hotels with a total of 7,100 guestrooms located in small, mid-sized and suburban markets in 19 states (see Note 3 for new acquisitions). The hotels are leased to subsidiaries ("TRS Lessees") of the Company's taxable REIT subsidiaries ("TRSs"). The Company indirectly owns 100% of the outstanding equity interests in the TRS Lessees.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
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The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for reporting on interim periods. Accordingly, certain information and footnotes required by Generally Accepted Accounting Principles ("GAAP") for complete financial statements have been condensed or omitted. Interim results may not be indicative of fiscal year performance because of seasonal and other factors. These interim statements should be read in conjunction with the financial statements and notes thereto included in our combined Annual Report on Form 10-K filing for the year ended December 31, 2010. In management's opinion, all adjustments made were normal and recurring in nature, and were necessary for a fair statement of the results of the interim period. The December 31, 2010 balance sheet has been derived from the Predecessor's audited financial statements included in our combined Annual Report on Form 10-K for the year ended December 31, 2010.

Use of Estimates

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

Consolidation

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

Reclassifications

Certain reclassifications have been made to the prior-year financial information of the Predecessor to conform to our current-year presentation as follows for the nine months ended September 30:

to reclassify (a) $30.7 million of direct hotel operations expense (wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast) as rooms expense; and (b) $4.7 million of direct hotel operations expense (franchise royalties) as other indirect expense;

to reclassify (a) $6.5 million of other hotel operating expense (utilities and telephone) as other direct expense; and (b) $7.6 million of other hotel operating expense (property taxes, insurance and cable) as other indirect expense;

to reclassify (a) $3.2 million of general, selling and administrative expense (office supplies, advertising, miscellaneous operating expenses and bad debt expense) as other direct expenses; (b) $15.1 million of general, selling and administrative expense (credit card/travel agent commissions, management company expense, management company legal and accounting fees and franchise fees) as other indirect expenses; and (c) $460,000 of general, selling and administrative expense (ground rent and other expense) as other expense;

to reclassify $3.4 million of repairs and maintenance expense as other direct expenses; and

to reclassify $130,000 of other indirect expense (hotel startup costs) as hotel property acquisition costs.

Certain reclassifications have been made to the prior-year financial information of the Predecessor to conform to our current-year presentation as follows for the three months ended September 30:

to reclassify (a) $10.6 million of direct hotel operations expense (wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast) as rooms expense; and (b) $1.7 million of direct hotel operations expense (franchise royalties) as other indirect expense;

to reclassify (a) $2.4 million of other hotel operating expense (utilities and telephone) as other direct expense; and (b) $2.5 million of other hotel operating expense (property taxes, insurance and cable) as other indirect expense;

to reclassify (a) $1.1 million of general, selling and administrative expense (office supplies, advertising, miscellaneous operating expenses and bad debt expense) as other direct expenses; (b) $5.4 million of general, selling and administrative expense (credit card/travel agent commissions, management company expense, management company legal and accounting fees and franchise fees) as other indirect expenses; and (c) $158,000 of general, selling and administrative expense (ground rent and other expense) as other expense;

to reclassify $1.3 million of repairs and maintenance expense as other direct expenses; and

to reclassify $74,000 of other indirect expense (hotel startup costs) as hotel property acquisition costs.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued an update (ASU No. 2010-06) to Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, to improve disclosure requirements regarding transfers, classes of assets and liabilities, and inputs and valuation techniques. Certain provisions of ASU No. 2010-06 to ASC 820 related to separate line items for all purchases, sales, issuances, and settlements of financial instruments valued using Level 3 are effective for fiscal years beginning after December 15, 2010. The adoption of this ASC update on January 1, 2011 had no material impact on the consolidated financial statements or disclosures of the Company, the Operating Partnership or the Predecessor.

In May 2011, FASB issued an update (ASU No. 2011-04) to ASC 820, Fair Value Measurements and Disclosures, to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. This update is effective for interim and fiscal years beginning after December 15, 2011. The Company does not feel that this will have a material impact on the consolidated financial statements.

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. ASU 2011-05 is effective for interim and fiscal years beginning after December 15, 2011. The Company does not feel that this will have a material impact on the consolidated financial statements.

Revenue Recognition

Revenue is recognized when rooms are occupied and services have been rendered.

Fair Value

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined under generally accepted accounting principles as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value, as required by Topic 820 of the FASB ASC, must maximize the use of observable inputs and minimize the use of unobservable inputs.

Our estimates of the fair value of financial instruments as of September 30, 2011 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.

The carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments.

As of September 30, 2011, the aggregate fair value of our consolidated mortgages and notes payable is approximately $258.0 million, compared to the aggregate carrying value of approximately $257.6 million on our consolidated balance sheet. As of December 31, 2010, the aggregate fair value was approximately $401.2 million compared to the aggregate carrying value of approximately $400.8 million.

FASB ASC 820 also requires that non-financial assets and non-financial liabilities be disclosed at fair value in the financial statements if these items are measured at fair value on a non-recurring basis, such as in determining impairment loss or the value of assets held for sale as described below.

Depreciation and Amortization of Hotels

Hotels are carried at cost and depreciated using the straight-line method over an estimated useful life of 27 to 40 years for buildings and two to 15 years for furniture, fixtures and equipment. We are required to make subjective assessments as to the useful lives and classification of our properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets.

Long-Lived Assets and Impairment

We apply the provisions of FASB ASC 360, Property Plant and Equipment, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

We monitor events and changes in circumstances for indicators that the carrying value of a hotel and related assets may be impaired. Factors that could trigger an impairment analysis include, among others: (1) significant underperformance relative to historical or projected operating results, (2) significant changes in the manner of use of a hotel or the strategy of our overall business, (3) a significant increase in competition, (4) a significant adverse change in legal factors or regulations or (5) significant negative industry or economic trends. When such factors are identified, we prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment is made to the carrying value of the hotel to reflect the hotel at fair value.

Assets Held for Sale

FASB ASC 360 requires a long-lived asset to be sold to be classified as “held for sale” in the period in which certain criteria are met, including that the sale of the asset within one year is probable. FASB ASC 360 also requires that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from our ongoing operations.

As a part of regular policy, we periodically review hotels based on established criteria such as age of hotel property, type of franchise associated with hotel property, and adverse economic and competitive conditions in the region surrounding the property. During the period, we completed a comprehensive review of our investment strategy and of our existing hotel portfolio to identify properties which we believe is either non-core or no longer complement the business as required by FASB ASC 360. We do not believe that any properties meet this criteria at this time.

Acquisitions

We allocate the purchase price of acquisitions based on the fair value of the acquired land, building, furniture, fixtures and equipment, goodwill, other assets and assumed liabilities. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers, for example, using a discounted cash flow analysis that utilizes appropriate discount and/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 (see Note 3 for new acquisitions). Acquisition costs are expensed as incurred.

Equity-Based Compensation

Effective as of the closing of the IPO, we adopted the 2011 Equity Incentive Plan, which provides for the grants of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights and other stock-based awards, or any combination of the foregoing. Equity-based compensation is recognized as an expense in the financial statements over the vesting period and measured at the fair value of the award on the date of grant. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the equity-based award and the application of accounting guidance.

Income Taxes

We intend to elect to be taxed as a REIT under the Code commencing with our short taxable year ending December 31, 2011. 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 TRSs) to the extent we currently 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 not be permitted to qualify for treatment as a

REIT for the four taxable years following the year during which qualification is lost unless we satisfy certain relief provisions.

Commencing on February 14, 2011, we began to account for federal and state income taxes with respect to our TRSs using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and respective tax bases and operating losses and tax-credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

NOTE 2 - INITIAL PUBLIC OFFERING

On February 14, 2011, the Company closed its IPO of 26,000,000 shares of common stock and its concurrent private placement of 1,274,000 shares of common stock. Net proceeds received by the Company and the Operating Partnership from the IPO and the concurrent private placement were $240.8 million, after deducting the underwriting discount related to the IPO of $17.7 million and the payment of offering-related expenses of approximately $7.3 million. The Company contributed the net proceeds of the IPO and the concurrent private placement to the Operating Partnership in exchange for Common Units, representing limited and general partnership interests.

NOTE 3 - ACQUISITIONS

We have acquired four hotels during the second quarter of 2011 and one hotel during the third quarter of 2011. We purchased the Homewood Suites in Ridgeland, MS on April 15, 2011 for approximately $7.3 million, the Staybridge Suites in Glendale, CO on April 27, 2011 for approximately $10.0 million, the Holiday Inn in Duluth, GA on April 27, 2011 for approximately $7.0 million, and the Hilton Garden Inn in Duluth, GA for approximately $13.4 million on May 25, 2011. We purchased the Courtyard by Marriott in El Paso, TX on July 28, 2011 for approximately $12.4 million. The purchases were financed with borrowings under our revolving credit facility. We did not acquire any intangibles or assume any debt related to these five acquisitions.

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The following table illustrates the allocation of the aggregated purchase prices for the purchases discussed above during 2011:

	2011 (in thousands)
Land	$ 7,254
Hotel buildings and improvements	41,368
Furniture, fixtures and equipment	1,428
Currents assets	365
Total assets acquired	$ 50,415
Current liabilities	398
Net assets acquired	$ 50,017

NOTE 4 - DEBT OBLIGATIONS

A detail of mortgage loans and notes payable at September 30, 2011 and December 31, 2010, are comprised of the following (dollars in millions):

	2011	2010
Fixed-rate mortgage loans	$ 123.7	$ 170.1
Variable-rate mortgage loans	133.9	250.3
	$ 257.6	$ 420.4

As previously reported, we utilized a portion of the net proceeds from the IPO and concurrent private placement to pay down outstanding mortgage indebtedness. During the three months ended March 31, 2011, we utilized approximately $227.2 million of such net proceeds to reduce outstanding mortgage indebtedness and pay associated costs, as follows:

approximately $89.3 million to repay in full a loan from Fortress Credit Corp., including approximately $2.1 million of exit fees, interest and legal fees;

approximately $78.2 million to repay in full a loan originally made by Lehman Brothers Bank, including approximately $1.4 million to pay an extinguishment premium and other transaction costs;

approximately $21.4 million to repay in full two loans from Marshall & Isley Bank; and

approximately $38.3 million to repay in full two loans from First National Bank of Omaha.

In connection with the March 23, 2011 termination of franchise agreements with Choice Hotels International, Inc. ("Choice"), we executed agreements with ING Investment Management ("ING") and with General Electric Capital Corp. ("GECC") in connection with the termination of the franchise agreements with respect to the hotels securing loans from these lenders.

We entered into agreement with ING pursuant to which ING agreed to forbear, for a period of 120 days, from declaring any default relating to the termination of the Choice franchise agreements. On July 27, 2011, ING agreed to substitute the SpringHill Suites, Flagstaff, AZ, and the Staybridge Suites, Ridgeland, MS, and release the AmericInn, Fort Smith, AR (formerly Comfort Inn) and AmericInn, Missoula, MT (formerly Comfort Inn), and otherwise waive any defaults related to the termination and change of franchise. The collateral substitution closed on September 30, 2011.

GECC agreed to waive any default relating to the termination of the Choice franchise agreements, provided that an event of default would be declared if a replacement franchise agreement is not entered into by August 15, 2011. On July 25, 2011, we entered into a non-binding letter of intent pursuant to which we and GECC agreed to modify the loans as follows: (a) decrease the interest rate to 90-day LIBOR plus 3.50%; (b) certain fixed charge coverage ratios will be modified to reflect the stabilization of revenues of the former Choice hotels after their conversion to other nationally-recognized brands and (c) we will pledge additional collateral to the loans, including the Aloft, Jacksonville, Florida, the Hyatt Place, Las Colinas, Texas, and the Fairfield Inn, Boise, Idaho, which liens on these three additional hotels may be released upon satisfaction of certain fixed charge coverage ratio tests on the collateralized hotels as well as on our entire hotel portfolio. The modification cures any potential default under the GECC loans related to the change in franchise, and was closed August 12, 2011.

In May 2011, ING notified us that it was exercising its contractual right to declare the entire principal balance and accrued but unpaid interest on its loan to us, which had an outstanding principal balance of approximately $28.0 million as of September 30, 2011, to become due and payable on January 1, 2012. On October 3, 2011, we and ING agreed to a non-binding term sheet pursuant to which we plan to refinance and consolidate that loan and our other three ING loans, which four loans collectively had an aggregate outstanding balance of approximately $70.2 million as of September 30, 2011, into a sing