

Summit Hotel Properties, Inc.

Form S-11/A

September 23, 2010

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**As filed with the United States Securities and Exchange Commission on September 22, 2010**

**Registration No. 333-168686**

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

**Amendment No. 1  
to  
Form S-11  
FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933  
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES**

**SUMMIT HOTEL PROPERTIES, INC.**  
*(Exact name of registrant as specified in governing instruments)*

**2701 South Minnesota Avenue, Suite 6  
Sioux Falls, South Dakota 57105  
(605) 361-9566**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Daniel P. Hansen  
President and Chief Executive Officer  
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Sioux Falls, South Dakota 57105  
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*(Name and address, including zip code, and telephone number, including area code, of agent for service)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

**PROSPECTUS**

**Shares of Common Stock**

Summit Hotel Properties, Inc. is selling all of the common stock offered by this prospectus. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$      and \$      per share. We intend to apply to list our common stock on the New York Stock Exchange, or NYSE, under the symbol    INN.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. The common stock offered by this prospectus is subject to restrictions on ownership and transfer that are intended to, among other purposes, assist us in qualifying and maintaining our qualification as a REIT. Our charter generally limits beneficial and constructive ownership to no more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. See    Description of Capital Stock    Restrictions on Ownership and Transfer.

**Investing in our common stock involves risks. See    Risk Factors    beginning on page 18 of this prospectus for a description of various risks you should consider in evaluating an investment in the shares.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters have a 30-day option to purchase up to      additional shares of common stock from us on the same terms set forth above to cover over-allotments, if any.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Baird**

**The date of this prospectus is           , 2010.**

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition and results of operations and prospectus may have changed since those dates.

Through and including \_\_\_\_\_, 2010 (the 25th day after the date of this prospectus) federal securities law may require all dealers that effect transactions in these securities, whether or not participating in this offering, to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

This prospectus contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Marriott International, Inc., Hilton Worldwide, InterContinental Hotels Group, Hyatt Hotels Corp. and Resorts, Choice Hotels International, Inc. and Starwood Hotels and Resorts Worldwide, Inc. None of the owners of the trademarks appearing in this prospectus, their parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, stockholders, owners, agents or employees, which we refer to collectively as the \_\_\_\_\_ trademark

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owners, is an issuer or underwriter of the shares being offered hereby, plays (or will play) any role in the offer or sale of our shares or has any responsibility for the creation or contents of this prospectus. In addition, none of the trademark owners has or will have any liability or responsibility whatsoever arising out of or related to the sale or offer of the shares being offered hereby, including any liability or responsibility for any financial statements, projections or other financial information or other information contained in this prospectus or otherwise disseminated in connection with the offer or sale of the shares offered by this prospectus. You must understand that, if you purchase our common stock in this offering, your sole recourse for any alleged or actual impropriety relating to the offer and sale of the common stock and the operation of our business will be against us (and/or, as may be applicable, the seller of such shares) and in no event may you seek to impose liability arising from or related to such activity, directly or indirectly, upon any of the trademark owners.

We use market data and industry forecasts and projections throughout this prospectus, including data from publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry and there can be no assurance that any of the projections will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently verified this information.



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### **Summary**

*The following summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the following summary together with the more detailed information regarding our company and an investment in our common stock, including the information under the caption Risk Factors and the historical and pro forma financial statements, including the related notes, appearing elsewhere in this prospectus. Unless the context otherwise requires or indicates, references in this prospectus to our predecessor refer to Summit Hotel Properties, LLC and its consolidated subsidiaries, including Summit Group of Scottsdale, Arizona, LLC, or Summit of Scottsdale. Unless the context otherwise requires or indicates, references in this prospectus to we, our, us, our company and the company refer to Summit Hotel Properties, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Summit Hotel OP, LP, a Delaware limited partnership, which we refer to in this prospectus as the operating partnership and Summit Hotel TRS, Inc., a Delaware corporation, which we refer to in this prospectus as Summit TRS. We refer to Summit TRS and the wholly owned subsidiaries of Summit TRS that will lease our hotels from our operating partnership as our TRS lessees.*

*In addition, unless the context otherwise requires or indicates, the information set forth in this prospectus assumes that: (i) the formation transactions described elsewhere in this prospectus have been completed; (ii) the underwriters over-allotment option is not exercised; (iii) the common stock to be sold in the offering is sold at \$ per share, which is the mid-point of the initial public offering price range shown on the cover of this prospectus; and (iv) the value of each unit of limited partnership interest in our operating partnership, which we refer to as an OP unit, issued in the formation transactions is equivalent to the initial public offering price of one share of our common stock.*

### **Overview**

We are a self-managed hotel investment company that was recently organized to continue and expand the existing hotel investment business of our predecessor, Summit Hotel Properties, LLC, a leading U.S. hotel owner. We will focus exclusively on acquiring and owning premium-branded limited-service and select-service hotels in the upscale and midscale without food and beverage segments of the U.S. lodging industry. Following completion of this offering and the formation transactions, our initial portfolio will consist of 65 hotels with a total of 6,533 guestrooms located in 19 states. Our initial portfolio consists of what we consider both seasoned and unseasoned hotels that are located in markets in which we have extensive experience and that exhibit multiple demand generators, such as business and corporate headquarters, retail centers, airports and tourist attractions. Based on total number of rooms, 48% of our portfolio is positioned in the top 50 metropolitan statistical areas, or MSAs, and 68% is located within the top 100 MSAs.

Entities controlled by our Executive Chairman, Kerry W. Boekelheide, have been in the business of acquiring, developing, financing, operating and selling hotels since 1991, have acquired a total of 93 hotels in transactions having an aggregate value of approximately \$606.8 million, and have sold, transferred or otherwise disposed of a total of 27 hotels in transactions having an aggregate value of approximately \$104.6 million.

The majority of our hotels operate under premium franchise brands owned by Marriott International, Inc. (Courtyard by Marriott, Residence Inn, SpringHill Suites, Fairfield Inn and TownePlace Suites), Hilton Worldwide (Hampton Inn, Hampton Inn & Suites and Hilton Garden Inn), InterContinental Hotels Group (Holiday Inn Express and Staybridge Suites) and Hyatt Hotels and Resorts (Hyatt Place).

Since January 1, 2007, we have made approximately \$305.4 million of capital investment through strategic acquisitions and upgrades and improvements to our hotels to be well-positioned for improving general lodging fundamentals. Further, we expect to use up to approximately \$10.0 million of the net proceeds of this offering to make additional capital improvements to hotels in our portfolio. We believe the U.S. economy has begun to recover from the recent economic recession and, as a result, lodging industry fundamentals will strengthen over the near-term. As a result, we believe our portfolio is well-positioned for significant internal growth in hotel operating revenues in this environment based on our mix of seasoned hotels and unseasoned hotels.

We intend to identify and acquire undermanaged and underperforming hotels and use our expertise to renovate, rebrand and reposition the hotels to improve cash flows and long-term value. We believe we will be able to source a significant volume of acquisition opportunities, particularly due to the relative size of our target lodging industry segments, lack of available debt financing in the capital markets and the weakness experienced since mid-2008 in the lodging industry. We also believe that,

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while other public REITs and well-capitalized institutional owners seek to acquire assets that fit our investment criteria, we will be the only publicly traded REIT focused solely on these segments on a national basis.

We were organized as a Maryland corporation on June 30, 2010 and intend to elect to be taxed as a REIT for federal income tax purposes beginning with our short taxable year ending December 31, 2010. We will conduct substantially all of our business through our operating partnership, Summit Hotel OP, LP, a Delaware limited partnership. See *Structure of Our Company*.

## **Our Competitive Strengths**

*High-Quality Portfolio of Hotels.* Our initial portfolio is composed of 65 hotels located in 19 states and that have an average age of 10.3 years. No single hotel accounted for more than 3.6% of our predecessor's hotel operating revenues for the 12-month period ended June 30, 2010. We believe all of our hotels are located in markets where there will be limited growth in lodging supply over the next several years. Additionally, in many of our markets, we own two or more hotels in close proximity to each other, which we believe allows our hotel managers to maintain rate integrity and maximize occupancy by referring travelers to our other hotels. Franchise areas of protection, which prohibit the opening of hotels with the same brand as one of our hotels within certain proximities of our hotels, provide barriers to entry in suburban markets where many of our hotels are located.

*Seasoned Portfolio and Significant Upside Potential.* Our initial portfolio is composed of 46 seasoned hotels with established track records and strong positions within their markets. We classify our other 19 hotels, which were either built after January 1, 2007 or experienced a brand conversion since January 1, 2008, as unseasoned. We believe that the market penetration of our unseasoned hotels is significantly less than that of our seasoned hotels due to the dramatic economic slowdown over the past two years that delayed these hotels from achieving anticipated growth rates and revenues. However, most of our unseasoned hotels are newer, larger and are located in larger markets than our seasoned hotels and operate under premium brands. As a result, we believe our unseasoned hotels can experience significant growth in RevPAR and profitability as the economy and industry fundamentals improve.

*Experienced Executive Management Team With a Proven Track Record.* Our management team, led by our Executive Chairman, Mr. Boekelheide, has extensive experience acquiring, developing, owning, operating, renovating, rebranding and financing hotel properties. Through this experience, our management team has developed strong execution capabilities as well as an extensive network of industry, corporate and institutional relationships, including relationships with the leading lodging franchisors in our targeted markets. We believe these relationships will provide insight and access to attractive investment opportunities and allow us to react to local market conditions by seeking the optimal franchise brand for the market in which each of our hotels is located.

*Aggressive Asset Management and Experienced Asset Management Team.* We will maintain a dedicated asset management team led by our Executive Vice President and Chief Operating Officer, Mr. Aniszewski, to analyze our portfolio as a whole and oversee our independent hotel managers. Our asset management team has managed hotel assets in every industry segment through multiple hotel business cycles. Our entire asset management team has worked together at The Summit Group, Inc., or The Summit Group, the manager of our predecessor and its hotels, for the last 10 years, which provides us expertise, operational stability and in-depth knowledge of our portfolio. We will work proactively with our hotel managers to continue to drive operational performance by identifying and implementing strategies to optimize hotel profitability through revenue management strategies, budgeting, analyzing cost structure, market positioning, evaluating and making capital improvements and continually reviewing and refining our overall business strategy. Among other techniques, we initially will employ three full-time asset managers who will assist our hotel management companies to structure room rate plans and develop occupancy strategies to achieve optimum revenues.

*Strategic Focus on Largest Segments of Lodging Industry.* We believe we will be the only publicly traded REIT that focuses exclusively on upscale hotels and midscale without food and beverage hotels on a national basis. By number of rooms, 81% of our hotels operate under brands owned by Marriott, Hilton, Intercontinental or Hyatt, which are generally regarded as the premium global franchises in our segments. We believe that business and leisure travelers prefer the consistent service and quality associated with these nationally recognized premium brands, and that brand serves as a significant driver of demand for hotel rooms. As reported by Smith Travel Research in 2010, of the approximately 29,735 branded hotels in the United States, 13,066 hotels, or 43.9%, are within our target segments (upscale: 3,536 hotels; midscale without food and beverage: 9,530 hotels). The size of this market represents a potential acquisition pool

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significantly larger than the upper upscale (1,669 hotels, or 5.6%, of total branded hotels) or luxury (341 hotels, or 1.2%, of total branded hotels) segments. We believe the fragmented ownership of premium-branded limited-service and select-service hotels in the upscale and midscale without food and beverage segments, the size of the segments, our longstanding relationships with franchisors, the lack of well-capitalized competitors and our extensive experience and expertise provide us a distinct competitive advantage and a significant opportunity to profitably grow our company.

*Growth-Oriented Capital Structure.* Upon completion of this offering and the formation transactions, we expect to employ a prudent leverage structure that will provide us the ability to make strategic acquisitions as industry fundamentals and the lending environment improves. Upon completion of this offering and application of the net proceeds as described in Use of Proceeds, we will have approximately \$ million in outstanding indebtedness and hotels unencumbered by indebtedness, including hotels with rooms operating under premium brands owned by Marriott, Hilton, Intercontinental or Hyatt available to secure future loans. We believe our capital structure positions us well to capitalize on what we expect to be significant acquisition opportunities.

## **Summary Risk Factors**

An investment in our common stock involves various risks. You should carefully consider the matters discussed in Risk Factors beginning on page 18 of this prospectus before you decide whether to invest in our common stock. Some of the risks include the following:

- § Our business strategy depends significantly on achieving revenue and net income growth from anticipated increases in demand for hotel rooms any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.
- § Our unseasoned hotels have limited operating history and may not achieve the operating performance we anticipate, and as a result, our overall returns may not improve as we expect or may decline.
- § We have no operating history as a publicly traded REIT and may not be successful in operating as a publicly traded REIT, which may adversely affect our ability to make distributions to our stockholders.
- § Our success depends on key personnel whose continued service is not guaranteed.
- § We may be unable to complete acquisitions that would grow our business, and even if they are completed, we may fail to successfully integrate and operate such acquired hotels.
- § Upon completion of this offering and the formation transactions, the management of all of the hotels in our portfolio will be concentrated in one hotel management company, , and termination of our hotel management agreement with that company may cause us to pay substantial termination fees or experience significant disruptions at our hotels.
- § Funds spent to maintain franchisor operating standards, the loss of a franchise license or a decline in the value of a franchise brand may have a material adverse effect on our business and financial results.
- § We will rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.
- §

We have a significant amount of debt, and our organizational documents have no limitation on the amount of additional indebtedness that we may incur in the future. As a result, we may become highly leveraged in the future, which could adversely affect our financial condition.

- § The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.
- § We may not be able to obtain a credit facility.
- § Our Executive Chairman, Mr. Boekelheide, and other members of our management team exercised significant influence with respect to the terms of the formation transactions, including transactions in which they determined the compensation they would receive.

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- § Competition from other upscale and midscale without food and beverage hotels in the markets in which we operate could have a material adverse effect on our results of operations.
- § Our operating results and ability to make distributions to our stockholders may be adversely affected by the markets in which we operate and risks inherent to the ownership of hotels.
- § Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of hotels in which we may invest or to adjust our portfolio in response to changes in economic and other conditions, and, therefore, may harm our financial condition.
- § We may change the distribution policy with respect to our common stock in the future.
- § The cash available for distribution may not be sufficient to make distributions at expected levels, and we cannot assure you of our ability to make distributions in the future. We may use borrowed funds or funds from other sources to make distributions, which may adversely impact our operations.
- § We may use a portion of the net proceeds from this offering to make distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, which would, among other things, reduce our cash available for investing.
- § If you purchase shares of common stock in this offering, you will experience immediate dilution.
- § Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.

**Our Growth Strategies and Investment Criteria**

Our strategy focuses on maximizing the cash flow of our portfolio through focused asset management and targeted capital investment. Our primary objective is to enhance stockholder value over time by generating strong risk-adjusted returns for our stockholders. We believe we can create long-term value by pursuing the following strategies.

*Internal Growth from Strengthening Lodging Industry Fundamentals.* We believe our hotels will experience significant revenue growth as lodging industry fundamentals recover from the economic recession which caused industry-wide RevPAR to suffer a combined 18.4% decline in 2008 and 2009, according to Smith Travel Research. Industry conditions have shown improvement during the first eight months of 2010, with RevPAR growth across all segments of 4.0% as compared to the same period of 2009, according to Smith Travel Research. Colliers PKF Hospitality Research forecasts significant compound annual growth in RevPAR from 2010 to 2014 of 7.0% for the upscale segment and 8.5% for the midscale without food and beverage segment, the best forecast for any segment in the industry.

*Disciplined Acquisition of Hotels.* We intend to grow through acquisitions of existing hotels using a disciplined and targeted approach while maintaining a prudent leverage structure. We employ a proactive and continuous assessment of our hotels, markets and brands in order to quickly and efficiently upgrade our hotels as market conditions warrant. We intend to target upscale and midscale without food and beverage hotels that meet one or more of the following acquisition criteria:

§

have potential for strong risk-adjusted returns located in the Top 50 MSAs, with a secondary focus on the next 100 markets;

- § operate under leading franchise brands, which include but are not limited to Marriott, Hilton, InterContinental and Hyatt;
- § are located in close proximity to multiple demand generators, including businesses and corporate headquarters, retail centers, airports, medical facilities, tourist attractions and convention centers, with a diverse source of potential guests, including corporate, government and leisure travelers;
- § are located in markets exhibiting barriers to entry due to franchise areas of protection or other factors;
- § can be acquired at a discount to replacement cost; and
- § provide an opportunity to add value through improved operating efficiencies, repositioning, renovation or rebranding.

*Selective Hotel Development.* We believe there will be attractive opportunities to partner on a selective basis with experienced hotel developers to acquire, upon completion, newly constructed hotels that meet our investment criteria.

*Strategic Hotel Sales.* Our strategy is to acquire and own hotels. However, consistent with our strategy of maximizing the cash flow of our portfolio and our return on invested capital, we periodically review hotels to determine if any significant



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changes to area markets or our hotels have occurred or are anticipated to occur that would warrant the sale of a particular hotel.

### **Our Industry and Market Opportunity**

We focus on hotels in the upscale and midscale without food and beverage segments of the lodging industry.

We believe that our focus on these segments provides us the opportunity to achieve stronger risk-adjusted returns across multiple lodging cycles than if we owned hotels in other segments of the lodging industry for several reasons, including:

*RevPAR Growth.* Colliers PKF Hospitality Research forecasts that our market segments will experience the largest amount of RevPAR growth of any segment in the industry.

*Consistently Strong and Growing Demand.* Over the last twenty years, our market segments have demonstrated the strongest compounded growth in demand of all segments of the lodging industry, and strong demand growth is expected to continue.

*More Stable Cash Flow Potential.* Our hotels can be operated with fewer employees than full-service hotels that offer more expansive food and beverage options, which we believe enables us to generate more consistent cash flows with less volatility resulting from reductions in RevPAR and less dependence on group travel.

*Broad Customer Base.* Our target brands deliver consistently high-quality hotel accommodations with value-oriented pricing that we believe appeals to a wider range of customers, including both business and leisure travelers, than more expensive full-service hotels. We believe that our hotels are particularly popular with frequent business travelers who seek to stay in hotels operating under Marriott, Hilton, Hyatt or InterContinental brands, which offer strong loyalty rewards program points that can be redeemed for family travel.

*Enhanced Diversification.* Premium select-service assets generally cost significantly less, on a per-key basis, than hotels in the midscale with food and beverage, upper upscale and luxury segments of the industry. As a result, we can diversify our ownership into a larger number of hotels than we could acquire in other segments.

*Lodging Industry Fundamentals.* Beginning in August 2008, the U.S. lodging industry experienced 19 consecutive months of RevPAR declines, as measured against the same month in the prior year, driven by a combination of deterioration in room-night demand and increasing supply. Although the lodging industry has historically lagged broader economic recoveries, economic fundamentals are beginning to improve from the recent declines resulting from the recessionary environment. In June 2010, the U.S. unemployment rate continued to show improvement from its high in late 2009. After continuing declines for almost two years prior, June 2010 marked the U.S. lodging industry's fourth consecutive month of positive year-over-year RevPAR growth with an 8.0% increase.

According to Smith Travel Research, RevPAR increased 4.3% and 2.2% in our target upscale and midscale without food and beverage segments, respectively, for the first eight months of 2010 as compared to the same period of 2009, and we expect RevPAR growth to continue as the U.S. economy continues to strengthen. Colliers PKF Hospitality Research currently projects RevPAR growth of upscale hotels to be 4.2% in 2011, 11.1% in 2012 and 9.5% in 2013 and RevPAR growth of midscale without food and beverage hotels to be 5.9% in 2011, 12.2% in 2012 and 10.9% in 2013, among the highest in any industry segment. We expect that our hotels, and particularly our unseasoned hotels, will realize significant RevPAR gains as the economy and lodging industry improve.

*Demand Overview.* Room-night demand in the U.S. lodging industry is directly correlated to macroeconomic trends. Key drivers of demand include growth in gross domestic product, or GDP, corporate profits, capital investments and employment. Following periods of recession, recovery in room-night demand for lodging historically has lagged improvements in the overall economy.

*Supply Overview.* Growth in lodging supply typically lags growth in room-night demand. Key drivers of lodging supply include the availability and cost of capital, construction costs, local real estate market conditions and availability and pricing of existing properties. As a result of scarcity of financing, the severe recession and declining operating fundamentals during 2008 and 2009, many planned hotel developments have been cancelled or postponed, and the number of rooms under construction and in planning has declined significantly. According to Lodging Econometrics, during the second quarter of 2010, approximately 68,000 new hotel rooms were under construction in the U.S., as compared to approximately 242,000 rooms under construction in the second quarter of 2008, a decline of 72%. New hotel construction is expected to remain below historical averages through 2014 according to Colliers PKF Hospitality Research.

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*Attractive Transaction Landscape.* We believe that the significant decline in lodging fundamentals and cash flows has created a difficult environment for hotel owners lacking ready access to financing or suffering from reduced cash flows due to declining industry fundamentals since 2008. As a result, we believe that the significant number of hotel properties experiencing substantial declines in operating cash flow, coupled with tight credit markets, near-term debt maturities and, in some instances, covenant defaults relating to outstanding indebtedness, will present attractive investment opportunities to acquire hotel properties at prices significantly below replacement cost, with substantial appreciation potential as the U.S. economy recovers from the current recession.

## **Our Formation Transactions**

Historically, the 65 hotels in our initial portfolio were owned or controlled by our predecessor and were managed by The Summit Group, which is wholly owned and controlled by our Executive Chairman, Mr. Boekelheide. We will engage in the transactions described below, which we refer to as our formation transactions, in order to consolidate the business of our predecessor into a publicly traded REIT.

- § We will sell \_\_\_\_\_ shares of our common stock in this offering.
- § We will contribute the net proceeds of this offering to our operating partnership in exchange for OP units. We will continue to be the sole general partner of our operating partnership and will own an approximate \_\_\_\_\_% ( \_\_\_\_\_% if the underwriters exercise their over-allotment option in full) partnership interest in our operating partnership upon completion of the formation transactions and this offering.
- § Our predecessor will merge with and into our operating partnership, which will be the survivor of the merger. Pursuant to the merger, our predecessor's members, including two of our executive officers and their affiliates as described below, will receive an aggregate of 9,993,992 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus. The total number of OP units to be issued to our predecessor's members in the merger reflects our predecessor's 100% ownership of 63 of our initial hotels prior to the merger and its ownership of a 49% Class A membership interest in Summit of Scottsdale, the owner of two Scottsdale, Arizona hotels prior to the merger. Of the 9,993,992 OP units to be issued in the merger, (1) our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, will receive an aggregate of 1,517,879 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus and (2) our Executive Vice President and Chief Operating Officer, Craig J. Aniszewski, will receive an aggregate of 4,105 OP units having an aggregate value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus. The merger is subject to customary closing conditions, including obtaining all required third-party consents and approvals and completion of this offering. In addition to the OP units issued in the merger, our operating partnership will issue 106,800 OP units pursuant to the Summit of Scottsdale transaction described below.
- § The Summit Group will contribute its 36% Class B membership interest in Summit of Scottsdale to our operating partnership in exchange for 74,829 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus. An unaffiliated third-party investor will contribute its 15% Class C membership interest in Summit of Scottsdale to our operating partnership in exchange for 31,179 OP units having an aggregate assumed value of \$ \_\_\_\_\_ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus. The contributions of the Class B and Class C membership interests in Summit of Scottsdale are subject to customary closing conditions, including obtaining all required third-party consents and approvals and

completion of this offering.

Our predecessor's 49% Class A membership interest in Summit of Scottsdale will be acquired through the merger described above. Our predecessor owns a 49% Class A membership interest in Summit of Scottsdale, which our operating partnership will acquire in the merger. As a result of these contributions and the merger, our operating partnership will assume approximately \$13.8 million of existing mortgage debt secured by the Courtyard by Marriott and the SpringHill Suites by Marriott, both located in Scottsdale, Arizona, or the Scottsdale hotels, and will become the sole owner of the two Scottsdale hotels.

§ Upon completion of the merger and the contributions described above, our operating partnership will become the sole owner of our 65 initial hotels and will enter into new lease agreements with our TRS lessees with respect to the 65 hotels in our initial portfolio.

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§ The Summit Group will assign all of the hotel management agreements pursuant to which it managed the hotels owned by our predecessor to \_\_\_\_\_ for consideration payable to the Summit Group of \_\_\_\_\_, and our \_\_\_\_\_ TRS lessees will enter into hotel management agreements with \_\_\_\_\_ pursuant to which our initial hotels will be operated.

§ Our operating partnership intends to use the net proceeds of this offering as follows: (1) approximately \$ \_\_\_\_\_ million to repay or extinguish existing indebtedness that we will assume following completion of the formation transactions, including estimated costs related to debt repayment totaling approximately \$ \_\_\_\_\_ million; (2) approximately \$10.0 million to fund capital improvements at our initial hotels; and (3) the balance for general corporate and working capital purposes, including possible future acquisitions of hotels.

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**Our Structure**

The following diagram depicts our ownership structure immediately following completion of this offering and the formation transactions:

**Material Benefits to Related Parties**

Upon completion of this offering and the formation transactions, certain of our executive officers and directors will receive, either directly or indirectly, the financial and other benefits summarized below. For a more detailed discussion of these benefits see Management and Certain Relationships and Related Transactions.

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*Formation Transactions.* In connection with the formation transactions, Mr. Boekelheide, our Executive Chairman, and his affiliates, including The Summit Group, which is wholly owned and controlled by Mr. Boekelheide, and Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, will receive the following benefits:

<b>Name</b>	<b>Benefits Received</b>
<p>Kerry W. Boekelheide, <i>Executive Chairman and Director</i></p>	<p>In the formation transactions, Mr. Boekelheide and The Summit Group will receive an aggregate of 1,200,993 OP units, including: (1) 17,000 OP units to be issued to a revocable trust, the trustee and sole beneficiary of which is Mr. Boekelheide, in exchange for the trust's Class A membership interests in our predecessor; (2) 1,109,164 OP units to be issued to The Summit Group in the merger; and (3) 74,829 OP units to be issued to The Summit Group in exchange for its 36% Class B membership interest in Summit of Scottsdale. These OP units will represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have an aggregate value of \$ million based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus.</p> <p>In addition, entities affiliated with Mr. Boekelheide other than The Summit Group will receive an aggregate of 316,886 OP units. Mr. Boekelheide will share voting and investment power over these OP units with individuals who are not affiliated with us. These OP units will represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have a combined aggregate value of \$ million based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus.</p> <p>In consideration for assigning to them the existing hotel management agreements with our predecessor, The Summit Group will receive a cash payment from in the amount of \$ .</p>
<p>Craig J. Aniszewski, <i>Executive Vice President and Chief Operating Officer</i></p>	<p>In the merger, Mr. Aniszewski will receive an aggregate of 4,105 OP units in exchange for his Class B membership interests in our predecessor. These OP units represent approximately % of our combined common stock and OP units outstanding upon completion of this offering and the formation transactions and have an aggregate value of \$ based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus.</p>

In addition to the OP units and other material benefits described above to be received in connection with the formation transactions, our executive officers will also benefit from the following:

- § employment agreements that will provide for salary, bonus and other benefits, including severance benefits in the event of a termination of employment in certain circumstances (see Management Employment Agreements );
- § options to purchase an aggregate of shares of our common stock at the initial public offering price of the shares in this offering that will be granted to our executive officers upon completion of this offering pursuant

to the 2010 Equity Incentive Plan (see Management Executive Compensation );

§ agreements providing for indemnification by us for certain liabilities and expenses incurred as a result of actions brought, or threatened to be brought, against them as an officer and/or director of our company (see Management Indemnification Agreements and Material Provisions of Maryland Law and of Our Charter and Bylaws ); and

§ redemption and registration rights under our operating partnership s partnership agreement with respect to OP units to be issued in the formation transactions (see Description of the Partnership Agreement ).

Furthermore, in connection with the formation transactions, our operating partnership will offer to enter into tax protection agreements with a limited number of the members of our predecessor, including The Summit Group and Mr. Aniszewski. See Formation Transactions Tax Protection Agreements.



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### **Our Financing Strategy**

We expect to maintain a prudent capital structure and intend to limit the sum of the outstanding principal amount of our consolidated net indebtedness to not more than 5.5x of our earnings before interest, tax, depreciation and amortization, or EBITDA, for the 12-month period preceding the incurrence of such debt. Over time, we intend to finance our long-term growth with common and preferred equity issuances and debt financing having staggered maturities. Our debt may include mortgage debt secured by hotels and unsecured debt.

Following completion of this offering, we anticipate entering into a credit facility to fund future acquisitions, as well as for property redevelopments, capital expenditures and working capital requirements. We may not succeed in obtaining a credit facility on favorable terms or at all. We cannot predict the size of the credit facility if we are able to obtain one.

When purchasing hotel properties, we may issue OP units as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common stock.

### **Conflicts of Interest**

Following completion of this offering and the formation transactions, there will be conflicts of interest between the holders of OP units, including certain of our executive officers and directors, and our stockholders with respect to certain transactions. In addition to their ownership of OP units, these executive officers and directors may have conflicting duties because, in their capacities as our executive officers and directors, they have a duty to us and our stockholders, while at the same time, in our capacity as general partner of our operating partnership, they have a fiduciary duty to the limited partners. Conflicts may arise when the interests of our stockholders and the limited partners of the operating partnership diverge, particularly in circumstances in which there may be an adverse tax consequence to the limited partners. For example, the sale of any of the hotels in our portfolio or the repayment of indebtedness may have different tax consequences to holders of OP units as compared to our stockholders. The amended and restated limited partnership agreement of the operating partnership contains a provision that in the event of a conflict of interest between our stockholders and the limited partners of our operating partnership, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners of our operating partnership, and, if we, in our sole discretion as general partner of the operating partnership, determine that a conflict cannot be resolved in a manner not adverse to our stockholders and the limited partners of our operating partnership, the conflict will be resolved in favor of our stockholders. Our board of directors has adopted a policy that any transaction involving our company in which a director has an interest must be approved by a majority of the disinterested directors.

Both we and our predecessor have sought to structure the formation transactions so as to minimize potential conflicts of interest, including by appointing a special committee of our predecessor's independent managers to review the terms of the proposed merger of our predecessor into our operating partnership. However, we did not conduct arm's-length negotiations with our predecessor's members or the members of Summit of Scottsdale with respect to the terms of the formation transactions, including the merger. Our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, have substantial, pre-existing ownership interests in our predecessor and Summit of Scottsdale. In addition, Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, has a pre-existing ownership interest in our predecessor. Both Mr. Boekelheide and Mr. Aniszewski sat on the board of managers of our predecessor that approved the terms of the formation transactions. In the course of structuring the formation transactions, Mr. Boekelheide and Mr. Aniszewski had the ability to influence the type and level of benefits they will receive from us. Although our predecessor's special committee received a fairness opinion from an independent

third-party financial advisor that is not one of the underwriters of this offering with respect to the fairness, from a financial point of view, of the merger consideration to the former members of our predecessor, assuming that the value of the OP units issued as the merger consideration was between \$140 million and \$160 million, we did not obtain a fairness opinion with respect to the fairness of the merger consideration to us and we did not obtain recent third-party appraisals for all of the hotels to be acquired by us in the formation transactions. As a result, the consideration to be paid by us to the members of our predecessor in the merger and the acquisition of the 49% ownership interest in the two Scottsdale hotels may exceed the fair market value of the hotels and other assets being acquired by us in the formation transactions.

### **Our Tax Status**

We intend to elect to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010. Our qualification as a REIT will depend upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code, as

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amended, or the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares of capital stock. We believe that we will be organized in conformity with the requirements for qualification as a REIT under the Code and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010 and continuing thereafter.

In order for the income from our hotel operations to constitute rents from real property for purposes of the gross income tests required for REIT qualification, we cannot directly operate any of our hotel properties. Instead, we must lease our hotel properties. Accordingly, we will lease each of our hotel properties to one of our TRS lessees, which will be wholly owned by our operating partnership. Our TRS lessees will pay rent to us that can qualify as rents from real property, provided that the TRS lessees engage eligible independent contractors to manage our hotels. A TRS is a corporate subsidiary of a REIT that jointly elects with the REIT to be treated as a TRS of the REIT and that pays federal income tax at regular corporate rates on its taxable income. We expect that all of the hotels in our portfolio will be leased to one of our TRS lessees, which will be able to pay us rent out of the revenue of the hotels. Our TRS lessees will engage to manage the hotels in our initial portfolio. We believe will qualify as an eligible independent contractor.

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute currently to our stockholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we will be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS lessees will be fully subject to federal, state and local corporate income tax.

## **Distribution Policy**

To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See Material Federal Income Tax Considerations. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes. Our cash available for distribution may be less than the amount required to meet the distribution requirements for REITs under the Code, and we may be required to borrow money, sell assets or issue capital stock to satisfy the distribution requirements. Additionally, we may pay future distributions from the proceeds from this offering or other securities offerings.

We intend to make regular quarterly cash distributions to our stockholders, as more fully described below. We plan to pay a pro rata dividend with respect to the period commencing on completion of this offering and ending , based on a rate of \$ per share for a full quarter. On an annualized basis, this would be \$ per share, or an estimated initial annual dividend rate of approximately % based on the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus. We do not intend to reduce the expected dividend per share if the underwriters option to purchase additional shares is exercised.

The timing and frequency of distributions will be authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors, including restrictions under applicable law and our loan

agreements, capital requirements of our company and the REIT requirements of the Code. Distributions to stockholders generally will be taxable to our stockholders as ordinary income, although a portion of such distributions may be designated by us as long-term capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of our distributions, see Material Federal Income Tax Considerations.

### **Restrictions on Ownership of Our Capital Stock**

In order to assist us in qualifying as a REIT, our charter, subject to certain exceptions, restricts the amount of shares of our capital stock that a person may beneficially or constructively own. Our charter provides that, subject to certain exceptions,

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no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. Our charter also prohibits any person from:

- § beneficially owning shares of our capital stock to the extent that such beneficial ownership would result in our being closely held within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of the taxable year);
- § transferring shares of our capital stock to the extent that such transfer would result in shares of our capital stock being beneficially owned by fewer than 100 persons (determined under the principles of Section 856(a)(5) of the Code);
- § beneficially or constructively owning shares of our capital stock to the extent such beneficial or constructive ownership would cause us to constructively own ten percent or more of the ownership interests in a tenant (other than a TRS) of our real property within the meaning of Section 856(d)(2)(B) of the Code; or
- § beneficially or constructively owning or transferring shares of our capital stock if such beneficial or constructive ownership or transfer would otherwise cause us to fail to qualify as a REIT under the Code, including, but not limited to, as a result of any hotel management companies failing to qualify as an eligible independent contractor under the REIT rules.

Our board of directors, in its sole discretion, may prospectively or retroactively exempt a person from certain of these limits and may establish or increase an excepted holder percentage limit for such person. The person seeking an exemption must provide to our board of directors such representations, covenants and undertakings as our board of directors may deem appropriate in order to conclude that granting the exemption will not cause us to lose our status as a REIT.

**Our Corporate Information**

We were formed as a Maryland corporation on June 30, 2010 and intend to elect and qualify to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ending December 31, 2010. Our corporate offices are located at 2701 South Minnesota Avenue, Suite 6, Sioux Falls, South Dakota 57105. Our telephone number is (605) 361-9566. Our website is *www.shpreit.com*. The information contained on, or accessible through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

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Common stock offered by us	shares
Common stock to be outstanding after this offering and the formation transactions	shares <sup>(1)</sup>
Common stock and OP units to be outstanding after this offering and the formation transactions	shares and OP units <sup>(2)</sup>
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately \$ million, or approximately \$ million if the underwriters over-allotment option is exercised in full, after deducting the underwriting discounts and commissions and estimated expenses of this offering. We intend to use the net proceeds of this offering as follows: (1) approximately \$ million to repay or extinguish existing indebtedness that we will assume upon completion of the formation transactions, including estimated related costs totaling approximately \$ million; (2) approximately \$10.0 million to fund capital improvements at our hotels; and (3) the balance for general corporate and working capital purposes, including possible future hotel acquisitions. See Use of Proceeds for additional information.
Ownership and transfer restrictions	In order to assist us in qualifying as a REIT, our charter provides that, subject to certain exceptions, no person may beneficially or constructively own more than 9.8% in value or in number of shares, whichever is more restrictive, of our common stock and places certain other restrictions on ownership of our stock.
Proposed NYSE symbol	INN

- (1) Immediately prior to the closing of this offering, we have a total of 1,000 shares of common stock outstanding. We sold these shares to our Executive Chairman, Mr. Boekelheide, in connection with our formation and initial capitalization for total consideration of \$1,000. At the closing of this offering, we will repurchase these shares from Mr. Boekelheide for \$1,000. The number of shares of common stock to be outstanding immediately after the repurchase of these shares and the closing of this offering includes: (i) shares of common stock to be sold in this offering and (ii) an aggregate of shares of common stock to be issued to our independent director nominees pursuant to the 2010 Equity Incentive Plan upon completion of this offering. The number of shares of common stock to be outstanding immediately after the closing of this offering excludes: (i) up to shares of common stock issuable upon exercise of the underwriters over-allotment option; (ii) an aggregate of shares of common stock issuable upon exercise of options that we will grant to our Executive Chairman, Mr. Boekelheide, our President and Chief Executive Officer, Mr. Hansen, our Executive Vice President and Chief Operating Officer, Mr. Aniszewski, our Executive Vice President and Chief Financial Officer, Stuart J. Becker, and our Vice President of Acquisitions, Ryan A. Bertucci, pursuant to the 2010 Equity Incentive Plan upon completion of this offering; (iii) additional shares of common stock available for future issuance under the 2010 Equity Incentive Plan; and (iv) up to 10,100,000 shares of common stock issuable upon redemption of the 10,100,000 OP units to be issued by our operating partnership in the formation transactions.

(2)

Includes all of the shares of common stock identified in the third sentence of footnote (1) above, and 10,100,000 OP units to be issued in the formation transactions to our predecessor's former members and the former Class B and Class C members of Summit of Scottsdale in exchange for their membership interests in those entities. Pursuant to the limited partnership agreement of our operating partnership, limited partners, other than us, will have redemption rights which will enable them to cause our operating partnership to redeem their OP units in exchange for cash or, at our operating partnership's option, shares of our common stock on a one-for-one basis. The number of shares of common stock issuable upon redemption of OP units may be adjusted upon the occurrence of certain events described under Description of the Partnership Agreement Redemption Rights.

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**Summary Pro Forma Financial Information**

You should read the following summary pro forma financial and operating data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our unaudited pro forma condensed consolidated financial statements and our predecessor's consolidated financial statements, including the related notes, appearing elsewhere in this prospectus.

The following unaudited summary pro forma financial information is presented to reflect:

- § the initial public offering of \_\_\_\_\_ shares of our common stock in this offering at \$ \_\_\_\_\_ per share, the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus, for approximately \$260.2 million of estimated net proceeds, after the deduction of the underwriting discount and the payment by us of approximately \$3.6 million of expenses related to this offering and the formation transactions;
- § the merger of our predecessor with and into our operating partnership, with our predecessor as the acquirer for accounting purposes, and the issuance by our operating partnership of an aggregate of 9,993,992 OP units to the Class A, Class A-1, Class B and Class C members of our predecessor in exchange for their membership interests in our predecessor;
- § the contribution to our operating partnership of the Class B and Class C membership interests in Summit of Scottsdale held by The Summit Group and an unaffiliated third-party investor in exchange for an aggregate of 106,008 OP units;
- § the contribution of the net proceeds of this offering to our operating partnership in exchange for OP units that represent an approximate \_\_\_\_\_ % partnership interest in our operating partnership, including the sole general partnership interest;
- § the repayment or extinguishment of approximately \$225.2 million of outstanding indebtedness and the payment of estimated costs and expenses of approximately \$3.8 million in connection with the retirement of this indebtedness; and
- § the grant upon completion of this offering of an aggregate of 5,000 shares of our common stock to our independent director nominees and options to purchase an aggregate of 940,000 shares of our common stock to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan.

Following completion of the merger, the historical consolidated financial statements of our predecessor will become our historical consolidated financial statements, and our assets and liabilities will be recorded at their respective historical carrying values as of the date of completion of the merger.

The unaudited pro forma balance sheet data appearing below assumes that each of these transactions occurred on June 30, 2010. The unaudited pro forma statements of operations and other operating data assume that each of these transactions occurred on January 1, 2009.

In the opinion of our management, all material adjustments to reflect the effects of the preceding transactions have been made. The unaudited pro forma balance sheet data is presented for illustrative purposes only and is not necessarily indicative of what our actual financial position would have been had the transactions referred to above occurred on June 30, 2010, nor does it purport to represent our future financial position. The unaudited pro forma condensed statements of operations and other operating data are presented for illustrative purposes only and are not



necessarily indicative of what our actual results of operations would have been had the transactions referred to above occurred on January 1, 2009, nor do they purport to represent our future results of operations.

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The following table presents summary unaudited pro forma balance sheet data as of June 30, 2010 (dollars in thousands):

	<b>Pro Forma as of June 30, 2010 (unaudited)</b>
Cash and cash equivalents	\$ 34,287
Property and equipment, net	\$ 460,632
Total assets	\$ 534,274
Mortgages and notes payable	\$ 199,440
Total liabilities	\$ 211,417
Stockholders' equity	\$ 256,005
Noncontrolling interest	\$ 66,852
Total liabilities and equity	\$ 534,274

The following table presents summary unaudited pro forma statement of operations and other data for the six months ended June 30, 2010 and for the year ended December 31, 2009 (dollars in thousands, except per share data):

	<b>Pro Forma Six Months Ended June 30, 2010 (unaudited)</b>	<b>Pro Forma Year Ended December 31, 2009 (unaudited)</b>
<b>Statement of Operations Data:</b>		
<b>Revenue</b>		
Room revenues	\$ 65,939	\$ 118,960
Other hotel operations revenues	1,273	2,240
<b>Total Revenue</b>	<b>67,212</b>	<b>121,200</b>
<b>Expenses<sup>(1)</sup></b>		
Hotel operating expenses:		
Rooms	20,048	36,720
Other direct	8,287	18,048
Other indirect	18,303	33,238
Other	302	681
Total hotel operating expenses	46,940	88,687
Depreciation and amortization	13,346	23,088
Corporate general and administrative:		
Salaries and other compensation	1,683	3,564
Equity-based compensation		
Other	916	1,633

Hotel property acquisition costs	56	1,389
Loss on impairment of assets		7,506
<b>Total expenses</b>	<b>62,941</b>	<b>125,867</b>
<b>Income (loss) from operations</b>	<b>4,271</b>	<b>(4,667)</b>
Other Income (expense):		
Interest income	24	50
Interest expense	(5,199)	(9,052)
Loss on disposal of assets	(40)	(4)
<b>Total other expense</b>	<b>(5,215)</b>	<b>(9,006)</b>
<b>Loss from continuing operations</b>	<b>(944)</b>	<b>(13,673)</b>
<b>Net loss before income taxes</b>	<b>(944)</b>	<b>(13,673)</b>
Income tax expense	(450)	(840)
<b>Net loss</b>	<b>\$ (1,394)</b>	<b>\$ (14,513)</b>

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	<b>Pro Forma Six Months Ended June 30, 2010 (unaudited)</b>	<b>Pro Forma Year Ended December 31, 2009 (unaudited)</b>
Net loss attributable to noncontrolling interest		
Net loss attributable to common shareholders		
Pro forma net income (loss) per common share:		
Basic		
Diluted		
Pro forma weighted-average number of shares outstanding:		
Basic		
Diluted		
<b>Other Data:</b>		
FFO <sup>(2)</sup>	\$ 11,952	\$ 8,575
EBITDA <sup>(3)</sup>	\$ 17,577	\$ 18,417

(1) Historically, our predecessor segregated its operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) from its other operating expenses, such as depreciation and amortization and impairment losses. Following completion of this offering, we intend to reclassify our operating expenses into categories of hotel operating expenses (room expenses, other direct expenses, other indirect expenses and other expenses) and reclassify our predecessor's historical items of hotel operating expense to increase the comparability of our hotel operating expenses and our hotel operating results with other publicly traded hospitality REITs. Accordingly, historical balances included in our predecessor's:

- § direct hotel operations expense related to (1) wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast will be reclassified to rooms expense in our consolidated statements of operations and (2) franchise fees will be reclassified to other indirect expense in our consolidated statements of operations;
- § other hotel operating expenses related to (1) utilities and telephone will be reclassified to other direct expenses in our consolidated statements of operations and (2) real and personal property taxes, insurance and cable will be reclassified to other indirect expenses in our consolidated statements of operations;
- § general, selling and administrative expenses related to (1) office supplies, advertising, miscellaneous operating expenses and bad debt expense will be reclassified to other direct expenses in our consolidated statements of operations, (2) credit card/travel agent commissions, management company expenses, management company legal and accounting fees and franchise fees will be reclassified to other indirect expenses in our consolidated statements of operations, (3) hotel development and startup costs will be reclassified to hotel property acquisition costs in our consolidated statements of operations and (4) ground rent and other miscellaneous expenses will be reclassified to other expenses in our consolidated statements of operations; and
- § repairs and maintenance will be reclassified to other direct expenses in our consolidated statements of operations.

On a pro forma basis, the reclassification reduces total hotel operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) by \$56,000 for the six months ended June 30, 2010 and \$1.4 million for the year ended December 31, 2009, which were reclassified to hotel operating costs. The reclassification does not impact amounts reported by our predecessor as total expenses (total hotel operating expenses, depreciation and amortization and loss on impairment of assets),

income from operations, total other income, income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) before income taxes or net income (loss). See Unaudited Pro Forma Condensed Consolidated Financial Statements for additional information.

- (2) As defined by the National Association of Real Estate Investment Trusts, or NAREIT, funds from operations, or FFO, represents net income or loss (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate depreciation and amortization (excluding amortization of deferred financing costs). We present FFO because we consider it 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 when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, 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 excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, room rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. We will compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO 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. We caution investors that amounts presented in accordance with our definitions of FFO may not be comparable to similar measures disclosed by other companies, since not all companies calculate this non-GAAP measure in the same manner. FFO should not be considered as an alternative measure of our net income (loss) or operating performance. FFO may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that FFO can enhance your understanding of our financial condition and results of operations, this non-GAAP financial measure is not necessarily a better indicator of any trend as compared to a comparable GAAP measure such as net income (loss). Below, we include a quantitative

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reconciliation of pro forma FFO to the most directly comparable GAAP financial performance measure, which is pro forma net income (loss) (dollars in thousands):

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Pro Forma Year Ended December 31, 2009</b>
Net loss	\$ (1,394)	\$ (14,513)
Depreciation and amortization	13,346	23,088
FFO	\$ 11,952	\$ 8,575

(3) 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 impact of our asset base (primarily depreciation and amortization) from our operating results. Our management also uses EBITDA as one measure in determining the value of acquisitions and dispositions. We caution investors that amounts presented in accordance with our definitions of EBITDA may not be comparable to similar measures disclosed by other companies, since not all companies calculate this non-GAAP measure in the same manner. EBITDA should not be considered as an alternative measure of our net income (loss) or operating performance. EBITDA may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that EBITDA can enhance your understanding of our financial condition and results of operations, this non-GAAP financial measure is not necessarily a better indicator of any trend as compared to a comparable GAAP measure such as net income (loss). Below, we include a quantitative reconciliation of pro forma EBITDA to the most directly comparable GAAP financial performance measure, which is pro forma net income (loss) (dollars in thousands):

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Pro Forma Year Ended December 31, 2009</b>
Net loss	\$ (1,394)	\$ (14,513)
Interest income	(24)	(50)
Interest expense	5,199	9,052
Income tax expense	450	840
Depreciation and amortization	13,346	23,088
EBITDA	\$ 17,577	\$ 18,417

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**Risk Factors**

*An investment in our common stock involves risks. Before making an investment decision, you should carefully consider the following risk factors, which address the material risks concerning our business and an investment in our common stock, together with the other information contained in this prospectus. If any of the risks discussed in this prospectus were to occur, our business, prospects, financial condition, results of operation and our ability to service our debt and make distributions to our stockholders could be materially and adversely affected, the market price per share of our common stock could decline significantly and you could lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled *Cautionary Note Regarding Forward-Looking Statements*.*

**Risks Related to Our Business**

***Our business strategy depends significantly on achieving revenue and net income growth from anticipated increases in demand for hotel rooms any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.***

Our hotel properties experienced declining operating performance across various U.S. markets during the recent economic recession. Our business strategy depends significantly on achieving revenue and net income growth from anticipated improvement in demand for hotel rooms as part of a future economic recovery. We, however, cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens further, our operating results and growth prospects could be adversely affected. In particular, we already have reduced our operating expenses significantly in response to the recent economic recession and our ability to reduce operating expenses further to improve our operating performance is limited. As a result, any delay or a weaker than anticipated economic recovery will adversely affect our future results of operations and our growth prospects.

***Our unseasoned hotels have limited, if any, operating history and may not achieve the operating performance we anticipate, and as a result, our overall returns may not improve as we expect or may decline.***

Our unseasoned hotels have experienced extended stabilization periods as a result of the significant decline in general economic conditions. Consequently, many of these hotels continue to generate negative cash flow beyond our original expectations for them. Significant increases in anticipated hotel room supply or decreases in hotel room demand in the markets where any one or more of our unseasoned hotels are located could cause the operating performance of those hotels to be below our original plans for them. If macroeconomic conditions or conditions specific to their markets do not improve significantly or our anticipated improved results for these hotels do not otherwise materialize, our overall returns may not improve as we expect or may decline.

***We have no operating history as a publicly traded REIT and may not be successful in operating as a publicly traded REIT, which may adversely affect our ability to make distributions to our stockholders.***

We have no operating history as a publicly traded REIT. The REIT rules and regulations are highly technical and complex. We cannot assure you that our management team's past experience will be sufficient to successfully operate our company as a publicly traded REIT, implement appropriate operating and investment policies and comply with Code or Treasury Regulations that are applicable to us. Failure to comply with the income, asset, and other requirements imposed by the REIT rules and regulations could prevent us from qualifying as a REIT, and could force us to pay unexpected taxes and penalties which may adversely affect our ability to make distributions to our

stockholders.

***Our success depends on key personnel whose continued service is not guaranteed.***

We depend on the efforts and expertise of our management team to manage our day-to-day operations and strategic business direction. The loss of services from any of the members of our management team, particularly our Executive Chairman, Kerry W. Boekelheide, and our President and Chief Executive Officer, Daniel P. Hansen, and our inability to find suitable replacements on a timely basis could have an adverse effect on our operations.



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***We may be unable to complete acquisitions that would grow our business.***

Our growth strategy includes the disciplined acquisition of hotels as opportunities arise. Our ability to acquire hotels on satisfactory terms or at all is subject to the following significant risks:

- § we may be unable to acquire or may be forced to acquire at significantly higher prices desired hotels because of competition from other real estate investors with more capital, including other real estate operating companies, REITs and investment funds;
- § we may be unable to obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms;
- § agreements for the acquisition of hotels are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and we may spend significant time and money on potential acquisitions that we do not consummate;

If we cannot complete hotel acquisitions on favorable terms or at all, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and make distributions to our stockholders could be materially and adversely affected.

***We may fail to successfully integrate and operate newly acquired hotels.***

Our ability to successfully integrate and operate newly acquired hotels is subject to the following risks:

- § we may not possess the same level of familiarity with the market dynamics and market conditions of any new markets that we may enter, which could result in us paying too much for hotels in new markets;
- § market conditions may result in lower than expected occupancy rates and lower than expected room rates;
- § we may acquire hotels without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the hotels and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the hotels.
- § we may need to spend more than budgeted amounts to make necessary improvements or renovations to our newly acquired hotels; and
- § we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of hotels, into our existing operations.

If we cannot operate acquired hotels to meet our goals or expectations, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and make distributions to our stockholders could be materially and adversely affected.

***We may not succeed in managing our growth, in which case our financial results could be adversely affected.***

Our ability to grow our business depends upon our management team's business contacts and their ability to successfully hire, train, supervise and manage additional personnel. We may not be able to hire and train sufficient

personnel or develop management, information and operating systems suitable for our expected growth. If we are unable to manage any future growth effectively, our operations and financial results could be adversely affected.

***Upon completion of this offering and the formation transactions, the management of all of the hotels in our initial portfolio will be concentrated in one hotel management company.***

Upon completion of this offering and the formation transactions, all of the hotels in our initial portfolio will be operated by . This significant concentration of credit and operational risk in one hotel management company makes us more vulnerable economically than if we entered into hotel management agreements with several hotel management companies. Any adverse developments in s business and affairs, financial strength or ability to operate our hotels efficiently and effectively could have a material adverse effect on our results of operations. We cannot assure you that will have sufficient assets, income and access to financing and insurance coverage to enable it to satisfy its obligations to us or effectively and efficiently operate our initial hotel properties. The failure or inability of to satisfy its obligations to us or effectively and efficiently operate our initial hotel properties would materially reduce our revenues and net income, which could in turn reduce the amount of our distributable cash and cause the market price per share of our common stock to decline.

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***Termination of our hotel management agreement with                      may cause us to pay substantial termination fees or to experience significant disruptions at the affected hotels.***

If we replace                      as the hotel manager of any of our hotels, we may be required to pay a substantial termination fee and we may experience significant disruptions at the affected hotel. If we experience disruptions at the affected hotel, our financial condition, results of operations and our ability to service debt and make distributions to our stockholders could be materially and adversely affected.

***Restrictive covenants in hotel management and franchise agreements could preclude us from taking actions with respect to the sale or refinancing of a hotel that would otherwise be in our best interest.***

Hotel management and franchise agreements typically contain restrictive covenants that do not provide us with flexibility to sell or refinance a hotel without the consent of a manager or franchisor. For example, the terms of some of these agreements may restrict our ability to sell a hotel unless the purchaser is not a competitor of the hotel management company, assumes the related agreement and meets specified other conditions. We could be forced to pay consent or possibly termination fees to hotel managers or franchisors under these agreements. As a result of these types of restrictive covenants, we may be precluded from taking actions that would otherwise be in our best interest or could cause us to incur substantial expense.

***We may not be able to cause our hotel management companies to operate any of our hotels in a manner satisfactory to us, which could adversely affect our financial condition, results of operations and our ability to service debt and make distributions to our stockholders.***

To qualify as a REIT, we cannot operate our hotels. We will lease our hotels to our TRS lessees, which, in turn, will enter into hotel management agreements with hotel management companies, such as                      , that qualify as                      eligible independent contractors                      to operate our hotels. As a result, our financial condition, results of operations and our ability to service debt and make distributions to stockholders are dependent on the ability of                      and any other hotel management companies that we may retain in the future to operate our hotels successfully. Any failure by our hotel management companies to provide quality services and amenities or maintain a quality brand name and reputation could have a negative impact on their ability to operate our hotels and could have a material and adverse affect our financial condition, results of operations and our ability to service debt and make distributions to our stockholders.

We cannot and will not control the hotel management companies that operate and are responsible for maintenance and other day-to-day management of our hotels, including, but not limited to, the implementation of significant operating decisions. We cannot assure you that our hotel management companies will manage our properties in a manner that is consistent with their obligations under the management agreement or our obligations under our hotel franchise agreements, that our hotel management companies will not be negligent in their performance or engage in other criminal or fraudulent activity, or that they will not otherwise default on their management obligations to us. If any of the foregoing occurs, our relationships with the franchisors may be damaged and we may then be in breach of the franchise agreements, and we could incur liabilities resulting from loss or injury to our property or to persons at our properties, any of which could have a material adverse effect on our operating results and financial condition, as well as our ability to pay dividends to stockholders.

Even if we believe a hotel is being operated inefficiently or in a manner that does not result in satisfactory operating results, we will have limited ability to require the hotel management company to change its method of operation. We generally will attempt to resolve issues with our hotel management companies through discussions and negotiations. However, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to litigate the dispute or submit the matter to third-party dispute resolution or arbitration. We would only be able to seek redress if a hotel management company violates the terms of the applicable hotel management agreement, and then only to the

extent of the remedies provided for under the terms of the hotel management agreement. Our hotel managers or their affiliates manage, and in some cases own, have invested in, or provided credit support or operating guarantees to hotels that compete with our hotels, all of which may result in conflicts of interest. As a result, our hotel managers may in the future make decisions regarding competing lodging facilities that are not or would not be in our best interest.

***Funds spent to maintain franchisor operating standards, the loss of a franchise license or a decline in the value of a franchise brand may have a material adverse effect on our business and financial results.***

Our hotels operate under franchise agreements, and the maintenance of franchise licenses for our hotels is subject to our franchisors' operating standards and other terms and conditions. We expect that franchisors will periodically inspect

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our hotels to ensure that we, our TRS lessees and our hotel management companies maintain our franchisors standards. Failure by us, our TRS lessees or any of our hotel management companies to maintain these standards or other terms and conditions could result in a franchise license being canceled. If a franchise license terminates due to our failure to make required improvements or to otherwise comply with its terms, we could also be liable to the franchisor for a termination payment, which varies by franchisor and by hotel. As a condition of our continued holding of a franchise license, a franchisor could also require us to make capital improvements to our hotels, even if we do not believe the improvements are necessary or desirable or would result in an acceptable return on our investment. Nonetheless, we may risk losing a franchise license if we do not make franchisor-required capital improvements.

If a franchisor terminated a franchise license, we could try either to obtain a suitable replacement franchise or to operate the hotel without a franchise license. The loss of a franchise license could materially and adversely affect the operations or the underlying value of the hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. A loss of a franchise license for one or more hotels, particularly if our hotels become concentrated in a limited number of franchise brands in the future, could materially and adversely affect our revenues. This loss of revenues could, therefore, also adversely affect our financial condition, results of operations and ability to service debt and make distributions to our stockholders.

Negative publicity related to one of the franchise brands or the general decline of a brand also may adversely affect the underlying value of our hotels or result in a reduction in business.

***We will rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital we may not be able to make future acquisitions necessary to grow our business or meet maturing obligations.***

In order to qualify as a REIT under the Code, we will be required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. Because of this distribution requirement, we may not be able to fund, from cash retained from operations, all of our future capital needs, including capital needed to make investments and to satisfy or refinance maturing obligations.

We expect to rely on external sources of capital, including debt and equity financing, to fund future capital needs. Part of our strategy involves the use of additional debt financing to supplement our equity capital. Our ability to effectively implement and accomplish our business strategy will be affected by our ability to obtain and utilize additional leverage in sufficient amounts and on favorable terms. However, the recent U.S. and global economic slowdown has resulted in a capital environment characterized by limited availability of both debt and equity financing, increasing costs, stringent credit terms and significant volatility. If we are unable to obtain needed capital on satisfactory terms or at all, we may not be able to make the investments needed to expand our business, or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of the shares of our common stock. We may not be in a position to take advantage of attractive investment opportunities for growth if we are unable to access the capital markets on a timely basis on favorable terms.

***We have a significant amount of debt, and our organizational documents have no limitation on the amount of additional indebtedness that we may incur in the future. As a result, we may become highly leveraged in the future, which could adversely affect our financial condition.***

As of , 2010, after giving pro forma effect to this offering and the formation transactions, we would have had total outstanding indebtedness of approximately \$ million, all of which would have been secured indebtedness. In the future, we may incur additional indebtedness to finance future hotel acquisitions and development activities and other corporate purposes. In addition, there are no restrictions in our charter or bylaws that limit the amount or percentage of indebtedness that we may incur nor restrict the form in which our indebtedness will be incurred (including recourse or non-recourse debt or cross-collateralized debt).

A substantial level of indebtedness could have adverse consequences for our business, results of operations and financial condition because it could, among other things:

- § require us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, thereby reducing our cash flow available to fund working capital, capital

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expenditures and other general corporate purposes, including to pay dividends on our common stock as currently contemplated or necessary to satisfy the requirements for qualification as a REIT;

- § increase our vulnerability to general adverse economic and industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- § limit our ability to borrow additional funds or refinance indebtedness on favorable terms or at all to expand our business or ease liquidity constraints; and
- § place us at a competitive disadvantage relative to competitors that have less indebtedness.

***The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.***

The agreements governing our indebtedness that will remain outstanding following completion of this offering and the formation transactions contain covenants that place restrictions on us and our subsidiaries. These covenants may restrict, among other activities, our and our subsidiaries' ability to:

- § merge, consolidate or transfer all or substantially all of our or our subsidiaries' assets;
- § sell, transfer, pledge or encumber our stock or the ownership interests of our subsidiaries;
- § incur additional debt or issue preferred stock;
- § enter into, terminate or modify leases and hotel management and franchise agreements at our hotels;
- § make certain expenditures, including capital expenditures;
- § pay dividends on or repurchase our capital stock; and
- § enter into certain transactions with affiliates.

These covenants could impair our ability to grow our business, take advantage of attractive business opportunities or successfully compete. Our ability to comply with financial and other covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A breach of any of these covenants or covenants under any other agreements governing our indebtedness could result in an event of default. Upon the occurrence of an event of default under any of our debt agreements, the lenders could elect to declare all outstanding debt under such agreements to be immediately due and payable. If we were unable to repay or refinance the accelerated debt, the lenders could proceed against any assets pledged to secure that debt, including foreclosing on or requiring the sale of our hotels, and the proceeds from the sale of these hotels may not be sufficient to repay such debt in full.

***Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in any hotel subject to mortgage debt.***

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on secured indebtedness may result in foreclosure actions initiated by lenders and ultimately our loss of the hotels securing any loans for which we are in default. Certain debt we intend to assume in the formation transactions is cross-defaulted. In the future, we may incur additional debt that is cross-defaulted. If we are in default under a

cross-defaulted mortgage loan, we could lose multiple hotels to foreclosure. For tax purposes, a foreclosure of any of our hotels would be treated as a sale of the hotel for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the hotel, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. As we execute our business plan, we may assume or incur new mortgage indebtedness on the hotels in our portfolio or hotels that we acquire in the future. Any default under any one of our mortgage debt obligations may increase the risk of our default on our other indebtedness.

***An increase in interest rates would increase our interest costs on our variable rate debt and could adversely impact our ability to refinance existing debt or sell assets.***

An increase in interest rates would increase our interest payments and reduce our cash flow available for other corporate purposes, including capital improvements to our hotels or acquisitions of additional hotels. In addition, rising interest rates could limit our ability to refinance existing debt when it matures and increase interest costs on any debt that is refinanced. Further, an increase in interest rates could increase the cost of financing, thereby decreasing the amount third parties are willing to pay for our hotels, which would limit our ability to dispose of hotels when necessary or desired.



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See Management's Discussion and Analysis of Financial Condition and Results of Operations Qualitative and Quantitative Effects of Market Risk.

Although we have not entered into any hedging arrangements, we may, from time to time, enter into agreements such as interest rate swaps, caps, floors and other interest rate hedging contracts. However, these agreements reduce, but do not eliminate, the impact of rising interest rates, and they also expose us to the risk that other parties to the agreements will not perform or that the agreements will be unenforceable.

### ***We may not be able to obtain a credit facility.***

We intend to enter into a credit facility following completion of this offering. We may not succeed in obtaining a credit facility on favorable terms or at all. We cannot predict the size or terms of the credit facility if we are able to obtain it. Our failure to obtain a credit facility could adversely affect our ability to grow our business and meet our obligations as they come due.

### ***Joint venture investments could be adversely affected by a lack of sole decision-making authority with respect to such investments.***

In the future we may enter into strategic joint ventures with unaffiliated investors to acquire, develop, improve or dispose of hotels, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. We may not have sole decision-making authority with respect to such investments, which may:

- § prevent us from taking actions that are opposed by our joint venture partners;
- § create impasses on major decisions, such as acquisitions or sales;
- § prevent us from selling our interests in the joint venture without the consent of our joint venture partners; or
- § subject us to liability for the actions of our joint venture partners.

### ***Joint venture investments could subject us to risks related to the financial condition of joint venture partners.***

If a joint venture partner becomes bankrupt or otherwise defaults on its obligations under a joint venture agreement, we and any other remaining joint venture partners would generally remain liable for the joint venture liabilities. Furthermore, if a joint venture partner becomes bankrupt or otherwise defaults on its obligations under a joint venture agreement, we may be unable to continue the joint venture other than by purchasing such joint venture partner's interests or the underlying assets at a premium to the market price. If any of the above risks are realized, it could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

### ***We may have disputes with joint venture partners.***

Disputes between us and our joint venture partners may result in litigation or arbitration which could increase our expenses and prevent our officers and directors from focusing their time and effort on our business and could result in subjecting the hotels owned by the applicable joint venture to additional risks.

## **Risks Related to the Lodging Industry**

***Recent economic conditions may continue to adversely affect the lodging industry.***

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. gross domestic product, or GDP. The lodging industry is also sensitive to business and personal discretionary spending levels. Declines in corporate budgets and consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence or adverse political conditions can lower the revenues and profitability of our assets and therefore the net operating profits of our investments. The recent economic downturn has led to a significant decline in demand for products and services provided by the lodging industry.

We anticipate that any recovery of demand for lodging services will lag an improvement in economic conditions. We cannot predict how severe or prolonged the global economic downturn will be or how severe or prolonged the downturn in the lodging industry will be. A further extended period of economic weakness could have an adverse impact on our revenues and negatively affect our profitability.

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***Competition from other upscale and midscale without food and beverage hotels in the markets in which we operate could have a material adverse effect on our results of operations.***

The lodging industry is highly competitive. Our hotels compete with other hotels for guests in each market in which our hotels operate based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered and quality of customer service. Competition will often be specific to the individual markets in which our hotels are located and includes competition from existing and new hotels. Our competitors may have an operating model that enables them to offer rooms at lower rates than we can, which, particularly in the current economic recession, could result in our competitors increasing their occupancy at our expense. Competition could adversely affect our occupancy, average daily rates, or ADRs, and RevPAR, and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which could reduce our profitability and could materially and adversely affect our results of operations.

***Our investment opportunities and growth prospects may be affected by competition for investment opportunities.***

We compete for investment opportunities with other entities, some of which have substantially greater financial resources than we do. This competition may generally limit the number of suitable investment opportunities offered to us, which may limit our ability to grow. This competition may also increase the bargaining power of the owners of assets seeking to sell to us, making it more difficult for us to acquire new hotels on attractive terms or at all.

***Our operating results and ability to make distributions to our stockholders may be adversely affected by the markets in which we operate.***

Our hotels will be subject to various operating risks within the markets in which we will operate. These risks include:

- § over-building of hotels in our markets, which could adversely affect occupancy and revenues at the hotels we acquire;
- § adverse effects of international, national, regional and local economic and market conditions; and
- § changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances.

***Our operating results and ability to make distributions to our stockholders may be adversely affected by the risks inherent to the ownership of hotels.***

Hotels have different economic characteristics than many other real estate assets. A typical office property owner, for example, has long-term leases with third-party tenants, which provide a relatively stable long-term stream of revenue. By contrast, our hotels will be subject to various operating risks common to the lodging industry, many of which are beyond our control, including the following:

- § dependence on business and commercial travelers and tourism;
- § increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- § increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- §

events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu and severe acute respiratory syndrome, or SARS, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes and environmental disasters such as the oil spill in the Gulf of Mexico;

§ potential increases in labor costs at our hotels, including as a result of unionization of the labor force; and

§ adverse effects of a downturn in the lodging industry.

***We will have significant ongoing needs to make capital expenditures in our hotels, which will require us to devote funds to these purposes and could pose related risks that might impair our ability to make distributions to our stockholders.***

Our hotels will have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. Our franchisors also require periodic capital improvements as a condition

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of keeping the franchise licenses. In addition, lenders may require that we set aside annual amounts for capital improvements to our assets. These capital improvements and replacements may give rise to the following risks:

- § possible environmental problems;
- § construction cost overruns and delays;
- § a possible shortage of available cash to fund capital improvements and replacements and, the related possibility that financing for these capital improvements may not be available to us on affordable terms;
- § these capital improvements and replacements may not prove to be accretive to FFO; and
- § uncertainties as to market demand or a loss of market demand after capital improvements and replacements have begun.

If any of the above risks were to be realized, it could materially, adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

***Hotel development is subject to timing, budgeting and other risks. To the extent we develop hotels or acquire hotels that are under development, these risks may adversely affect our operating results and liquidity position.***

We may develop hotels or acquire hotels that are under development from time to time as suitable opportunities arise, taking into consideration general economic conditions. Hotel development involves a number of risks, including the following:

- § possible environmental problems;
- § construction delays or cost overruns that may increase project costs;
- § receipt of zoning, occupancy and other required governmental permits and authorizations;
- § development costs incurred for projects that are not pursued to completion;
- § acts of God such as earthquakes, hurricanes, floods or fires that could adversely impact a project;
- § inability to raise capital; and
- § governmental restrictions on the nature or size of a project.

To the extent we develop hotels or acquire hotels under development, we cannot assure you that any development project will be completed on time or within budget. Our inability to complete a project on time or within budget may adversely affect our projected operating results and our liquidity position.

***The increasing use of Internet travel intermediaries by consumers may adversely affect our profitability.***

Our hotel rooms are likely to be booked through Internet travel intermediaries, including, but not limited to, Travelocity.com, Expedia.com and Priceline.com. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and our management companies. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as

a commodity, by increasing the importance of price and general indicators of quality (such as three-star downtown hotel ) at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their reservations system rather than to the brands under which our hotels are franchised. If the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be adversely affected.

***Uninsured and underinsured losses could adversely affect our operating results.***

We intend to maintain comprehensive insurance on our hotels, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by owners of hotels similar to our hotels. Various types of catastrophic losses, like earthquakes and floods, may not be insurable or may not be economically insurable. In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the asset. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate an asset after it has been damaged or destroyed. Under those circumstances,

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the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotels.

### **Risks Related to the Real Estate Industry and Real Estate-Related Investments**

*Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of hotels in which we may invest or to adjust our portfolio in response to changes in economic and other conditions, and, therefore, may harm our financial condition.*

In the future, we may decide to sell hotels. Real estate investments are relatively illiquid. Our ability to promptly sell one or more hotels in our portfolio in response to changing economic, financial and investment conditions may be limited. We cannot predict whether we will be able to sell any hotels for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of an asset. The real estate market is affected by many factors that are beyond our control, including:

- § adverse changes in international, national, regional and local economic and market conditions;
- § changes in interest rates and in the availability, cost and terms of debt financing;
- § changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- § the ongoing need for capital improvements, particularly in older structures, that may require us to expend funds to correct defects or to make improvements before an asset can be sold;
- § changes in operating expenses; and
- § civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of the terrorist acts such as those that occurred on September 11, 2001.

*Increases in our property taxes would adversely affect our operating results and our ability to make distributions to our stockholders.*

Our hotels are subject to real and personal property taxes. These taxes may increase as tax rates change and as our hotels are assessed or reassessed by taxing authorities. If property taxes increase, our operating results and our ability to make distributions to our stockholders could be adversely affected.

*We could incur significant costs related to government regulation and litigation over environmental matters.*

Our hotels and development parcels are subject to various federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of the property, to perform or pay for the clean up of contamination (including hazardous substances, waste or petroleum products) at, on, under or emanating from the property and to pay for natural resource damages arising from contamination. These laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused the contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned a property at the time it became contaminated, we could incur cleanup costs or other environmental liabilities even after we sell properties. Contamination at, on, under or emanating from our properties

also may expose us to liability to private parties for costs of remediation, personal injury and/or property damage. In addition, environmental liens may be created on contaminated sites in favor of the government for damages and costs it incurs to address contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

In addition, our hotels are subject to various federal, state and local environmental, health and safety requirements that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, protection of natural resources, asbestos, lead-based paint, mold and mildew, and waste management. Some of our hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which are subject to regulation (for example, swimming pool chemicals or biological waste). Our hotels



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incur costs to comply with these environmental, health and safety laws and regulations and could be subject to fines and penalties for non-compliance with applicable laws.

Certain hotels we currently own or those we acquire in the future contain, may contain, or may have contained, asbestos-containing material, or ACM. Environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation, or demolition of a building. These laws regarding ACM may impose fines and penalties on building owners, employers and operators for failure to comply with these requirements or expose us to third-party liability.

***Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.***

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to material liability from third parties if property damage or personal injury occurs.

***Compliance with the laws, regulations and covenants that are applicable to our hotels, including permit, license and zoning requirements, may adversely affect our ability to make future acquisitions or renovations, result in significant costs or delays and adversely affect our growth strategy.***

Our hotels are subject to various covenants and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our hotels and may require us to obtain approval from local officials or community standards organizations at any time with respect to our hotels, including prior to acquiring a hotel or when undertaking any renovations of any of our hotels. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. We cannot assure you that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our growth strategy may be materially and adversely affected by our ability to obtain permits, licenses and zoning approvals. Our failure to obtain such permits, licenses and zoning approvals could have a material adverse effect on our business, financial condition and results of operations.

In addition, federal and state laws and regulations, including laws such as the Americans with Disabilities Act of 1990, or the ADA, impose further restrictions on our operations. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our hotels may currently be in non-compliance with the ADA. If one or more of the hotels in our portfolio is not in compliance with the ADA or any other regulatory requirements, we may be required to incur additional costs to bring the hotel into compliance and we might incur damages or governmental fines. In addition, existing requirements may change and future requirements may require us to make significant unanticipated expenditures that would adversely impact our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

***If we default on ground leases for land on which four of our hotels are located, our business could be materially and adversely affected.***

Four of the 65 hotels in our initial portfolio are subject to ground leases. If we default under the terms of these ground leases and are unable to cure the default in a timely manner, we may be liable for damages and could lose our leasehold interest in the applicable property and interest in the hotel on the applicable property. If any of the events of default were to occur and are not timely cured, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions to our stockholders could be materially and adversely affected.

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**Risks Related to The Formation Transactions and Conflicts of Interest**

*Our Executive Chairman, Mr. Boekelheide, and other members of our management team exercised significant influence with respect to the terms of the formation transactions, including transactions in which they determined the compensation they would receive.*

The number of OP units issuable by our operating partnership in the formation transactions was determined by our management team based on its valuation of our predecessor and the hotels owned by Summit of Scottsdale. In each case, the assumed value per OP unit is equal to the mid-point of the anticipated initial public offering price range of our common stock shown on the cover of this prospectus. Our management team determined the value of our predecessor and the Scottsdale hotels by considering various valuation factors and methodologies, including an analysis of available third-party valuations on some of the hotels, market sales comparables, market capitalization rates and general market conditions for similar hotel companies and publicly traded lodging REITs. The numbers of OP units issuable in the formation transactions are fixed. As a result, if the initial public offering price for our common stock is higher or lower than the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus, the value of the OP units to be issued in the formation transactions will increase or decrease accordingly.

Both we and our predecessor have sought to structure the formation transactions so as to minimize potential conflicts of interest, including by appointing a special committee of our predecessor's independent managers to review the terms of the proposed merger of our predecessor into our operating partnership. However, we did not conduct arm's-length negotiations with our predecessor's members or the members of Summit of Scottsdale with respect to the terms of the formation transactions, including the merger. Our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, have substantial, pre-existing ownership interests in our predecessor and Summit of Scottsdale. In addition, Mr. Aniszewski, our Executive Vice President and Chief Operating Officer, has a pre-existing ownership interest in our predecessor. Both Mr. Boekelheide and Mr. Aniszewski sat on the board of managers of our predecessor that approved the terms of the formation transactions. In the course of structuring the formation transactions, Mr. Boekelheide and Mr. Aniszewski had the ability to influence the type and level of benefits they will receive from us. In addition, although our predecessor's special committee received a fairness opinion from an independent third-party financial advisor that is not one of the underwriters of this offering with respect to the fairness, from a financial point of view, of the merger consideration to the former members of our predecessor, assuming that the value of the OP units issued as the merger consideration was between \$140 million and \$160 million, we did not obtain a fairness opinion with respect to the fairness of the merger consideration to us and we did not obtain recent third-party appraisals for all of the hotels to be acquired by us in the formation transactions. As a result, the consideration to be paid by us to the members of our predecessor in the merger and the acquisition of the 49% ownership interest in the two Scottsdale hotels may exceed the fair market value of the hotels and other assets being acquired by us in the formation transactions.

The value of the aggregate consideration to be issued in the formation transactions is based on the initial public offering price of our common stock, which will be determined in consultation with the underwriters and does not necessarily bear any relationship to the book value or the fair market value of the hotels to be acquired by us in the formation transactions. As a result, the consideration being paid by us in exchange for the hotels in our initial portfolio may exceed the aggregate fair market value of those assets.

*We are assuming liabilities in connection with the formation transactions, including unknown liabilities, which, if significant, could adversely affect our business.*

As part of the formation transactions, we will assume existing liabilities of our predecessor and its affiliates, including, but not limited to, liabilities in connection with our hotels, some of which may be unknown or

unquantifiable at the time this offering is completed. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of hotel guests, vendors or other persons dealing with our predecessor, The Summit Group, and their affiliates prior to this offering, tax liabilities, employment-related issues and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, they could adversely affect our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and to make distributions to our stockholders.

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***Upon completion of this offering and the formation transactions, our Executive Chairman, Mr. Boekelheide, and his affiliates may be able to exercise significant influence over us and our affairs and any matter presented to our stockholders, and their interests may differ from the interests of the other limited partners of our operating partnership, including us, and our stockholders.***

Upon completion of this offering and the formation transactions, our Executive Chairman, Mr. Boekelheide, and his affiliates, including The Summit Group, will hold an aggregate of more than 1.5 million OP units in our operating partnership, which if redeemed for shares of our common stock in accordance with our operating partnership's agreement, would represent approximately % of our outstanding common stock upon completion of this offering on a fully diluted basis.

As a result, Mr. Boekelheide and his affiliates may be able to exercise significant influence over us and our operating partnership and any matter presented to our stockholders and the limited partners of our operating partnership for their consideration and approval. The interests of Mr. Boekelheide and his affiliates may differ from or conflict with the interests of our stockholders and the other limited partners of our operating partnership.

***Tax consequences to holders of OP units upon a sale or refinancing of our hotels may cause the interests of holders of OP units, including certain of our executive officers and directors, to differ from the interests of our other stockholders.***

As a result of the unrealized built-in gain that may be attributable to one or more of our hotels, holders of OP units, including certain of our executive officers and directors, may experience more onerous tax consequences than holders of our common stock upon the sale or refinancing of these hotels, including disproportionately greater allocations of items of taxable income and gain upon the occurrence of such an event. The tax protection agreements that we will offer to enter into with certain former members of our predecessor, including our Executive Vice President and Chief Operating Officer, Craig J. Aniszewski, and The Summit Group, which is wholly owned by our Executive Chairman, Kerry W. Boekelheide, will not provide protection from those more onerous tax consequences. A holder of OP units that receives a disproportionately greater allocation of taxable income and gain will not receive a correspondingly greater distribution of cash proceeds with which to pay the income taxes on such income. Accordingly, they may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of such hotels and could exercise their influence over our affairs by attempting to delay, defer or prevent a transaction that might otherwise be in the best interests of our stockholders.

***Our tax protection agreements may require us to maintain certain debt levels that otherwise would not be required to operate our business, which may impair our ability to generate cash available for distribution and otherwise not be in your best interests.***

Our operating partnership will offer to enter into tax protection agreements with a limited number of the members of our predecessor, including The Summit Group and Mr. Aniszewski, to protect those members from recognizing taxable gain in connection with the formation transactions. Under the tax protection agreements, our operating partnership will provide those former members of our predecessor with the opportunity to guarantee debt or enter into a deficit restoration obligation, both of which are intended to prevent the former members of our predecessor from recognizing a taxable deemed cash distribution. If our operating partnership fails to make those opportunities available, it will be required to deliver to each such former member a cash payment intended to approximate the former member's tax liability resulting from its failure to make such opportunities available to them. These obligations may require us to maintain more or different indebtedness than would otherwise have been required for our business, which could result in higher interest expense than we would prefer to incur, reducing cash available for distribution to shareholders.

***Our fiduciary duties as the general partner of our operating partnership could create conflicts of interest.***

Upon completion of this offering and the formation transactions, we, as the sole general partner of our operating partnership, will have fiduciary duties to our operating partnership's limited partners, the discharge of which may conflict with the interests of our stockholders. The limited partners of our operating partnership have agreed that, in the event of a conflict between the duties owed by our directors to our company and the duties that we owe, in our capacity as the sole general partner of our operating partnership, to the limited partners, our directors are under no obligation to give priority to the interests of the limited partners. In addition, those persons holding OP units will have the right to vote on certain amendments to the limited partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights, as well as the right to

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vote on mergers and consolidations of the general partner or us in certain limited circumstances. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we cannot adversely affect the limited partners' rights to receive distributions, as set forth in the limited partnership agreement, without their consent, even though modifying such rights might be in the best interest of our stockholders generally.

***Certain key members of our senior management team will continue to be involved in other businesses, which may interfere with their ability to devote time and attention to our business and affairs.***

We will rely on our senior management team, including Mr. Boekelheide, for the day-to-day operations of our business. Following completion of this offering, Mr. Boekelheide and other key members of our senior management team, including Messrs. Hansen and Aniszewski, will continue to serve as executive officers of The Summit Group. The Summit Group will continue to manage one hotel that is not owned by us, a Comfort Suites located in Tucson, Arizona. Our employment agreement with Mr. Boekelheide requires him to devote a substantial portion of his business time and attention to our business and our employment agreements with our other executive officers require our executives to devote substantially all of their business time and attention to our business. In addition, Mr. Boekelheide, as well as our Executive Vice President and Chief Financial Officer, Mr. Becker, and our Vice President of Acquisitions, Mr. Bertucci, will continue to serve as officers of Summit Green Tiger Investments, LLC, or Summit Green Tiger. Summit Green Tiger co-manages two private investment funds, which own a total of six multi-family properties. We will not compete with these funds for investment opportunities. These outside business interests may reduce the amount of time that Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci are able to devote to our business. For more information, see **Certain Relationships and Related Party Transactions** **Outside Business Interests**.

## **Risks Related to Our Organization and Structure**

***Provisions of our charter may limit the ability of a third party to acquire control of us by authorizing our board of directors to issue additional securities.***

Our board of directors may, without stockholder approval, amend our charter to increase or decrease the aggregate number of our shares or the number of shares of any class or series that we have the authority to issue and to classify or reclassify any unissued shares of common stock or preferred stock, and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may authorize the issuance of additional shares or establish a series of common or preferred stock that may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our shares, even if stockholders believe that a change in control is in their interest. These provisions, along with the restrictions on ownership and transfer contained in our charter and certain provisions of Maryland law described below, could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities. See **Certain Provisions of Maryland Law and of Our Charter and Bylaws**.

***Provisions of Maryland law may limit the ability of a third party to acquire control of us by requiring our board of directors or stockholders to approve proposals to acquire our company or effect a change in control.***

Certain provisions of the Maryland General Corporation Law, or the MGCL, applicable to Maryland corporations may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

§

business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of us who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an affiliate of any interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations, unless, among other conditions, our common stockholders receive a minimum price, as defined in the MGCL, for their stock and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares; and

§ control share provisions that provide that our control shares (defined as voting shares of stock which, when aggregated with all other shares of stock controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as



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the direct or indirect acquisition of ownership or control of issued and outstanding control shares ) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by our officers or by our employees who are also directors of our company.

By resolution of our board of directors, we have opted out of the business combination provisions of the MGCL and provided that any business combination between us and any other person is exempt from the business combination provisions of the MGCL, provided that the business combination is first approved by our board of directors (including a majority of directors who are not affiliates or associates of such persons). In addition, pursuant to a provision in our bylaws, we have opted out of the control share provisions of the MGCL. However, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.***

Under Maryland law, generally, a director will not be liable if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- § actual receipt of an improper benefit or profit in money, property or services; or
- § active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director and officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

***Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.***

Our charter provides that a director may be removed only for cause (as defined in our charter) and then only by the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors. Our charter also provides that vacancies on our board of directors may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements prevent stockholders from removing directors except for cause and with a substantial affirmative vote and from replacing directors with their own nominees and may prevent a change in control of our company that is in the best interests of our stockholders.

***The ability of our board of directors to change our major policies without the consent of stockholders may not be in your interest.***

Our board of directors determines our major policies, including policies and guidelines relating to our acquisitions, leverage, financing, growth, operations and distributions to stockholders. Our board may amend or revise these and other policies and guidelines from time to time without the vote or consent of our stockholders. Accordingly, our stockholders will have limited control over changes in our policies and those changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

***The ability of our board of directors to revoke our REIT qualification without shareholder approval may cause adverse consequences to our shareholders.***

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we would become subject to federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

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***We are a holding company with no direct operations. As a result, we will rely on funds received from our operating partnership to pay liabilities and dividends, our stockholders' claims will be structurally subordinated to all liabilities of our operating partnership and our stockholders will not have any voting rights with respect to our operating partnership activities, including the issuance of additional OP units.***

We are a holding company and will conduct all of our operations through our operating partnership. We do not have, apart from our ownership of our operating partnership, any independent operations. As a result, we will rely on distributions from our operating partnership to pay any dividends we might declare on shares of our common stock. We will also rely on distributions from our operating partnership to meet any of our obligations, including tax liability on taxable income allocated to us from our operating partnership (which might make distributions to us that do not equal to the tax on such allocated taxable income).

In addition, because we are a holding company, stockholders' claims will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, claims of our stockholders will be satisfied only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

After giving effect to this offering, we will own approximately % of the partnership interests in our operating partnership, or % if the underwriters exercise their over-allotment option in full. In addition, our operating partnership may issue additional OP units in the future. Such issuances could reduce our ownership percentage in our operating partnership. Because our common stockholders will not directly own any OP units, they will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

### **Risks Related to Ownership of Our Common Stock and this Offering**

***There is currently no market for our common stock and a market for our common stock may not develop, which could adversely affect the liquidity and price of our common stock.***

Prior to this offering, there has not been a public market for our common stock, and we cannot assure you that a regular trading market for the common stock offered hereby will develop or, if developed, that any such market will be sustained. In the absence of a public trading market, an investor may be unable to liquidate an investment in our common stock. The initial public offering price has been determined by us and the underwriters. We cannot assure you that the price at which the common stock will sell in the public market after the closing of the offering will not be lower than the price at which it is sold by the underwriters.

***The NYSE or another nationally recognized exchange may not continue to list our securities, which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.***

We intend to apply to list our common stock on the NYSE under the symbol INN. If we are approved for listing on the NYSE, in order to remain listed we will be required to meet the continued listing requirements of the NYSE or, in the alternative, any other nationally recognized exchange to which we apply. We may be unable to satisfy those listing requirements, and there is no guarantee our securities will remain listed on a nationally recognized exchange. If our securities are delisted from the NYSE or another nationally recognized exchange, we could face significant material adverse consequences, including:

§ a limited availability of market quotations for our securities;

§ reduced liquidity with respect to our securities;

- § a determination that our common stock is penny stock, which will require brokers trading in our common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for the common stock;
- § a limited amount of news and analyst coverage; and
- § a decreased ability to issue additional securities or obtain additional financing in the future.

***The cash available for distribution may not be sufficient to make distributions at expected levels, and we cannot assure you of our ability to make distributions in the future. We may use borrowed funds or funds from other sources to make distributions, which may adversely impact our operations.***

We intend to make distributions to our common stockholders and holders of OP units. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available for distribution and will

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depend upon a number of factors, including restrictions under applicable law and the capital requirements of our company. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, the requirements for qualification as a REIT and other factors as our board of directors may deem relevant from time to time. We may be required to fund distributions from working capital, borrowings under the credit facility we anticipate obtaining following completion of this offering, proceeds of this offering or a sale of assets to the extent distributions exceed earnings or cash flows from operations. Funding distributions from working capital would restrict our operations. If we borrow from the credit facility we anticipate obtaining following completion of this offering in order to pay distributions, we would be more limited in our ability to execute our strategy of using that credit facility to fund acquisitions. Finally, selling assets may require us to dispose of assets at a time or in a manner that is not consistent with our disposition strategy. If we borrow to fund distributions, our leverage ratios and future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. We may not be able to make distributions in the future. In addition, some of our distributions may be considered a return of capital for income tax purposes. If we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder's adjusted tax basis in their shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. If distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

### ***We may change the distribution policy for our common stock in the future.***

The decision to declare and make distributions on our common stock in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our board of directors and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements or contractual prohibitions, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of directors deems relevant. While the statements under "Distribution Policy" reflect our current intentions, the actual distribution payable will be determined by our board of directors based upon the circumstances at the time of declaration and the actual distribution payable may vary from such expected amounts. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

### ***We may use a portion of the net proceeds from this offering to make distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, which would, among other things, reduce our cash available for investing.***

We may fund our distributions to our stockholders, if necessary to permit us to satisfy the requirements for qualification as a REIT and eliminate federal income and excise taxes that otherwise would be imposed on us, out of the net proceeds of this offering, which would reduce the amount of cash we have available for investing and other purposes. The use of the net proceeds to fund distributions could be dilutive to our financial results. In addition, funding distributions from the net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder's basis in its shares of our common stock.

### ***The market price of our common stock may be volatile due to numerous circumstances beyond our control.***

The trading prices of equity securities issued by REITs and other real estate companies historically have been affected by changes in market interest rates. One of the factors that may influence the price of our common stock is the annual yield from distributions on our common stock as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to stockholders, may lead prospective purchasers of our common stock to demand a higher annual yield, which could reduce the market price of our common stock.

Other factors that could affect the market price of our common stock include the following:

- § actual or anticipated variations in our quarterly results of operations;
- § changes in market valuations of companies in the lodging industry;
- § changes in expectations of future financial performance or changes in estimates of securities analysts;
- § fluctuations in stock market prices and volumes;
- § our issuances of common stock or other securities in the future;
- § the inclusion of our common stock in equity indices, which could induce additional purchases;

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- § the addition or departure of key personnel;
- § announcements by us or our competitors of acquisitions, investments or strategic alliances; and
- § unforeseen events beyond our control, such as terrorist attacks, travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu and SARS, political instability, regional hostilities, increases in fuel prices, imposition of taxes or surcharges by regulatory authorities and travel-related accidents and unusual weather patterns, including natural disasters such as hurricanes.

The market's perception of our growth potential and our current and potential future cash distributions, whether from operations, sales or refinancings, as well as the real estate market value of the underlying assets, may cause our common stock to trade at prices that differ from our net asset value per share. If we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Our failure to meet the market's expectations with regard to future earnings and distributions likely would adversely affect the market price of our common stock.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our stock or our industry, or the stock of any of our competitors, the price of our common stock could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our common stock to decline.

***The offering price per share of common stock offered under this prospectus may not accurately reflect the value of your investment.***

Prior to this offering there has been no market for our common stock. The offering price of the common stock offered by this prospectus was negotiated between us and the representatives. Factors considered in determining the prices of our common stock include:

- § the history of, and prospects for, us and the industry in which we compete;
- § an assessment of our management;
- § the prospects for our future earnings;
- § the prevailing conditions of the applicable United States securities market at the time of this offering;
- § market valuations of publicly traded companies that we and the underwriters believe to be comparable to us; and
- § other factors as were deemed relevant.

The offering price may not accurately reflect the value of the common stock and may not be realized upon any subsequent disposition of the shares.

***If you purchase shares of common stock in this offering, you will experience immediate dilution.***

We expect the initial public offering price of our common stock to be higher than the book value per share of our outstanding common stock following completion of this offering and the application of the net proceeds. If you purchase shares of common stock in this offering, you will experience immediate dilution. This means that the investors who purchase shares of common stock in this offering will likely pay a price per share that exceeds the book value of our assets after subtracting our liabilities. See Dilution.

***The number of shares of our common stock available for future sale could adversely affect the market price per share of our common stock, and future sales by us of shares of our common stock or issuances by our operating partnership of OP units may be dilutive to existing stockholders.***

Sales of substantial amounts of shares of our common stock in the public market, or upon exchange of OP units or exercise of any equity awards, or the perception that such sales might occur could adversely affect the market price per share of our common stock. The exercise of the underwriters' over-allotment option, the exchange of OP units for common stock, the vesting of any equity-based awards granted to certain directors, executive officers and other employees under the 2010 Equity Incentive Plan, the issuance of our common stock or OP units in connection with hotel, portfolio or business acquisitions and other issuances of our common stock or OP units could have an adverse effect on the market price of the shares of our common stock.

Holders of OP units, which are redeemable for cash or, at our operating partnership's option, shares of our common stock on a one-for-one basis, have registration rights with respect to a substantial amount of our common stock. These



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registration rights, which require us to prepare, file and have declared effective a resale registration statement permitting the public resale of any shares issued upon redemption of OP units, could result in a significant amount of sales of our common stock in a short period of time or the perception that a substantial amount of sales may occur, either or both of which could depress the market price per share of our common stock. The existence of these OP units, as well as additional OP units that may be issued in the future, and shares of our common stock reserved for issuance under the 2010 Equity Incentive Plan and any related resales may adversely affect the market price per share of our common stock and the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales by us of shares of our common stock may be dilutive to existing stockholders.

***Future borrowings, offerings of debt securities, which would be senior to our common stock upon liquidation, and/or issuances of equity securities (including OP units), which may be dilutive to our existing stockholders and be senior to our common stock for purposes of dividend distributions or upon liquidation, may materially and adversely affect the market price of our common stock.***

In the future we may borrow money from lenders, offer debt securities and/or issue equity securities, including OP units or preferred shares that may be senior to our common stock for purposes of dividend distributions or upon liquidation. We are also in discussions to obtain commitments from a lending syndicate for a credit facility that we anticipate will be in place at or following completion of this offering. Upon liquidation, holders of our debt securities and our preferred shares and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Holders of our common stock are not entitled to preemptive rights or other protections against us borrowing money in the future or offering senior debt or equity securities. Therefore, additional common share issuances, directly or through convertible or exchangeable securities (including OP units), warrants or options, will dilute the holdings of our existing common stockholders and such issuances or the perception of such issuances may reduce the market price of our common stock. In addition, our preferred shares, if issued, could have a preference on liquidating distributions and a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to borrow money or issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their interest in us.

***The consolidated financial statements of our predecessor and our unaudited pro forma financial statements may not be indicative of our future results or an investment in our common stock.***

The consolidated financial statements of our predecessor and our unaudited pro forma financial statements that are included in this prospectus do not necessarily reflect what our results of operations, financial position or cash flows would have been had we been an independent entity during the periods presented. Furthermore, this financial information is not necessarily indicative of what our results of operations, financial position or cash flows will be in the future. It is impossible for us to accurately estimate all adjustments reflecting all the significant changes that will occur in our cost structure, funding and operations as a result of our being a publicly traded REIT. For additional information, see Selected Financial Data and the consolidated financial statements of our predecessor and our unaudited pro forma financial statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing elsewhere in this prospectus.

## **Risks Related to Our Status as a REIT**

***Failure to qualify as a REIT, or failure to remain qualified as a REIT, would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.***

We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT commencing with our short taxable year ending December 31, 2010. However, we cannot assure you that we will qualify and remain qualified as a REIT. In connection with this offering, we will receive an opinion from Hunton & Williams LLP that, commencing with our short taxable year ending December 31, 2010, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the federal income tax laws and our proposed method of operations will enable us to satisfy the requirements for qualification and taxation as a REIT under the federal income tax laws for our short taxable year ending December 31, 2010 and subsequent taxable years. Investors should be aware that Hunton & Williams LLP's opinion is based upon customary assumptions, will be conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets

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and the conduct of our business, is not binding upon the Internal Revenue Service, or the IRS, or any court, and speaks as of the date issued. In addition, Hunton & Williams LLP's opinion will be based on existing federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the federal tax laws. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that will substantially reduce the funds available for distributions to our stockholders because:

- § we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- § we could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- § unless we are entitled to relief under certain federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our common stock. See *Material Federal Income Tax Considerations* for a discussion of material federal income tax consequences relating to us and our common stock.

***Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.***

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our TRSs will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

***Failure to make required distributions would subject us to federal corporate income tax.***

We intend to operate in a manner so as to qualify as a REIT for federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under the Code.

***REIT distribution requirements could adversely affect our liquidity and may force us to borrow funds or sell assets during unfavorable market conditions.***

In order to satisfy our qualification as a REIT and to meet the REIT distribution requirements, we may need to borrow funds on a short-term basis or sell assets, even if the then-prevailing market conditions are not favorable for these borrowings or sales. Our cash flows from operations may be insufficient to fund required distributions as a result of

differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt service or amortization payments. For example, we may be required to accrue income from mortgage loans and other types of debt instruments that we may acquire before we receive any payments of interest or principal on such assets. We may also acquire distressed debt investments that are subsequently modified or foreclosed upon, which could result in significant taxable income without any corresponding cash payment. See Material Federal Income Tax Considerations. The insufficiency of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities in order to fund distributions required to maintain our qualification as a REIT. Also, although the IRS has issued Revenue Procedure 2010-12 sanctioning certain issuances of taxable stock dividends by REITs under certain circumstances for taxable years ending on or before December 31, 2011, no assurance can be given that the IRS will extend this treatment or that we will otherwise be able to pay taxable stock dividends to meet our REIT distribution requirements.

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***The formation of our TRSs and TRS lessees increases our overall tax liability.***

Summit TRS and any other of our domestic TRSs will be subject to federal, state and local income tax on their taxable income, which will consist of the revenues from the hotels leased by our TRS lessees, net of the operating expenses for such hotels and rent payments to us. Accordingly, although our ownership of our TRS lessees will allow us to participate in the operating income from our hotels in addition to receiving rent, that operating income will be fully subject to income tax. The after-tax net income of our TRS lessees is available for distribution to us. If we have any non-U.S. TRSs, then they may be subject to tax in jurisdictions where they operate.

***Our TRS lessee structure subjects us to the risk of increased hotel operating expenses that could adversely affect our operating results and our ability to make distributions to stockholders.***

Our leases with our TRS lessees will require our TRS lessees to pay us rent based in part on revenues from our hotels. Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, including but not limited to the increases in wage and benefit costs, repair and maintenance expenses, energy costs, property taxes, insurance costs and other operating expenses, which would adversely affect our TRS lessees' ability to pay us rent due under the leases.

Increases in these operating expenses can have a significant adverse impact on our financial condition, results of operations, the market price of our common shares and our ability to make distributions to our stockholders.

***Our ownership of our TRSs will be subject to limitations and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.***

Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. The 100% tax would apply, for example, to the extent that we were found to have charged our TRS lessees rent in excess of an arm's-length rent. Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with our TRSs on terms that we believe are arm's-length to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% TRS limitation or to avoid application of the 100% excise tax.

***If the leases of our hotels to the TRS lessees are not respected as true leases for federal income tax purposes, we will fail to qualify as a REIT.***

To qualify as a REIT, we must annually satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as rents from real property. Rents paid to our operating partnership by TRS lessees pursuant to the leases of our hotels will constitute substantially all of our gross income. In order for such rent to qualify as rents from real property for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, financing arrangements, joint ventures or some other type of arrangement. If our leases are not respected as true leases for federal income tax purposes, we will fail to qualify as a REIT.

***If our operating partnership is treated as a publicly traded partnership taxable as a corporation for federal income tax purposes, we will cease to qualify as a REIT.***

Although Hunton & Williams LLP, our tax counsel, is of the opinion that our operating partnership will be treated as a partnership for federal income tax purposes, no assurance can be given that the IRS will not successfully challenge that position. If the IRS were to successfully contend that our operating partnership should be treated as a publicly traded partnership taxable as a corporation, we would fail to meet the 75% gross income test and certain of the asset tests applicable to REITs and, unless we qualified for certain statutory relief provisions, we would cease to qualify as a REIT. Also, our operating partnership would become subject to U.S. federal, state and local income tax, which would reduce significantly the amount of cash available for debt service and for distribution to us.

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***If or any other hotel management companies that we may engage in the future do not qualify as eligible independent contractors, or if our hotels are not qualified lodging facilities, we will fail to qualify as a REIT.***

Rent paid by a lessee that is a related party tenant of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. An exception is provided, however, for leases of qualified lodging facilities to a TRS so long as the hotels are managed by an eligible independent contractor and certain other requirements are satisfied. We expect to lease all or substantially all of our hotels to TRS lessees and to engage and, in the future, other hotel management companies that are intended to qualify as eligible independent contractors. Among other requirements, in order to qualify as an eligible independent contractor, the hotel manager must not own, directly or through its stockholders, more than 35% of our outstanding shares, and no person or group of persons can own more than 35% of our outstanding shares and the shares (or ownership interest) of the hotel manager, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35% thresholds are complex, and monitoring actual and constructive ownership of our shares by our hotel managers and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded.

In addition, for a hotel management company to qualify as an eligible independent contractor, such company or a related person must be actively engaged in the trade or business of operating qualified lodging facilities (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a hotel management contract with a TRS or its TRS lessee. As of the date hereof, we believe operates qualified lodging facilities for certain persons who are not related to us or our TRS. However, no assurances can be provided that or any other hotel managers that we may engage in the future will in fact comply with this requirement. Failure to comply with this requirement would require us to find other managers for future contracts, and, if we hired a management company without knowledge of the failure, it could jeopardize our status as a REIT.

Finally, each property with respect to which our TRS lessees pay rent must be a qualified lodging facility. A qualified lodging facility is a hotel, motel or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. As of the date hereof, we believe that the properties that will be leased to our TRS lessees will be qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of properties, REIT provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied.

***We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.***

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

***You may be restricted from acquiring or transferring certain amounts of our common stock.***

The stock ownership restrictions of the Code for REITs and the 9.8% stock ownership limit in our charter may inhibit market activity in our capital stock and restrict our business combination opportunities.

In order to qualify as a REIT for each taxable year after 2010, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding stock at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our capital stock under this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of a taxable year for each taxable year after 2010. To help insure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, our charter prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares



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would result in our failing to qualify as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interest to continue to qualify as a REIT.

*Under recently issued IRS guidance, we may pay taxable dividends of our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock.*

Under recently issued IRS guidance, we may distribute taxable dividends that are payable in cash and common stock at the election of each stockholder. Under Revenue Procedure 2010-12, up to 90% of any such taxable dividend paid with respect to our 2010 and 2011 taxable years could be payable in shares of our common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for federal income tax purposes. As a result, stockholders may be required to pay income tax with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. If we utilize Revenue Procedure 2010-12 and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock. We do not currently intend to utilize Revenue Procedure 2010-12.

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**Cautionary Note Regarding Forward-Looking Statements**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- § use of the proceeds of this offering;
- § the state of the U.S. economy generally or in specific geographic regions in which we operate, and the effect of general economic conditions on the lodging industry in particular;
- § market trends in our industry, interest rates, real estate values and the capital markets;
- § our business and investment strategy and, particularly, our ability to identify and complete hotel acquisitions;
- § our projected operating results;
- § actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- § our ability to manage our relationships with            and other management companies, as well as franchisors;
- § our ability to obtain and maintain financing arrangements;
- § changes in the value of our properties;
- § impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- § our ability to satisfy the requirements for qualification as a REIT under the Code;
- § availability of qualified personnel;
- § estimates relating to our ability to make distributions to our stockholders in the future;
- § general volatility of the market price of our common stock; and
- § degree and nature of our competition.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this prospectus under the headings Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Our Business and Properties. If a change occurs, our business, financial condition, liquidity and results of operations may vary

materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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We estimate that the net proceeds to us from the sale by us of \_\_\_\_\_ shares of common stock in this offering will be approximately \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ million if the underwriters exercise their over-allotment option in full, after deducting the underwriting discount and estimated offering expenses payable by us of approximately \$ \_\_\_\_\_ million. A \$0.50 increase (decrease) in the assumed offering price per share would increase (decrease) net proceeds to us from this offering by \$ \_\_\_\_\_ million, assuming the number of shares offered by us as set forth on the cover of this prospectus remains the same. Any additional proceeds to us resulting from an increase in the public offering price or the number of shares offered pursuant to this prospectus will be used by us as described below. We will contribute the net proceeds of this offering to our operating partnership in exchange for OP units.

We intend to use the net proceeds of this offering as follows: (1) approximately \$ \_\_\_\_\_ million to repay or extinguish existing indebtedness that we will assume upon completion of the formation transactions, including the payment of accrued interest and exit fees related to our repayment of the Fortress Credit Corp. indebtedness described below and the payment of an extinguishment premium and other transaction costs related to the extinguishment of the Lehman Brothers Bank indebtedness described below; (2) approximately \$10.0 million to fund capital improvements at our hotels; and (3) the balance for general corporate and working capital purposes, including possible future hotel acquisitions.

Pending the use of the net proceeds, we intend to invest the net proceeds in interest-bearing, short-term investment-grade securities, money-market accounts or other investments that are consistent with our intention to elect and qualify to be taxed as a REIT.

If the underwriters exercise their over-allotment option in full, we expect to use the additional net proceeds to us, which will be approximately \$ \_\_\_\_\_ million in the aggregate, for general working capital purposes, including potential future acquisitions.

The following table sets forth information, as of June 30, 2010, with respect to the indebtedness that we intend to repay in full with a portion of the net proceeds from this offering:

Indebtedness to be Repaid	Outstanding Principal Balance as of June 30, 2010	Interest Rate <sup>(1)</sup>	Maturity Date
Fortress Credit Corp.	\$ 85,419,143 <sup>(2)</sup>	30-day LIBOR + 8.75% <sup>(3)</sup>	March 5, 2011
Lehman Brothers Bank	77,913,380 <sup>(4)</sup>	5.40%	January 11, 2012
Marshall & Ilsley Bank	21,420,178	30-day LIBOR + 3.90%	December 31, 2010
First National Bank of Omaha	20,400,000	90-day LIBOR + 4.00% <sup>(5)</sup>	July 31, 2011
First National Bank of Omaha	20,002,943 <sup>(6)</sup>	90-day LIBOR + 4.00% <sup>(5)</sup>	July 31, 2011 <sup>(6)</sup>
Total	\$ 225,155,644 <sup>(7)</sup>		

- (1) As of June 30, 2010, the 30-day LIBOR rate was 0.35% and the 90-day LIBOR rate was 0.53%.
- (2) We will be required to pay an exit fee equal to 1.0% of the outstanding principal balance of the Fortress Credit Corp. indebtedness being repaid. We estimate that the exit fee will be approximately \$ . After December 31, 2010, the exit fee increases to 1.5% of the outstanding principal balance. From September 8, 2009 to September 20, 2010, we borrowed an aggregate of approximately \$3.8 million of this indebtedness from Fortress to pay accrued interest under the Fortress loans.
- (3) Interest is paid monthly at the 30-day LIBOR rate plus 5.75%, and additional interest accrues at the annual rate of 30-day LIBOR plus 3.00% and is deferred until the maturity date. As a result, the outstanding principal balance will increase prior to the date of repayment.
- (4) We will be required to pay a extinguishment premium and other transaction costs in an amount estimated to be approximately \$2.9 million in connection with the extinguishment of the Lehman Brothers Bank indebtedness.
- (5) Subject to a minimum interest rate of 5.5%.
- (6) On December 31, 2009, we borrowed approximately \$12.9 million of this indebtedness from First National Bank of Omaha to fund construction costs of our Aloft hotel in Jacksonville, Florida. Our predecessor has received conditional approval from First National Bank of Omaha to extend the maturity date of the commitment secured by the Aloft hotel from June 8, 2011 to July 31, 2011.
- (7) Excludes approximately \$ million of prepayment and related fees as described in footnotes (2) and (4) above to be paid with the net proceeds of this offering.

**Table of Contents****Capitalization**

The following table presents:

- § our predecessor's historical capitalization as of June 30, 2010; and
- § our capitalization as of June 30, 2010 on a pro forma basis, after giving effect to the formation transactions, including this offering and the application of the net proceeds from this offering as described in "Use of Proceeds" as if each of them had occurred on June 30, 2010.

You should read the following capitalization table in conjunction with "Use of Proceeds," "Selected Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the more detailed information contained in our predecessor's consolidated financial statements and notes thereto included elsewhere in this prospectus.

	<b>As of June 30, 2010</b>	
	<b>Historical Summit Hotel Properties, LLC (Our Predecessor)</b>	<b>Pro Forma Summit Hotel Properties, Inc.<sup>(1)</sup> (unaudited)</b>
	<b>(dollars in thousands)</b>	
Mortgages and notes payable, including current portion	\$ 424,596	\$
Common stock, \$0.01 par value, no shares authorized, issued and outstanding, historical; 500,000,000 shares authorized,        shares issued and outstanding, pro forma		
Preferred stock, \$0.01 par value, no shares authorized, issued and outstanding, historical; 100,000,000 shares authorized, no shares issued and outstanding, pro forma		
Additional paid-in capital		
Members' equity	76,759	
Noncontrolling interest of our predecessor's consolidated subsidiaries	(1,624)	
Noncontrolling interest in our operating partnership		
Total members' equity/stockholders' equity	75,135	
Total capitalization	\$ 499,731	\$

- (1) Includes: (i)        shares of common stock to be sold in this offering; and (ii) an aggregate of        shares of common stock to be issued to our independent director nominees pursuant to the 2010 Equity Incentive Plan upon completion of this offering. Excludes: (i) up to        shares of common stock issuable by us upon exercise of the underwriters' over-allotment option; (ii) an aggregate of        shares of common stock issuable upon exercise of

options that we will grant to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan upon completion of this offering; (iii) additional shares of common stock available for future issuance under the 2010 Equity Incentive Plan; and (iv) up to 10,100,000 shares of common stock issuable upon redemption of the 10,100,000 OP units to be issued by our operating partnership in the formation transactions.

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At June 30, 2010, our pro forma net tangible book value, after giving effect to the formation transactions, but before this offering, was approximately \$      million, or \$      per share. Pro forma net tangible book value per share is determined by dividing our pro forma net tangible book value (tangible assets less liabilities) by the pro forma total number of shares of our common stock outstanding upon completion of the formation transactions, assuming all the OP units to be issued in the formation transactions are redeemed for shares of our common stock on a one-for-one basis.

After giving effect to the sale by us of      shares of our common stock in this offering at an assumed initial public offering price of \$      per share, which is the mid-point of the anticipated initial public offering price per share shown on the cover of this prospectus, the deduction of the underwriting discount and the payment of the estimated expenses of this offering and the formation transactions, our pro forma net tangible book value as of June 30, 2010 would have been \$      million, or \$      per share. This represents an immediate increase in pro forma net tangible book value per share of \$      per share to the members of our predecessor and the Class B and Class C members of Summit of Scottsdale receiving OP units in the formation transactions and an immediate dilution of \$      per share to new investors in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of June 30, 2010, after giving effect to the formation transactions, but before this offering <sup>(1)</sup>	
Increase in pro forma net tangible book value per share attributable to this offering	\$
Pro forma net tangible book value per share after the formation transactions, this offering <sup>(2)</sup>	
Dilution in pro forma net tangible book value per share to new investors <sup>(3)</sup>	\$

- (1) Represents pro forma net tangible book value as of June 30, 2010, after giving effect to the formation transactions, but before this offering, of approximately \$      million, divided by the sum of (i) 10,100,000 shares of our common stock, which assumes the 10,100,000 OP units to be issued in the formation transactions to the members of our predecessor and the Class B and Class C members of Summit of Scottsdale are redeemed for shares of our common stock on a one-for-one basis, and (ii) 1,000 shares of common stock purchased by our Executive Chairman, Mr. Boekelheide, in connection with our initial capitalization for \$1,000, all of which will be repurchased for \$1,000 prior to completion of this offering.
- (2) Represents pro forma net tangible book value as of June 30, 2010, after giving effect to the formation transactions, this offering, the deduction of the underwriting discount and the payment of estimated expenses related to this offering and the formation transactions, of approximately \$      million, divided by the sum of (i)      shares of our common stock to be sold in this offering, (ii) 10,100,000 shares of our common stock, which assumes the 10,100,000 OP units to be issued in the formation transactions to the members of our predecessor and the Class B and Class C members of Summit of Scottsdale are redeemed for shares of our common stock on a one-for-one basis, and (iii) an aggregate of      shares of our common stock to be granted to our non-employee directors upon completion of this offering pursuant to the 2010 Equity Incentive Plan. The pro forma total number of shares of our common stock outstanding after the formation transactions and this offering excludes: (i) up to      shares of our common stock issuable upon exercise of the underwriters over-allotment option and (ii) an aggregate of      shares of our common stock issuable upon exercise of



options to be granted to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan upon completion of this offering.

- (3) Dilution is determined by subtracting pro forma net tangible book value per share after the formation transactions and this offering from the assumed initial public offering price per share paid by a new investor for a share of our common stock.

The table below summarizes, as of June 30, 2010, on a pro forma basis after giving effect to the formation transactions and this offering, the differences between:

- § the number of OP units to be received by our predecessor s members and the Class B and Class C members of Summit of Scottsdale, or the continuing investors, in the formation transactions and the number of shares of common stock to be received by the new investors purchasing shares in this offering; and
- § the total consideration paid and the average price per OP unit paid by the continuing investors (based on the net tangible book value of the assets being acquired by our operating partnership in the formation transactions) and the total consideration paid and the average price per share paid by the new investors purchasing shares in this offering.

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	OP Units/ Shares Issued		Net Tangible Book Value of Contribution/Cash		Average Price per Share/OP Unit
	Number	Percentage <sup>(1)</sup>	Amount	Percentage	
Continuing investors		(2)		(3)	
New investors				(4)	
Total					

- (1) Represents the percentage of the total number of shares of common stock to be outstanding upon completion of this offering and the formation transaction and assumes all of the 10,100,000 OP units to be issued to the continuing investors in the formation transactions are redeemed for shares of our common stock on a one-for-one basis.
- (2) Includes: (i) 10,100,000 shares of common stock, assuming all of the 10,100,000 OP units to be issued to the continuing investors in the formation transactions are redeemed for shares of our common stock on a one-for-one basis and (ii) an aggregate of      shares of common stock to be issued to our independent director nominees upon completion of this offering pursuant to the 2010 Equity Incentive Plan. Excludes      shares of our common stock issuable upon exercise of options to be granted to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan upon completion this offering.
- (3) Represents pro forma net tangible book value as of June 30, 2010 of the assets being acquired by our operating partnership in the formation transactions.
- (4) Represents the aggregate offering price of the shares offered hereby.

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**Distribution Policy**

We intend to make regular quarterly cash distributions to our stockholders, as more fully described below. To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See **Material Federal Income Tax Considerations**. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

The amount, timing and frequency of distributions will be authorized by our board of directors based upon a variety of factors, including:

- § actual results of operations;
- § our level of retained cash flows;
- § the timing of the investment of the net proceeds of this offering;
- § any debt service requirements;
- § capital expenditure requirements for our properties;
- § our taxable income;
- § the annual distribution requirements under the REIT provisions of the Code; and
- § other factors that our board of directors may deem relevant.

Distributions to stockholders generally will be taxable to our stockholders as ordinary income, although a portion of such distributions may be designated by us as long-term capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of our distributions, see **Material Federal Income Tax Considerations**.

We intend to make regular quarterly cash distributions to our stockholders beginning with a pro rata distribution with respect to the period commencing on the date of completion of this offering and ending \_\_\_\_\_, based on a rate of \$ \_\_\_\_\_ per share for a full quarter. On an annualized basis, this would equal \$ \_\_\_\_\_ per share, or an annual distribution rate of approximately \_\_\_\_\_% based on an assumed initial public offering price at the mid-point of the anticipated initial public offering price range set forth on the cover of this prospectus. We estimate that our initial annual distribution rate will represent approximately \_\_\_\_\_% of estimated cash available for distribution for the 12-month period ending \_\_\_\_\_. This initial distribution rate is based upon an estimate of cash available for distribution after this offering and completion of the formation transactions, which is calculated based on adjustments to our pro forma net income for the year ended December 31, 2009 as described below. We have estimated cash available for distribution for the sole purpose of determining our initial distribution amount.

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts. Our estimate also does not reflect the amount of cash estimated to be used for investing activities, such as acquisitions, other than a provision for recurring capital expenditures. It also does not reflect the amount of cash estimated to be used for financing activities. Any acquisitions or other investing activities and financing activities may have a material effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations or our liquidity, and have estimated cash available for distribution for the sole purpose of determining the amount of our initial annual distribution rate. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to make distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future distributions.

Distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including maintaining our status as a REIT, restrictions under applicable law and our loan agreements and other factors described below. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial distribution rate as most of

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the hotel properties in our initial portfolio have been in operation for a significant period of time. However, we cannot assure you that the estimate will prove accurate, and actual distributions may therefore be significantly different from the expected distributions. Actual results of operations, economic conditions or other factors may differ materially from the assumptions used in the estimate. Our actual results of operations will be affected by a number of factors, including the revenue received from our hotels, performance of our property manager, our operating expenses, interest expense (including the effect of variable rate debt), and unanticipated capital expenditures. We may, from time to time, be required, or elect, to borrow funds under our anticipated credit facility or otherwise, sell assets or issue capital stock to pay distributions. Additionally, we may pay future distributions from the proceeds from this offering or other securities offerings.

We anticipate that, at least initially, our distributions will exceed our then-current and then-accumulated earnings and profits as determined for federal income tax purposes due to the write-off of prepayment fees that we expect to pay in respect of the debt we will be retiring from the net proceeds of this offering and non-cash expenses, primarily depreciation and amortization charges that we expect to incur. Therefore, a portion of these distributions may represent a return of capital for federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits will not be taxable to a stockholder under current federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his or her common stock. Instead, these distributions will reduce the adjusted tax basis of the common stock. In that case, the gain (or loss) recognized on the sale of that common stock or upon our liquidation will be increased (or decreased) accordingly. To the extent those distributions exceed a stockholder's adjusted tax basis in his or her common stock, they will be treated as a gain from the sale or exchange of the stock. We expect to pay our first distribution in \_\_\_\_\_, which will include a payment with respect to the period commencing on the date of completion of this offering and ending \_\_\_\_\_. We expect that \_\_\_\_\_% of our estimated initial distribution will represent a return of capital for the tax period ending \_\_\_\_\_. The percentage of our stockholder distributions (if any) that exceeds our current and accumulated earnings and profits may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to holders of our common stock, see [Material Federal Income Tax Considerations](#).

We currently expect to maintain our initial distribution rate for the 12-month period following completion of this offering and the formation transactions unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. We cannot assure you that our estimated distribution will be made or sustained or that our board of directors will not change our distribution policy in the future. Any distributions we pay in the future will depend upon our actual results of operations, economic conditions, capital expenditure requirements, debt service requirements, including limits on distributions that may be contained in our financing agreements, including those of our anticipated revolving credit facility, from time to time, and other factors that could cause actual distributions to differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our properties, our operating expenses, interest expense and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see [Risk Factors](#). To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider various funding sources to cover any shortfall, including borrowing under our credit facility, selling certain of our assets or using a portion of the net proceeds we receive in this offering or future offerings. In addition, our charter allows us to issue preferred stock that could have a preference over our common stock as to distributions. We currently have no intention to issue any preferred stock, but if we do, the distribution preference on the preferred stock could limit our ability to make distributions to the holders of our common stock. We also may elect to pay all or a portion of any distribution in the form of a taxable distribution of our common stock or distribution of debt securities.

The following table sets forth calculations relating to the intended initial distribution based on our pro forma financial data, and we cannot assure you that the intended initial distribution will be made or sustained. The calculations are being made solely for the purpose of illustrating the initial distribution and are not necessarily intended to be a basis

for determining future distributions. The calculations include the following material assumptions:

- § income and cash flows from operations for the twelve months ended December 31, 2009 will be substantially the same for the twelve months ending December 31, 2010, with the exception of increases in contractual ground rent for the twelve months ended June 30, 2010;
- § cash flows used in investing activities will be the contractually committed and planned amounts for the twelve months ending June 30, 2011; and

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§ cash flows used in financing activities will be the contractually committed amounts for the twelve months ending June 30, 2011.

These calculations do not assume any changes to our operations or any acquisitions or dispositions, which would affect our operating results and cash flows, or changes in our outstanding common stock. We cannot assure you that our actual results will be as indicated in the calculations below. All dollar amounts, other than per-share amounts, are in thousands.

<b>Pro forma net income for the year ended December 31, 2009</b>	\$	
Less: Pro forma net income for the six months ended June 30, 2009		
Add: Pro forma net income for the six months ended June 30, 2010		
<b>Pro forma net income for the twelve months ended June 30, 2010</b>		
Add: Pro forma depreciation and amortization for the twelve months ended June 30, 2010		
Add: Pro forma non-cash straight line ground rent expense for the twelve months ended June 30, 2010 <sup>(1)</sup>		
Add: Pro forma amortization of deferred financing costs for the twelve months ended June 30, 2010 <sup>(2)</sup>		
Add: Pro forma loss on impairment of assets <sup>(3)</sup>		
Add: Pro forma loss (gain) on disposal of assets <sup>(4)</sup>		
Add: Pro forma hotel property acquisition costs <sup>(5)</sup>		
Less: Pro forma increase in contractual ground rent expense for the twelve months ended June 30, 2010 <sup>(6)</sup>		
Less: Pro forma non-cash amortization of stock and option awards for the twelve months ended June 30, 2010 <sup>(7)</sup>		
<b>Estimated cash flows from operating activities for the twelve months ending June 30, 2011</b>		
<b>Estimated cash flows used in investing activities required capital expenditure reserve contributions<sup>(8)</sup></b>		
<b>Estimated cash flows used in financing activities scheduled principal payments on debt payable<sup>(9)</sup></b>		
<b>Estimated cash available for distribution for the twelve months ending June 30, 2011</b>	\$	
Our share of cash available for distribution		
Noncontrolling interests share of cash available for distribution		
<b>Total estimated initial annual distribution</b>	\$	
Estimated initial annual distribution per share <sup>(10)</sup>	\$	
Payout ratio based on cash available for distribution		%

(1) Represents non-cash item recorded as an operating expense.

(2) Represents non-cash item recorded as interest expense.

(3) Represents non-cash item recorded as loss on impairment of assets.

(4) Represents non-cash item recorded on the disposal of assets.

(5) Represents hotel property acquisition costs funded with loan or equity proceeds.

(6) Represents estimated higher ground rent expense pursuant to existing ground lease agreement.

(7) Represents non-cash compensation recorded as an administrative and general corporate expense.

(8)

Estimated amount based on the amount of reserves required pursuant to management, franchise and loan agreements, which range from % to % of the revenues of each hotel.

- (9) Estimated amount based on pro forma indebtedness to be outstanding following completion of this offering.
- (10) Represents the aggregate amount of the estimated intended annual distribution divided by the shares of common stock that will be outstanding upon completion of this offering. The number of shares to be outstanding upon completion of this offering excludes shares of common stock that may be issued by us upon exercise of the underwriters overallotment option or upon exercise of options or redemption of OP units.



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**Selected Financial and Operating Data**

You should read the following selected historical and pro forma financial and operating data together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our unaudited pro forma condensed consolidated financial statements and our predecessor's consolidated financial statements, including the related notes, appearing elsewhere in this prospectus.

We have not presented historical financial information for Summit Hotel Properties, Inc., because we have not had any corporate activity since our formation other than the issuance of 1,000 shares of common stock to our Executive Chairman in connection with the formation and initial capitalization of our company and because we believe that a presentation of the results of Summit Hotel Properties, Inc. would not be meaningful.

We consider Summit Hotel Properties, LLC our predecessor for accounting purposes. Our predecessor's historical consolidated balance sheet information as of December 31, 2009 and 2008 and our predecessor's historical consolidated statements of operations information for the years ended December 31, 2009, 2008 and 2007 have been derived from our predecessor's historical audited consolidated financial statements appearing elsewhere in this prospectus. Our predecessor's historical consolidated balance sheet information as of June 30, 2010 and our predecessor's historical consolidated statements of operations information for the six months ended June 30, 2010 and 2009 have been derived from the historical audited and unaudited consolidated financial statements, respectively, appearing elsewhere in this prospectus. In the opinion of our management, the unaudited interim financial information includes the adjustments (consisting of only normal recurring adjustments) necessary to present fairly the unaudited interim financial information. Our predecessor's historical consolidated balance sheet information as of December 31, 2007, 2006 and 2005 and our predecessor's historical consolidated statements of operations information for the years ended December 31, 2006 and 2005 have been derived from our predecessor's historical audited consolidated financial statements.

Our selected unaudited pro forma balance sheet data and statements of operation and other operating data is presented to reflect: (1) the sale of \_\_\_\_\_ shares of our common stock in this offering at \$ \_\_\_\_\_ per share, the mid-point of the anticipated initial public offering price range shown on the cover of this prospectus, for approximately \$260.2 million of estimated net proceeds, after the deduction of the underwriting discount and the payment by us of approximately \$3.6 million of expenses related to this offering and the formation transactions; (2) the contribution to our operating partnership of the Class B and Class C membership interests in Summit of Scottsdale held by The Summit Group and an unaffiliated third-party investor in exchange for an aggregate of 106,008 OP units; (3) the merger of our predecessor with and into our operating partnership, with our predecessor as the acquirer for accounting purposes, and the issuance by our operating partnership of an aggregate of 9,993,992 OP units to the Class A, Class A-1, Class B and Class C members of our predecessor in exchange for their membership interests in our predecessor; (4) the contribution of the net proceeds of this offering to our operating partnership in exchange for OP units that represent an approximate \_\_\_\_\_ % partnership interest in our operating partnership, including the sole general partnership interest; (5) the repayment or extinguishment of approximately \$225.2 million of outstanding indebtedness and the payment of estimated costs and expenses of approximately \$3.8 million in connection with the retirement of this indebtedness; and (6) the grant upon completion of this offering of an aggregate of 5,000 shares of common stock to our independent directors and options to purchase an aggregate of 940,000 shares of common stock to Messrs. Boekelheide, Hansen, Aniszewski, Becker and Bertucci pursuant to the 2010 Equity Incentive Plan upon completion of this offering.

Following completion of the merger, the historical consolidated financial statements of our predecessor will become our historical consolidated financial statements, and our assets and liabilities will be recorded at their respective

historical carrying values as of the date of completion of the merger.

The unaudited pro forma balance sheet data appearing below assumes that each of these transactions occurred on June 30, 2010. The unaudited pro forma statements of operations and other operating data assume that each of these transactions occurred on January 1, 2009.

In the opinion of our management, all material adjustments to reflect the effects of the preceding transactions have been made. The unaudited pro forma balance sheet data is presented for illustrative purposes only and is not necessarily indicative of what our actual financial position would have been had the transactions referred to above occurred on June 30, 2010, nor does it purport to represent our future financial position. The unaudited pro forma condensed statements of operations data and operating data are presented for illustrative purposes only and are not necessarily indicative of what

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our actual results of operations would have been had the transactions referred to above occurred on January 1, 2009, nor does it purport to represent our future results of operations.

	<b>Pro Forma* Six Months Ended June 30, 2010 (unaudited)</b>	<b>Historical</b>		<b>Pro Forma* Year Ended December 31, 2009 (unaudited)</b>	<b>Historical</b>				
		<b>Six Months Ended June 30,</b>		<b>Year Ended December 31,</b>	<b>Year Ended December 31,</b>				
		<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>		
		<b>(unaudited)</b>		<b>(unaudited)</b>	<b>(restated)</b>				
		<b>(dollars in thousands, except statistical data)</b>							
<b>Operations</b>									
Depreciation	\$ 65,939	\$ 65,939	\$ 59,476	\$ 118,960	\$ 118,960	\$ 132,797	\$ 112,044	\$ 99,009	
Amortization	1,273	1,273	1,118	2,240	2,240	2,310	1,845	1,653	
	<b>67,212</b>	<b>67,212</b>	<b>60,594</b>	<b>121,200</b>	<b>121,200</b>	<b>135,107</b>	<b>113,889</b>	<b>100,662</b>	
Operating expenses		23,026	20,473		42,071	42,381	35,021	31,036	
Depreciation and amortization		9,177	8,151		16,987	15,186	11,980	10,589	
Maintenance		12,097	11,971		24,017	25,993	22,009	18,038	
	20,048	2,074	3,638		6,152	8,009	10,405	8,157	
	8,287			36,720					
	18,303			18,048					
	302			33,238					
				681					
Operating expenses and amortization	46,940	46,374	44,233	88,687					
Depreciation and amortization	13,346	13,522	11,383	23,088	23,971	22,307	16,136	13,649	
Other									
Compensation	1,683			3,564					
Acquisition	916			1,633					
Impairment of assets	56			1,389					
				7,506	7,506				
	<b>62,941</b>	<b>59,896</b>	<b>55,616</b>	<b>125,867</b>	<b>120,704</b>	<b>113,876</b>	<b>95,551</b>	<b>81,469</b>	

operations	4,271	7,316	4,978	(4,667)	496	21,231	18,338	19,193
(expense):								
	24	24	18	50	50	195	446	605
	(5,199)	(12,701)	(8,338)	(9,052)	(18,321)	(17,025)	(14,214)	(11,135)
of assets	(40)	(40)	25	(4)	(4)	(390)	(652)	(749)
expense	(5,215)	(12,717)	(8,295)	(9,006)	(18,275)	(17,220)	(14,420)	(11,279)
from								
operations	(944)	(5,401)	(3,317)	(13,673)	(17,779)	4,011	3,918	7,914
from								
operations			1,801		1,465	10,278	11,587	2,728
ss) before								
	(944)	(5,401)	(1,516)	(13,673)	(16,314)	14,289	15,505	10,642
expense	(450)	(228)		(840)		(826)	(715)	(539)
ss)	(1,394)	(5,629)	(1,516)	(14,513)	(16,314)	13,463	14,790	10,103
ss) attributable								
g interest			(186)			384	778	661
ss) attributable								
el Properties,	\$	\$ (5,629)	\$ (1,330)	\$	\$ (16,314)	\$ 13,079	\$ 14,012	\$ 9,442
Data (as of								
equivalents	\$ 34,287	\$ 11,326			\$ 8,239	\$ 18,153	\$ 7,776	\$ 7,999
equipment, net	\$ 460,632	\$ 460,632			\$ 482,767	\$ 461,894	\$ 426,494	\$ 331,707
	32,478	32,873						
	\$ 534,274	\$ 511,708			\$ 518,246	\$ 494,755	\$ 447,990	\$ 355,959
notes payable	\$ 199,440	\$ 424,596			\$ 426,182	\$ 390,094	\$ 336,659	\$ 237,074
s	\$ 211,417	\$ 436,573			\$ 436,947	\$ 406,994	\$ 352,298	\$ 249,248
holders equity	\$ 256,005	\$ 76,759			\$ 82,923	\$ 89,385	\$ 97,395	\$ 108,222
interest	\$ 66,852	\$ (1,624)			\$ (1,624)	\$ (1,624)	\$ (1,703)	\$ (1,511)
s and equity	\$ 534,274	\$ 511,708			\$ 518,246	\$ 494,755	\$ 447,990	\$ 355,959
(unaudited):								
	\$ 11,952	\$ 7,893	\$ 9,960	\$ 8,575	\$ 6,514	\$ 27,886	\$ 23,297	\$ 25,511
	\$ 17,577	\$ 20,798	\$ 18,280	\$ 18,417	\$ 26,082	\$ 54,147	\$ 48,160	\$ 37,820
(unaudited):								
count		6,533	5,877		6,079	5,725	5,647	5,426
of hotels		65	61		65	62	64	60
		63.9%	63.6%		61.9%	66.2%	66.9%	69.7%
		\$ 87.26	\$ 89.07		\$ 87.40	\$ 100.95	\$ 96.20	\$ 88.57
		\$ 55.76	\$ 56.62		\$ 54.12	\$ 66.78	\$ 64.37	\$ 61.77

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\* Historically, our predecessor segregated its operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) from its other operating expenses, such as depreciation and amortization and impairment losses. Following completion of this offering, we intend to reclassify our operating expenses into categories of hotel operating expenses (room expenses, other direct expenses, other indirect expenses and other expenses) and reclassify our predecessor's historical items of hotel operating expense to increase the comparability of our hotel operating expenses and our hotel operating results with other publicly traded hospitality REITs. Accordingly, historical balances included in our predecessor's:

- § direct hotel operations expense related to (1) wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast will be reclassified to rooms expense in our consolidated statements of operations and (2) franchise fees will be reclassified to other indirect expense in our consolidated statements of operations;
- § other hotel operating expenses related to (1) utilities and telephone will be reclassified to other direct expenses in our consolidated statements of operations and (2) real and personal property taxes, insurance and cable will be reclassified to other indirect expenses in our consolidated statements of operations;
- § general, selling and administrative expenses related to (1) office supplies, advertising, miscellaneous operating expenses and bad debt expense will be reclassified to other direct expenses in our consolidated statements of operations, (2) credit card/travel agent commissions, management company expenses, management company legal and accounting fees and franchise fees will be reclassified to other indirect expenses in our consolidated statements of operations, (3) hotel development and startup costs will be reclassified to hotel property acquisition costs in our consolidated statements of operations and (4) ground rent and other miscellaneous expenses will be reclassified to other expenses in our consolidated statements of operations; and
- § repairs and maintenance will be reclassified to other direct expenses in our consolidated statements of operations.

On a pro forma basis, the reclassification reduces total hotel operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) by \$56,000 for the six months ended June 30, 2010 and \$1.4 million for the year ended December 31, 2009, which were reclassified to hotel operating costs. The reclassification does not impact amounts reported by our predecessor as total expenses (total hotel operating expenses, depreciation and amortization and loss on impairment of assets), income from operations, total other income, income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) before income taxes or net income (loss). See Unaudited Pro Forma Condensed Consolidated Financial Statements appearing elsewhere in this prospectus for additional information.

(1) Below, we include a quantitative reconciliation of historical FFO to the most directly comparable GAAP financial performance measure, which is net income (loss) (dollars in thousands):

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Historical Six Months Ended June 30, 2010</b>		<b>Pro Forma Year Ended December 31, 2009</b>	<b>Historical Year Ended December 31, 2008</b>				<b>2005</b>
		<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	
Net income (loss)	\$ (1,394)	\$ (5,629)	\$ (1,516)	\$ (14,513)	\$ (16,314)	\$ 13,463	\$ 14,790	\$ 10,103	\$ 4,027

(Gain) on disposition of assets					(1,297)	(8,605)	(10,380)	(1,240)	
Depreciation and amortization	13,346	13,522	11,476	23,088	24,125	23,028	18,887	16,648	12,996
<b>FFO</b>	<b>\$ 11,952</b>	<b>\$ 7,893</b>	<b>\$ 9,960</b>	<b>\$ 8,575</b>	<b>\$ 6,514</b>	<b>\$ 27,886</b>	<b>\$ 23,297</b>	<b>\$ 25,511</b>	<b>\$ 17,023</b>

(2) Below, we include a quantitative reconciliation of EBITDA to the most directly comparable GAAP financial performance measure, which is net income (loss).

	<b>Pro Forma Six Months Ended June 30, 2010</b>	<b>Historical Six Months Ended June 30, 2010</b>	<b>Historical Six Months Ended June 30, 2009</b>	<b>Pro Forma Year Ended December 31, 2009</b>	<b>Pro Forma Year Ended December 31, 2009 (restated)</b>	<b>Historical Year Ended December 31, 2008</b>	<b>Historical Year Ended December 31, 2007</b>	<b>Historical Year Ended December 31, 2006</b>	<b>Historical Year Ended December 31, 2005</b>
Net income (loss)	\$ (1,394)	\$ (5,629)	\$ (1,516)	\$ (14,513)	\$ (16,314)	\$ 13,463	\$ 14,790	\$ 10,103	\$ 4,027
Depreciation and amortization	13,346	13,522	11,476	23,088	24,125	23,028	18,887	16,648	12,996
Interest expense	5,199	12,701	8,338	9,052	18,321	17,025	14,214	11,135	7,934
Interest income	(24)	(24)	(18)	(50)	(50)	(195)	(446)	(605)	(278)
Income taxes	450	228		840		826	715	539	827
<b>EBITDA</b>	<b>\$ 17,577</b>	<b>\$ 20,798</b>	<b>\$ 18,280</b>	<b>\$ 18,417</b>	<b>\$ 26,082</b>	<b>\$ 54,147</b>	<b>\$ 48,160</b>	<b>\$ 37,820</b>	<b>\$ 25,506</b>

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**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the Selected Financial and Operating Data, our predecessor's audited consolidated financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007, our predecessor's audited consolidated financial statements as of June 30, 2010 and for the six months ended June 30, 2010 and 2009 (unaudited), and related notes thereto, appearing elsewhere in this prospectus. Where appropriate, the following discussion includes analysis of the effects of the formation transactions and this offering. These effects are reflected in the unaudited pro forma condensed consolidated financial statements appearing elsewhere in this prospectus.*

**Overview**

We are a self-managed hotel investment company that was incorporated in June 2010 to continue our predecessor's business of acquiring and owning limited-service and select-service hotels in the upscale and midscale without food and beverage segments of the U.S. lodging industry. As a newly formed company with no business activity to date, we have no operating history and only nominal assets. We will commence operations upon completion of this offering and the formation transactions described in this prospectus. Following completion of this offering and the formation transactions, our initial portfolio will consist of 65 upscale and midscale without food and beverage hotels with a total of 6,533 guestrooms located in 19 states. Our initial hotels, with the exception of one independent hotel, will be operated under nationally recognized brands, including the Marriott, Hilton, InterContinental Hotels and Hyatt families of brands.

Substantially all of our assets will be held by, and all of our operations will be conducted through, our operating partnership, Summit Hotel OP, LP. Our operating partnership is a recently formed Delaware limited partnership. We are the sole general partner of our operating partnership. Through the merger of our predecessor with and into our operating partnership, our operating partnership will succeed to the business and assets of our predecessor. Although our operating partnership will be the surviving entity in the merger, our predecessor is considered our predecessor for accounting purposes and the discussion herein is based on our accounting predecessor's historical operating results. Following completion of this offering and the formation transactions, we will own an approximate % ( % if the underwriters' over-allotment option is exercised in full) partnership interest in our operating partnership, including general and limited partnership interests. The other limited partners of our operating partnership, the former members of our predecessor and The Summit Group, the former Class B member of Summit of Scottsdale and the former Class C member of Summit of Scottsdale, will own the remaining 35% limited partnership interest in our operating partnership. Pursuant to the partnership agreement, we will have full, exclusive and complete responsibility and discretion in the management and control of our operating partnership, including the ability to cause our operating partnership to enter into certain major transactions including acquisitions, dispositions and refinancings, make distributions to partners and to cause changes in our operating partnership's business activities.

We intend to elect to be taxed as a REIT for federal income tax purposes beginning with our short taxable year ending December 31, 2010. To qualify as a REIT, we cannot operate or manage our hotels. Instead, we will lease our hotels to our TRS lessees, which will be wholly owned, directly or indirectly, by our operating partnership. Our TRS lessees will engage one or more third-party hotel management companies to operate and manage our hotels pursuant to hotel management agreements. In connection with completion of this offering, our TRS lessees will enter into hotel management agreements with \_\_\_\_\_, pursuant to which our initial hotels will be operated by \_\_\_\_\_. Our TRS lessees may also employ other hotel managers in the future. We expect \_\_\_\_\_ will qualify as an eligible independent contractor for federal income tax purposes. We will have no ownership or economic interest in any of the hotel

management companies engaged by our TRS lessees. Our TRS lessees will be disregarded as separate from Summit TRS for federal income tax purposes and their operations will be consolidated into our financial statements for accounting purposes. Summit TRS will be taxed as a C corporation, and, unlike our predecessor, Summit TRS's and our TRS lessees' income will be subject to federal, state and local income tax, which will reduce our funds from operations and the cash otherwise available for distribution to our stockholders.

Our revenue is derived from hotel operations and consists of room revenues and other hotel operations revenues. As a result of our focus on limited-service and select-service hotels in the upscale and midscale without food and beverage segments of the U.S. lodging industry, substantially all of our revenue is room revenue generated from sales of hotel



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rooms. We also generate other hotel operations revenues, which consists of ancillary revenue related to meeting rooms, entertainment and other guest services provided at our hotels.

Our hotel operating expenses consist primarily of expenses incurred in the day-to-day operation of our hotels. Many of our expenses are fixed, such as essential hotel staff, real estate taxes, insurance, depreciation and certain types of franchise fees, and these expenses do not decrease even if the revenues at our hotels decrease. Our hotel operating expenses consist of room expenses, other direct expenses, other indirect expenses and other expenses. Room expenses include wages, cleaning and guestroom supplies and complimentary breakfast. Other direct expenses include office supplies, utilities, telephone, advertising and bad debts. Other indirect expenses include real and personal property taxes, insurance, travel agent and credit card commissions, management expenses and franchise fees. Other expenses include ground rent and other items of miscellaneous expense.

Historically, our predecessor segregated its operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) from its other operating expenses, such as depreciation and amortization and impairment losses. Following completion of this offering, we intend to reclassify our operating expenses into categories of hotel operating expenses (room expenses, other direct expenses, other indirect expenses and other expenses) to increase the comparability of our hotel operating expenses and our hotel operating results with other publicly traded hospitality REITs. Accordingly, historical balances included in our predecessor s:

- § direct hotel operations expense related to (1) wages, payroll taxes and benefits, linens, cleaning and guestroom supplies and complimentary breakfast will be reclassified to rooms expense in our consolidated statements of operations and (2) franchise fees will be reclassified to other indirect expense in our consolidated statements of operations;
- § other hotel operating expenses related to (1) utilities and telephone will be reclassified to other direct expenses in our consolidated statements of operations and (2) real and personal property taxes, insurance and cable will be reclassified to other indirect expenses in our consolidated statements of operations;
- § general, selling and administrative expenses related to (1) office supplies, advertising, miscellaneous operating expenses and bad debt expense will be reclassified to other direct expenses in our consolidated statements of operations, (2) credit card/travel agent commissions, management company expenses, management company legal and accounting fees and franchise fees will be reclassified to other indirect expenses in our consolidated statements of operations, (3) hotel development and startup costs will be reclassified to hotel property acquisition costs in our consolidated statements of operations and (4) ground rent and other miscellaneous expenses will be reclassified to other expenses in our consolidated statements of operations; and
- § repairs and maintenance will be reclassified to other direct expenses in our consolidated statements of operations.

On a pro forma basis, the reclassification reduces total hotel operating expenses (direct hotel operations expense, other hotel operating expense, general, selling and administrative expense and repairs and maintenance) by \$56,000 for the six months ended June 30, 2010 and \$1.4 million for the year ended December 31, 2009, which were reclassified to hotel property acquisition costs. The reclassification does not impact amounts reported by our predecessor as total expenses (total hotel operating expenses, depreciation and amortization and loss on impairment of assets), income from operations, total other income, income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) before income taxes or net income (loss). See Unaudited Pro Forma Condensed Consolidated Financial Statements appearing elsewhere in this prospectus for additional information.

Reflecting the changes in the management agreements effective upon transfer of the management agreements for our initial 65 hotels from The Summit Group to \_\_\_\_\_, on a pro forma basis, management expenses for the year ended December 31, 2009 would have increased from \$3.3 million to \$3.6 million. Also, we expect that our accounting expenses, on a pro forma basis, would have increased from \$589,000 to \$1.1 million. Additionally, we expect that our management expenses and accounting expenses, on a pro forma basis, for the six months ended June 30, 2010 would have increased from \$1.6 million to \$2.0 million and \$329,000 to \$546,000, respectively. We increased the corporate general and administrative expenses in our pro forma financial statements compared to our predecessor's historical financial statements by \$2.6 million for the six months ended June 30, 2010 and \$5.2 million for the year ended December 31, 2009. This adjustment is due to expenses we will incur related to changes in our management structure,

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including compensating our executives and other employees directly rather than indirectly through profits distributed by our predecessor to The Summit Group.

## **Industry Trends and Outlook**

In mid-2008, U.S. lodging demand started to decline as a result of the economic recession which caused industry-wide RevPAR to decline for the year, as reported by Smith Travel Research. Throughout 2009, the decrease in lodging demand accelerated, with RevPAR down 16.7% for the year according to Smith Travel Research. In the first quarter of 2010, we saw trends of improved fundamentals in the U.S. lodging industry with demand for rooms showing signs of stabilization, and even growth in many of the major markets, as general economic indicators have begun to experience positive improvement. With supply of available rooms expected to rise at a significantly slower pace over the next several years than during 2006-2008 and demand for rooms expected to increase as the U.S. economy rebounds, we expect meaningful growth in RevPAR to start in 2011 and to continue for several years thereafter.

While we believe the trends in room demand and supply growth will result in improvement in lodging industry fundamentals, we can provide no assurances that the U.S. economy will strengthen at projected levels and within the expected time periods. If the economy does not improve or if any improvements do not continue for any number of reasons, including, among others, an economic slowdown and other events outside of our control, such as terrorism, lodging industry fundamentals may not improve as expected. In the past, similar events have adversely affected the lodging industry and if these events recur, they may adversely affect the lodging industry in the future.

## **Key Operating Metrics**

We use a variety of operating and other information to evaluate the financial condition and operating performance of our business. These key indicators include financial information that is prepared in accordance with GAAP, as well as other financial information that is not prepared in accordance with GAAP. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the performance of individual hotels, groups of hotels and/or our business as a whole. We periodically compare historical information to our internal budgets as well as industry-wide information. These key indicators include:

- § Occupancy percentage;
- § Average Daily Rate (or ADR); and
- § Room Revenue per Available Room (or RevPAR).

Occupancy, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy percentage, is an important statistic for monitoring operating performance at the individual hotel level and across our business as a whole. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a company-wide and regional basis. ADR and RevPAR include only room revenue. Room revenue depends on demand, as measured by occupancy percentage, pricing, as measured by ADR, and our available supply of hotel rooms. Our ADR, occupancy percentage and RevPAR performance may be impacted by macroeconomic factors such as regional and local employment growth, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, new hotel construction and the pricing strategies of competitors. In addition, our ADR, occupancy percentage and RevPAR performance is dependent on the continued success of our franchisors and their brands.

In addition to occupancy, ADR and RevPAR, we use FFO and EBITDA, non-GAAP financial measures, to assess our financial condition and operating performance. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. FFO and EBITDA are supplemental financial measures and are not defined by GAAP. FFO and EBITDA, as calculated by us, may not be comparable to FFO and EBITDA reported by other companies that do not define FFO and EBITDA exactly as we define those terms. FFO and EBITDA do not represent cash generated from operating activities determined in accordance with GAAP and should not be considered as alternatives to operating income or net income determined in accordance with GAAP, as indicators of performance or as alternatives to cash flows from operating activities as indicators of liquidity.

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See Summary Pro Forma Financial Information and Selected Financial and Operating Data for further discussion of our use of FFO and EBITDA and reconciliations of those non-GAAP financial measures to the most comparable GAAP financial measure, net income (loss).

**Our Portfolio**

Following completion of this offering and the formation transactions, our initial portfolio will consist of 65 upscale and midscale without food and beverage hotels with a total of 6,533 guestrooms located in 19 states. Our initial hotels, with the exception of one independent hotel, will be operated under nationally recognized brands as shown below:

<b>Franchisor/Brand</b>	<b>No. of Hotels</b>	<b>No. of Rooms</b>
<i>Marriott</i>		
Courtyard by Marriott	6	715
Residence Inn	4	411
Fairfield Inn	9	787
Fairfield Inn & Suites	1	80
SpringHill Suites	7	671
TownePlace Suites	1	90
	28	2,754
<i>Hilton</i>		
Hampton Inn	8	821
Hampton Inn & Suites	3	390
Hilton Garden Inn	1	120
	12	1,331
<i>InterContinental</i>		
Holiday Inn Express	2	182
Holiday Inn Express & Suites	4	365
Staybridge Suites	1	92
	7	639
<i>Hyatt</i>		
Hyatt Place	4	556
<i>Choice</i>		
Cambria Suites	4	485
Comfort Inn	3	201
Comfort Inn & Suites	1	111
Comfort Suites	3	199
	11	996
<i>Starwood</i>		
Aloft	1	136

<i>Carlson</i>		
Country Inn & Suites	1	64
<i>Independent</i>		
Aspen Hotel & Suites	1	57
<b>Total</b>	<b>65</b>	<b>6,533</b>

Our initial portfolio consists of what we consider seasoned and unseasoned hotels. We view 46 of our hotels as seasoned based on their construction date. We consider 19 of our hotels to be unseasoned. Our unseasoned hotels were

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either built after January 1, 2007 or experienced a brand conversion since January 1, 2008. We believe our unseasoned hotels are in the early stages of stabilizing since their construction or brand conversion occurred during a dramatic economic slowdown. Most of our unseasoned hotels are newer, larger and are located in larger markets than those of our seasoned hotels and operate under premium franchise brands. As a result, we believe our unseasoned hotels are particularly well-positioned to generate RevPAR growth for our portfolio as economic conditions improve.

Our unseasoned hotels that experienced a brand conversion have undergone approximately \$12.3 million of renovations and other capital improvements since January 1, 2008.

The following table sets forth various statistical and operating information related to our seasoned hotel portfolio (dollars in thousands, except ADR and RevPAR):

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
Number of hotels at end of period	46	46	46	45	45
Average number of rooms	4,179	4,174	4,173	4,093	4,012
Undepreciated (gross) book value at end of period	\$ 284,235	\$ 283,678	\$ 283,985	\$ 276,148	\$ 268,974
Revenues	\$ 43,708	\$ 45,471	\$ 87,542	\$ 105,542	\$ 103,871
Occupancy	65.1%	66.3%	64.8%	69.5%	70.0%
ADR	\$ 87.70	\$ 89.49	\$ 87.42	\$ 100.29	\$ 99.78
RevPAR	\$ 57.08	\$ 59.31	\$ 56.63	\$ 69.70	\$ 69.80

The following table sets forth various statistical and operating information related to our unseasoned hotel portfolio (dollars in thousands, except ADR and RevPAR):

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
Number of hotels at end of period	19	14	19	14	11
Average number of rooms	2,360	1,620	2,360	1,324	625
Undepreciated (gross) book value at end of period	\$ 266,021	\$ 169,892	\$ 265,333	\$ 163,232	\$ 125,529
Revenues	\$ 23,504	\$ 15,123	\$ 33,658	\$ 29,565	\$ 10,018
Occupancy	61.8%	56.5%	55.3%	55.3%	49.2%
ADR	\$ 86.44	\$ 88.56	\$ 87.58	\$ 107.37	\$ 87.58
RevPAR	\$ 53.43	\$ 50.01	\$ 48.47	\$ 59.33	\$ 43.09

**Results of Operations of Summit Hotel Properties, Inc.**

We have not presented historical financial information for Summit Hotel Properties, Inc., because it has not had any corporate activity since its formation other than the issuance of 1,000 shares of common stock to our Executive Chairman in connection with its formation and initial capitalization and activity in connection with this offering and the formation transactions and, as a result, we believe that a discussion of the results of Summit Hotel Properties, Inc.

would not be meaningful. We have set forth below a discussion of the consolidated historical results of operations and financial position of our predecessor, Summit Hotel Properties, LLC, which is merging with and into our operating partnership upon completion of this offering. Following completion of this offering and the formation transactions, our predecessor's historical consolidated financial statements will become our consolidated financial statements as our predecessor will be considered the acquirer in the merger for accounting purposes.



**Table of Contents****Results of Operations of Our Predecessor*****Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009***

*Income from Continuing Operations.* Income from continuing operations increased by \$2.3 million, or 46%, to \$7.3 million for the six months ended June 30, 2010 from \$5.0 million for the six months ended June 30, 2009. This increase was primarily due to the increased revenue from six new hotels opened late in 2009.

*Revenues.* The following table sets forth key operating metrics for our total portfolio, our seasoned hotel portfolio, our unseasoned hotel portfolio and our same-store portfolio for the six months ended June 30, 2010 and 2009 (dollars in thousands, except ADR and RevPAR):

	Six Months Ended June 30, 2010					Six Months Ended June 30, 2009				
	Total Revenues	Total Expenses	Occupancy	ADR	RevPAR	Total Revenues	Total Expenses	Occupancy	ADR	RevPAR
Total (65 and 61 hotels, respectively) <sup>(1)</sup>	\$ 67,212	\$ 59,896	63.9%	\$ 87.26	\$ 55.76	\$ 61,561	\$ 55,616	63.6%	\$ 89.07	\$ 56.62
Seasoned (46 hotels) <sup>(2)</sup>	\$ 43,708	\$ 34,499	65.1%	\$ 87.70	\$ 57.08	\$ 45,471	\$ 37,277	66.3%	\$ 89.49	\$ 59.31
Unseasoned (19 and 14 hotels, respectively) <sup>(2)</sup>	\$ 23,504	\$ 25,397	61.8%	\$ 86.44	\$ 53.43	\$ 15,123	\$ 18,339	56.5%	\$ 88.56	\$ 50.01
Same-store (60 hotels) <sup>(3)</sup>	\$ 61,053	\$ 52,198	64.7%	\$ 88.00	\$ 56.89	\$ 60,594	\$ 54,965	63.5%	\$ 89.26	\$ 56.71

(1) Includes revenues from discontinued operations.

(2) Excludes hotels that were reclassified to discontinued operations during either period.

(3) Includes seasoned and unseasoned hotels that were owned during both periods presented for the full periods presented, but excludes hotels that were reclassified to discontinued operations during either period.

On a total portfolio basis, revenues increased by \$5.6 million, or 9.1%, from \$61.6 million for the six months ended June 30, 2009 to \$67.2 million for the six months ended June 30, 2010. The increase was primarily due to the opening of six new hotels during the third and fourth quarters of 2009. As a result, we do not believe that a comparison of our total portfolio revenue for the periods presented is meaningful.

Seasoned hotel revenues decreased by \$1.8 million, or 4.1%, to \$43.7 million for the six months ended June 30, 2010 from \$45.5 million for the six months ended June 30, 2009. The decrease in seasoned hotel revenue was primarily caused by a 3.8% decrease in seasoned hotel RevPAR. Seasoned hotel RevPAR decreased to \$57.08 for the six months ended June 2010 from \$59.31 for the prior period as a result of adverse economic conditions, which caused lower occupancy and also caused us to lower room rates at our hotels in order to remain competitive in our markets.

Unseasoned hotel revenues increased by \$8.4 million, or 55.6%, to \$23.5 million for the six months ended June 30, 2010 from \$15.1 million for the six months ended June 30, 2009. The increase in unseasoned hotel revenue was primarily due to revenues from the six new hotels opened during the third and fourth quarters of 2009.

In order to compare operating results of our total portfolio on a period-to-period basis, we also view our results on a same-store basis. Our same-store hotels include seasoned and unseasoned hotels that were owned throughout the comparable periods, but exclude hotels that were classified to discontinued operations during either period. We believe our same-store analysis enhances our understanding of our results by eliminating the effects of purchases and sales of hotels during comparable periods and focusing on the operating results of our core hotels. On a same-store basis, revenues increased by \$0.4 million, or 0.6%, to \$61.0 million for the six months ended June 30, 2010 from \$60.6 million for the six months ended June 30, 2009.

*Operating Expenses.* Total operating expenses from continuing operations, excluding depreciation and amortization, increased by \$2.2 million, or 5.0%, to \$46.4 million for the six months ended June 30, 2010 from \$44.2 million for the prior period as a result of operating expenses for the six new hotels opened in the third and fourth quarters of 2009. Of this increase, direct hotel operations expense increased by 12.2% to \$23.0 million for the six months ended June 30, 2010 from \$20.5 million for the prior period. The increased operating expenses were in direct relationship to the \$5.6 million dollar increase in revenues from the six new hotels opened during the third and fourth quarters of 2009. Hotel renovations during early 2009 caused repairs and maintenance for the six-month period ended June 30, 2009 to be \$1.6 million higher than repairs and maintenance in the first half of 2010.

*Depreciation and Amortization.* Total depreciation and amortization expense from continuing operations increased by \$2.1 million, or 18.4%, from \$11.4 million for the six months ended June 30, 2009 to \$13.5 million for the six months ended June 30, 2010. This increase was primarily due to the six new hotels opened during the third and fourth quarters of 2009.

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The following table details our hotel expenses for our seasoned hotel portfolio, our unseasoned hotel portfolio and our same-store portfolio for the six months ended June 30, 2010 and June 30, 2009 (dollars in thousands):

	<b>Six Months Ended June 30, 2010</b>	<b>Six Months Ended June 30, 2009</b>
<b>Seasoned Hotel Expenses (46 hotels):</b>		
Direct hotel operations	\$ 14,579	\$ 14,847
Other hotel operating expenses	5,552	5,516
General, selling and administrative	7,733	8,158
Repairs and maintenance	1,379	2,404
Depreciation and amortization	5,256	6,352
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 34,499</b>	<b>\$ 37,277</b>
<b>Unseasoned Hotel Expenses (19 and 14 hotels, respectively):</b>		
Direct hotel operations	\$ 8,447	\$ 5,626
Other hotel operating expenses	3,625	2,635
General, selling and administrative	4,364	3,813
Repairs and maintenance	695	1,234
Depreciation and amortization	8,266	5,031
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 25,397</b>	<b>\$ 18,339</b>
<b>Same-Store Portfolio Expenses (60 hotels):</b>		
Direct hotel operations	\$ 20,756	\$ 20,615
Other hotel operating expenses	8,284	8,152
General, selling and administrative	10,914	11,177
Repairs and maintenance	1,930	3,638
Depreciation and amortization	10,314	11,383
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 52,198</b>	<b>\$ 54,965</b>

***Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008***

*Income from Continuing Operations.* Income from continuing operations decreased by \$20.7 million, or 98%, to \$0.5 million for the year ended December 31, 2009 from \$21.2 million for the year ended December 31, 2008. This decrease was primarily the result of a \$13.9 million decrease in revenues as well as an impairment loss of \$7.5 million recognized for the year ended December 31, 2009.

*Revenues.* The following table sets forth key operating metrics for our total portfolio, our seasoned portfolio, our unseasoned portfolio and our same-store portfolio for the year ended December 31, 2009 and the year ended

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December 31, 2008 (dollars in thousands, except ADR and RevPAR):

	Year Ended December 31, 2009					Year Ended December 31, 2008				
	Total Revenues	Total Expenses	Occupancy	ADR	RevPAR	Total Revenues	Total Expenses	Occupancy	ADR	RevPAR
al (65 and hotels, respectively) <sup>(1)</sup>	\$ 122,333	\$ 120,704	61.9%	\$ 87.40	\$ 54.12	\$ 141,933	\$ 113,876	66.2%	\$ 100.95	\$ 66.7
asoned (46 and 45 hotels, respectively) <sup>(2)</sup>	\$ 87,542	\$ 73,553	64.8%	\$ 87.42	\$ 56.63	\$ 105,542	\$ 79,540	69.5%	\$ 100.29	\$ 69.7
seasoned (19 and 14 hotels, respectively) <sup>(2)</sup>	\$ 33,657	\$ 47,151	55.3%	\$ 87.58	\$ 48.47	\$ 29,565	\$ 34,336	55.3%	\$ 107.37	\$ 59.3
ne-store (57 hotels) <sup>(3)</sup>	\$ 112,129	\$ 99,020	63.7%	\$ 88.13	\$ 56.13	\$ 134,934	\$ 110,898	66.3%	\$ 101.82	\$ 67.4

(1) Includes revenues from discontinued operations.

(2) Excludes hotels that were reclassified to discontinued operations during either period.

(3) Includes seasoned and unseasoned hotels that were owned during both periods presented for the full periods presented, but excludes hotels that were reclassified to discontinued operations during either period.

Total revenues decreased by \$19.6 million, or 13.8%, to \$122.3 million for the year ended December 31, 2009 from \$141.9 million for the year ended December 31, 2008. The decrease was primarily due to continuing unfavorable economic

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conditions affecting our markets and included a \$5.7 million decrease in revenues as a result of the sale of seven hotels (discontinued operations) during 2008 and 2009 offset by increases in revenues from nine new hotels opened during 2008 and 2009.

Seasoned hotel revenues decreased by \$18.0 million, or 17.1%, to \$87.5 million for the year ended December 31, 2009 from \$105.5 million for the year ended December 31, 2008. The decrease in seasoned hotel revenue was primarily caused by a 18.8% decrease in seasoned hotel RevPAR. Seasoned hotel RevPAR decreased to \$56.63 for the year ended December 31, 2009 from \$69.70 for the prior year as a result of adverse economic conditions, which caused lower occupancy and also caused us to lower room rates at our hotels in order to remain competitive in our markets.

Unseasoned hotel revenues increased by \$4.1 million, or 13.8%, to \$33.7 million for the year ended December 31, 2009 from \$29.6 million for the year ended December 31, 2008. The increase in unseasoned hotel revenue was primarily due to revenues from nine new hotels opened during 2008 and 2009.

On a same-store basis, revenues decreased by \$22.8 million, or 16.9%, to \$112.1 million for the year ended December 31, 2009 from \$134.9 million for the year ended December 31, 2008. The decrease in same-store revenue was primarily caused by a 16.8% decrease in same-store RevPAR. Same-store RevPAR decreased to \$56.13 for the year ended December 31, 2009 from \$67.47 for the prior period as a result of adverse economic conditions, which caused lower occupancy and also caused us to lower room rates at our hotels in order to remain competitive in our markets.

*Operating Expenses.* Total operating expenses from continuing operations, excluding depreciation and amortization and impairment losses, decreased \$2.3 million, or 2.5%, to \$89.2 million for the year ended December 31, 2009 from \$91.5 million for the year ended December 31, 2008. Repairs and maintenance expenses decreased \$1.8 million, or 23.2%, to \$6.2 million for the year ended December 31, 2009 from \$8.0 million for the year ended December 31, 2008. The decrease was primarily due to fewer renovations being performed during 2009 than in 2008 at our hotels. The decrease in total expenses of 2.6% was not as significant as the decrease in total revenues of 13.8% due to the increased operating expenses related to opening of new hotels. Typically, operating profit margin is not significant for newly opened hotels until they become established in the market.

*Depreciation and Amortization.* On a total portfolio basis, depreciation and amortization expense from continuing operations increased by \$1.7 million, or 7.6%, to \$24.0 million for the year ended December 31, 2009 from \$22.3 million for the year ended December 31, 2008. The increase was primarily due to the nine hotels opened in 2008 and 2009.

*Impairment Losses.* During the year ended December 31, 2009, our predecessor determined that six parcels of undeveloped land were impaired due to the fact that their aggregate historical carrying value exceeded their aggregate fair value. As a result, our predecessor recorded a \$6.3 million non-cash impairment charge for the year ended December 31, 2009. Our predecessor also determined that the Courtyard by Marriott located in Memphis, Tennessee was impaired due to the fact that its historical carrying value was higher than the hotel's fair value. This determination was made based on recent economic distress on this particular hotel and market. Accordingly, our predecessor recorded a \$1.2 million non-cash impairment charge in 2009. Our predecessor did not record any impairment charges during the year ended December 31, 2008.

The following table details our hotel expenses for our seasoned portfolio, our unseasoned portfolio and our same-store portfolio for years ended December 31, 2009 and December 31, 2008 (dollars in thousands):

	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Seasoned Hotel Expenses (46 and 45 hotels, respectively):</b>		
Direct hotel operations	\$ 29,272	\$ 32,182
Other hotel operating expenses	11,205	11,002
General, selling and administrative	15,870	19,091
Repairs and maintenance	4,083	4,342
Depreciation and amortization	11,950	12,923
Loss on impairment of assets	1,173	
<b>Total Expenses</b>	<b>\$ 73,553</b>	<b>\$ 79,540</b>

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	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Unseasoned Hotel Expenses (19 and 14 hotels, respectively):</b>		
Direct hotel operations	\$ 12,799	\$ 10,199
Other hotel operating expenses	5,782	4,184
General, selling and administrative	8,147	6,902
Repairs and maintenance	2,069	3,667
Depreciation and amortization	12,021	9,384
Loss on impairment of assets	6,333	
<b>Total Expenses</b>	<b>\$ 47,151</b>	<b>\$ 34,336</b>
<b>Same-Store Portfolio Expenses (57 hotels):</b>		
Direct hotel operations	\$ 37,867	\$ 42,136
Other hotel operating expenses	15,359	15,132
General, selling and administrative	20,414	24,328
Repairs and maintenance	4,849	7,970
Depreciation and amortization	19,358	21,332
Loss on impairment of assets	1,173	
<b>Total Expenses</b>	<b>\$ 99,020</b>	<b>\$ 110,898</b>

**Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007**

*Income from Continuing Operations.* Our predecessor's income from operations increased by \$2.9 million, or 15.8%, to \$21.2 million for the year ended December 31, 2008 from \$18.3 million for the year ended December 31, 2007. The increase was primarily due to a 5% increase in ADR from \$96.20 for the year ended December 31, 2007 to \$100.95 for the year ended December 31, 2008.

*Revenues.* The following table sets forth key operating metrics for our total portfolio, our seasoned portfolio, our unseasoned portfolio and our same-store portfolio for the year ended December 31, 2008 and the year ended December 31, 2007 (dollars in thousands, except ADR and RevPAR):

	<b>Year Ended December 31, 2008</b>					<b>Year Ended December 31, 2007</b>				
	<b>Total Revenues</b>	<b>Total Expenses</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR</b>	<b>Total Revenues</b>	<b>Total Expenses</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR</b>
Total (62 and hotels, respectively) <sup>(1)</sup>	\$ 141,933	\$ 113,876	66.2%	\$ 100.95	\$ 66.78	\$ 134,748	\$ 95,551	66.9%	\$ 96.20	\$ 64.3
Seasoned (45 hotels) <sup>(2)</sup>	\$ 105,542	\$ 79,540	69.5%	\$ 100.29	\$ 69.70	\$ 103,871	\$ 80,049	70.0%	\$ 99.78	\$ 69.8
Unseasoned (14 and 11 hotels,	\$ 29,565	\$ 34,336	55.3%	\$ 107.37	\$ 59.33	\$ 10,018	\$ 15,502	49.2%	\$ 87.58	\$ 43.0

pectively) <sup>(2)</sup>											
me-store (47											
hels) <sup>(3)</sup>	\$ 107,840	\$ 81,889	68.7%	\$ 100.69	\$ 69.20	\$ 107,819	\$ 86,105	69.8%	\$ 99.08	\$ 69.1	

(1) Includes revenues from discontinued operations.

(2) Excludes hotels that were reclassified to discontinued operations during either period.

(3) Includes seasoned and unseasoned hotels that were owned during both periods presented for the full periods presented, but excludes hotels that were reclassified to discontinued operations during either period.

Total revenues increased by \$7.2 million, or 5.3%, to \$141.9 million for the year ended December 31, 2008 from \$134.7 million for the year ended December 31, 2007, reflecting the addition of 13 new hotels opened in 2007 and 2008 which more than offset the decline in revenues from the sale of 11 hotels in 2007 and 2008. The increase also reflected a 5% increase in ADR from \$96.20 in 2007 to \$100.95 in 2008 and the addition of 13 new hotels in 2007 and 2008.

Seasoned hotel revenues increased by \$1.7 million, or 1.6%, to \$105.5 million for the year ended December 31, 2008 from \$103.9 million for the year ended December 31, 2007. The increase in seasoned hotel revenue was primarily caused by a 0.5% increase in seasoned hotel ADR. Seasoned hotel ADR increased to \$100.29 for the year ended December 31, 2008 from \$99.78 for the prior period.



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Unseasoned hotel revenues increased by \$19.5 million, or 195%, to \$29.6 million for the year ended December 31, 2008 from \$10.0 million for the year ended December 31, 2007. The increase in unseasoned hotel revenue was primarily due to 13 new hotels opened during 2007 and 2008.

On a same-store basis, revenues remained steady at \$107.8 million for the years ended December 31, 2008 and 2007.

*Operating Expenses.* Total operating expenses from continuing operations, excluding depreciation and amortization, increased \$12.2 million, or 15.4%, to \$91.6 million for the year ended December 31, 2008 from \$79.4 million for the year ended December 31, 2007. The increase was primarily due to increased franchise fees and direct hotel operations expense, including room expenses. Direct hotel operations expense increased by \$7.4 million, or 21.1%, to \$42.4 million for the year ended December 31, 2008 from \$35.0 million for the year ended December 31, 2007. The increase was primarily due to 13 additional hotels opened in 2007 and 2008. For the year ended December 31, 2008, our predecessor made \$8.0 million of capital improvements compared to \$10.4 million in the prior year. Total expenses, excluding depreciation and repairs and maintenance, remained relatively flat as a percentage of revenue at 61.8% for 2008 and 60.6% for 2007.

*Depreciation and Amortization.* Depreciation and amortization expense from continuing operations increased by \$6.2 million, or 38.2%, to \$22.3 million for the year ended December 31, 2008 from \$16.1 million for the year ended December 31, 2007. The increase in depreciation and amortization was primarily due to 13 new hotels opened in 2007 and 2008.

The following table details our hotel expenses for our seasoned portfolio, our unseasoned portfolio [and our same store portfolio] for years ended December 31, 2008 and December 31, 2007 (dollars in thousands):

	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>
<b>Seasoned Hotel Expenses (45 hotels):</b>		
Direct hotel operations	\$ 32,182	\$ 30,655
Other hotel operating expenses	11,002	10,159
General, selling and administrative	19,091	18,389
Repairs and maintenance	4,342	7,978
Depreciation and amortization	12,923	12,868
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 79,540</b>	<b>\$ 80,049</b>
<b>Unseasoned Hotel Expenses (14 and 11 hotels, respectively):</b>		
Direct hotel operations	\$ 10,199	\$ 4,366
Other hotel operating expenses	4,184	1,821
General, selling and administrative	6,902	3,620
Repairs and maintenance	3,667	2,427
Depreciation and amortization	9,384	3,268
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 34,336</b>	<b>\$ 15,502</b>



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	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>
<b>Same-Store Portfolio Expenses (47 hotels):</b>		
Direct hotel operations	\$ 33,066	\$ 32,120
Other hotel operating expenses	11,327	10,701
General, selling and administrative	19,597	19,059
Repairs and maintenance	4,654	9,814
Depreciation and amortization	13,245	14,411
Loss on impairment of assets		
<b>Total Expenses</b>	<b>\$ 81,889</b>	<b>\$ 86,105</b>

**Liquidity and Capital Resources**

Our short-term liquidity requirements will consist primarily of operating expenses and other expenditures directly associated with our hotel properties, including recurring maintenance and capital expenditures necessary to maintain our hotel properties in accordance with brand standards, capital expenditures to improve our hotel properties, interest expense and scheduled principal payments on outstanding indebtedness and distributions to our stockholders.

In connection with the formation transactions, our predecessor has entered into a merger agreement with our operating partnership that requires our predecessor to, among other things, pay accrued and unpaid priority returns on its Class A and Class A-1 membership interests through August 31, 2010 and through the closing date of this offering, subject to certain limitations. Payment of these returns will reduce our predecessor's available cash upon completion of this offering.

We expect to satisfy these short-term liquidity requirements through working capital, cash provided by operations and short-term borrowings under a credit facility that we intend to enter into following completion of this offering. After giving effect to the formation transactions and the use of proceeds of this offering, we believe that our working capital and cash provided by operations will be sufficient to meet our ongoing short-term liquidity requirements for at least the next 12 months.

Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovations, and other non-recurring capital expenditures that need to be made periodically with respect to our hotel properties and scheduled debt payments. We will seek to satisfy these long-term liquidity requirements through various sources of capital, including working capital, cash provided by operations, long-term hotel mortgage indebtedness and other borrowings, including borrowings under a credit facility that we intend to enter into following completion of this offering. In addition, we may seek to raise capital through public or private offerings of our equity or debt securities. However, certain factors may have a material adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties and borrowing restrictions imposed by lenders. We will continue to analyze which source of capital is 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 have not yet obtained required consents from lenders with respect to approximately \$ million of outstanding indebtedness on certain properties in our portfolio that we anticipate will be assumed by our operating partnership as a result of, and will remain outstanding following completion of, the formation transactions. If we are unable to obtain

these required lender consents, we may have to repay all or a portion of this indebtedness with proceeds of this offering in order to complete the formation transactions, which would reduce funds available for general corporate and working capital purposes, including possible future acquisitions.

To satisfy the requirements for qualification as a REIT, we must meet a number of organizational and operational requirements, including a requirement 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 gain. Therefore, once the total net proceeds of this offering have been invested, we will need to raise additional capital in order to grow our business and invest in additional hotel properties. However, there is no assurance that we will be able to borrow funds or raise additional equity capital on terms acceptable to us, if at all. We anticipate that any debt we incur in the future will include restrictions (including lockbox and cash management provisions) that under certain circumstances will limit or prohibit our operating partnership and its subsidiaries from making distributions or paying dividends, repaying loans or transferring assets. For additional information regarding our distribution policies and requirements, see [Distribution Policy](#).

**Table of Contents****Pro Forma Indebtedness**

Upon completion of this offering and the application of the net proceeds as described in Use of Proceeds, we will have approximately \$ million in outstanding indebtedness and hotels unencumbered by mortgage debt, including hotels with rooms operating under brands owned by Marriott, Hilton, InterContinental or Hyatt, available as collateral for potential future loans. We intend to enter into a credit facility to fund future acquisitions, as well as for property redevelopments and working capital requirements. We may not succeed in obtaining a credit facility on favorable terms or at all and we cannot predict the size or terms of the credit facility if we are able to obtain it. Our failure to obtain a credit facility could adversely affect our ability to grow our business and meet our obligations as they come due.

On a pro forma basis as of June 30, 2010, after application of a portion of the net proceeds from this offering to repay outstanding indebtedness as described in Use of Proceeds, we expect to have approximately \$199.4 million of outstanding mortgage indebtedness. The following table sets forth on a pro forma basis as of June 30, 2010, our pro forma mortgage debt obligations that will remain outstanding following the application of the net proceeds from this offering:

<b>Lender</b>	<b>Collateral</b>	<b>Outstanding Principal Balance as of June 30, 2010</b>	<b>Interest Rate as of June 30, 2010<sup>(1)</sup></b>	<b>Amortization (years)</b>	<b>Maturity Date</b>
Bank of the Cascades <sup>(2)</sup>	Residence Inn, Portland, OR	\$ 12,623,347	Prime rate, subject to a floor of 6.00%	25	09/30/11
ING Investment Management <sup>(3)</sup>	Fairfield Inn & Suites, Germantown, TN Residence Inn, Germantown, TN Holiday Inn Express, Boise, ID Courtyard by Marriott, Memphis, TN Hampton Inn & Suites, El Paso, TX Hampton Inn, Ft. Smith, AR	29,503,380	5.60%	20	07/01/25
MetaBank	Cambria Suites, Boise, ID SpringHill Suites, Lithia Springs, GA	7,394,601	Prime rate, subject to a floor of 5.00%	20	03/01/12
Chambers Bank	Aspen Hotel & Suites, Ft. Smith, AR	1,635,562	6.50%	20	06/24/12
Bank of the Ozarks <sup>(4)</sup>	Hyatt Place, Portland, OR	6,444,447	90-day LIBOR + 4.00%, subject to a floor of 6.75%	25	06/29/12

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ING Investment Management <sup>(5)(11)</sup>	Hilton Garden Inn, Ft. Collins, CO	8,011,330	6.34%	20	07/01/12
ING Investment Management <sup>(5)(12)</sup>	Comfort Inn, Ft. Smith, AR	29,877,346	6.10%	20	07/01/12
	Holiday Inn Express, Sandy, UT				
	Fairfield Inn, Lewisville, TX				
	Hampton Inn, Denver, CO				
	Holiday Inn Express, Vernon Hills, IL				
	Hampton Inn, Fort Wayne, IN				
	Courtyard by Marriott, Missoula, MT				
	Comfort Inn, Missoula, MT				
BNC National Bank <sup>(14)</sup>	Hampton Inn & Suites, Ft. Worth, TX	5,816,226	5.01%	20	11/01/13
First National Bank of Omaha <sup>(6)</sup>	Courtyard by Marriott, Germantown, TN	24,475,345	90-day LIBOR + 4.00%, subject to a floor of 5.25%	20	07/01/13
	Courtyard by Marriott, Jackson, MS				
	Hyatt Place, Atlanta, GA				
ING Investment Management <sup>(7)(13)</sup>	Residence Inn, Jackson, MS	6,325,705	6.61%	20	11/01/28
General Electric Capital Corp. <sup>(8)(15)</sup>	Cambria Suites, San Antonio, TX	11,345,055	90-day LIBOR + 2.55%	25	04/01/14
National Western Life Insurance <sup>(9)</sup>	Courtyard by Marriott, Scottsdale, AZ	13,835,711	8.00%	17	01/01/15
	SpringHill Suites, Scottsdale, AZ				
BNC National Bank <sup>(14)</sup>	Holiday Inn Express & Suites, Twin Falls, ID	5,814,136	Prime rate 0.25%	20	04/01/16
Compass Bank	Courtyard by Marriott, Flagstaff, AZ	16,225,346	Prime rate -- 0.25%, subject to a floor of 4.50%	20	05/17/18
General Electric Capital Corp. <sup>(15)</sup>	SpringHill Suites, Denver, CO	8,903,246	90-day LIBOR + 1.75%	20	04/01/18
General Electric Capital Corp. <sup>(10)(15)</sup>	Cambria Suites, Baton Rouge, LA	11,209,795	90-day LIBOR + 1.80%	25	03/01/19

**Total** **\$ 199,440,578**

(1) As of June 30, 2010, the Prime rate was 3.25% and the 90-day LIBOR rate was 0.53%.

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- (2) The maturity date may be extended to September 30, 2012, subject to the satisfaction of certain conditions.
- (3) The lender has the right to call the loan, which is secured by multiple hotel properties, at January 1, 2012, January 1, 2017 and January 1, 2022. At January 1, 2012, the loan begins to amortize according to a 19.5 year amortization schedule. If this loan is repaid prior to maturity, there is a prepayment penalty equal to the greater of (i) 1% of the principal being repaid and the (ii) the yield maintenance premium. There is no prepayment penalty if the loan is prepaid 60 days prior to any call date.
- (4) The maturity date may be extended to June 20, 2014 based on the exercise of two, one-year extension options, subject to the satisfaction of certain conditions. If this loan is repaid prior to June 29, 2011, there is a prepayment penalty equal to 1% of the principal being repaid.
- (5) If this loan is repaid prior to maturity, there is a prepayment penalty equal to the greater of (i) 1% of the principal being repaid and the (ii) the yield maintenance premium.
- (6) Evidenced by three promissory notes, the loan secured by the Hyatt Place located in Atlanta, Georgia has a maturity date of February 1, 2014. The three promissory notes are cross-defaulted and cross-collateralized.
- (7) The lender has the right to call the loan at November 1, 2013, 2018 and 2023. If this loan is repaid prior to maturity, there is a prepayment penalty equal to the greater of (i) 1% of the principal being repaid and the (ii) the yield maintenance premium. There is no prepayment penalty if the loan is prepaid 60 days prior to any call date.
- (8) If this loan is repaid prior to April 1, 2011, there is a prepayment penalty equal to 0.75% of the principal being repaid. After this date, there is no prepayment penalty. A portion of the loan can be prepaid without penalty at any time to bring the loan-to-value ratio to no less than 65%.
- (9) On December 8, 2009, we entered into two cross-collateralized and cross-defaulted mortgage loans with National Western Life Insurance in the amounts of \$8,650,000 and \$5,350,000 to refinance the JP Morgan debt on the two Scottsdale, AZ hotels. Prior to February 1, 2011, these loans cannot be prepaid. If these loans are prepaid, there is a prepayment penalty ranging from 5% to 1% of the principal being prepaid. A one-time, ten-year extension of the maturity date is permitted, subject to the satisfaction of certain conditions.
- (10) If this loan is repaid prior to February 27, 2011, there is a prepayment penalty equal to 0.75% of the principal being repaid. After this date, there is no prepayment penalty. A portion of the loan can be prepaid without penalty at any time to bring the loan-to-value ratio to no less than 65%.
- (11) This loan is cross-collateralized with the ING Investment Management loan secured by the following hotel properties: Comfort Inn, Ft. Smith, AR; Holiday Inn Express, Sandy, UT; Fairfield Inn, Lewisville, TX; Hampton Inn, Denver, CO; Holiday Inn Express, Vernon Hills, IL; Hampton Inn, Fort Wayne, IN; Courtyard by Marriott, Missoula, MT; Comfort Inn, Missoula, MT.
- (12) This loan is secured by multiple hotel properties.
- (13) This loan is cross-collateralized with the ING Investment Management loan secured by the following hotel properties: Fairfield Inn & Suites, Germantown, TN; Residence Inn, Germantown, TN; Holiday Inn Express, Boise, ID; Courtyard by Marriott, Memphis, TN; Hampton Inn & Suites, El Paso, TX; Hampton Inn, Ft. Smith, AR.
- (14) The two BNC loans are cross-defaulted.
- (15) The three General Electric Capital Corp. loans are cross-defaulted.

The yield maintenance premium under each of the ING Investment Management loans described in the table above is calculated as follows: (A) if the entire amount of the loan is being prepaid, the yield maintenance premium is equal to the sum of (i) the present value of the scheduled monthly installments from the date of prepayment to the maturity date, and (ii) the present value of the amount of principal and interest due on the maturity date (assuming all scheduled monthly installments due prior to the maturity date were made when due), less (iii) the outstanding principal balance as of the date of prepayment; and (B) if only a portion of the loan is being prepaid, the yield maintenance premium is equal to the sum of (i) the present value of the scheduled monthly installments on the pro rata portion of the loan being prepaid, or the release price, from the date of prepayment to the maturity date, and (ii) the present value of the pro rata amount of principal and interest due on the release price due on the maturity date (assuming all scheduled monthly installments due prior to the maturity date were made when due), less (iii) the outstanding amortized



principal allocation, as defined in the loan agreement, as of the date of prepayment.

We believe that we will have adequate liquidity to meet requirements for scheduled maturities. However, we can provide no assurances 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.

### **Capital Expenditures and Reserve Funds**

We have budgeted approximately \$30.0 million for capital improvements to be made to the hotels in our initial portfolio in 2011. Of this amount, approximately \$10.0 million is expected to be funded from the net proceeds of this offering, with the remaining approximately \$20.0 million expected to be funded from operating cash flows or from other potential sources of capital, including our anticipated credit facility.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**Table of Contents****Contractual Obligations**

The following table outlines the timing of payment requirements related to our long-term debt obligations and other contractual obligations as of June 30, 2010 (dollars in millions).

	<b>Total</b>	<b>Payments Due By Periods</b>			
		<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Four to Five Years</b>	<b>More than Five Years</b>
Long-term debt obligations <sup>(1)</sup>	\$ 432.4	\$ 138.8	\$ 236.4	\$ 20.7	\$ 36.5
Operating lease obligations	8.2	0.2	0.5	0.5	7.0
<b>Total</b>	<b>\$ 440.6</b>	<b>\$ 139.0</b>	<b>\$ 236.90</b>	<b>\$ 21.2</b>	<b>\$ 43.5</b>

(1) The amounts shown include amortization of principal on our fixed-rate and variable-rate obligations, debt maturities on our fixed-rate and variable-rate obligations and estimated interest payments of our fixed-rate obligations. Interest payments have been included based on the weighted-average interest rate.

The following table outlines the timing of payment requirements related to our long-term debt obligations and other contractual obligations as of December 31, 2009 on a pro forma basis, after application of the net proceeds from this offering as described under Use of Proceeds (dollars in millions).

	<b>Total</b>	<b>Pro Forma Payments Due By Periods</b>			
		<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Four to Five Years</b>	<b>More than Five Years</b>
Long-term debt obligations <sup>(1)</sup>	\$ 227.1	\$ 9.2	\$ 140.2	\$ 35.6	\$ 42.1
Operating lease obligations	8.2	0.2	0.5	0.5	7.0
<b>Total</b>	<b>\$ 235.3</b>	<b>\$ 9.4</b>	<b>\$ 140.7</b>	<b>\$ 36.1</b>	<b>\$ 49.1</b>

(1) The amounts shown include amortization of principal on our fixed-rate and variable-rate obligations, debt maturities on our fixed-rate and variable-rate obligations and estimated interest payments of our fixed-rate obligations. Interest payments have been included based on the weighted-average interest rate.

**Qualitative and Quantitative Effects of 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 currently exposed, and to which we expect to be exposed in the future, is

interest rate risk. Our primary interest rate exposures are to the 30-day LIBOR rate, the 90-day LIBOR rate and the Prime rate. We primarily use fixed interest rate financing to manage our exposure to fluctuations in interest rates. We do not use any hedge or other instruments to manage interest rate risk.

As of June 30, 2010, approximately 47.6% of our pro forma debt carried fixed interest rates and 52.4% carried variable interest rates. As of June 30, 2010, our fixed interest rate pro forma debt totaled \$95.0 million. Our variable interest rate pro forma debt totaled \$104.4 million as of June 30, 2010. Assuming no increase in the amount of our variable rate pro forma debt, if the interest rates on our variable rate pro forma debt were to increase by 1.0%, our cash flow would decrease by approximately \$1.0 million per year.

### **Inflation**

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

### **Seasonality**

Due to our portfolio's geographic diversification, our revenues do not experience significant seasonality. For the year ended December 31, 2009, our predecessor received 24.2% of its total revenues in the first quarter, 25.8% in the second quarter, 26.6% in the third quarter and 23.4% in the fourth quarter. For the year ended December 31, 2008, our predecessor received 24.0% of its total revenues in the first quarter, 26.3% in the second quarter, 28.1% in the third quarter and 21.6% in the fourth quarter.

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### **Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. We evaluate our estimates and judgments, including those related to the impairment of long-lived assets, on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our predecessor's significant accounting policies are disclosed in the notes to its consolidated financial statements. The following represent certain critical accounting policies that will require our management to exercise their business judgment or make significant estimates:

*Principles of Consolidation and Basis of Presentation.* Our consolidated financial statements will include our accounts, the accounts of our wholly owned subsidiaries or subsidiaries for which we have a controlling interest, the accounts of variable interest entities in which we are the primary beneficiary, and the accounts of other subsidiaries over which we have a controlling interest. All material inter-company transactions, balances and profits will be eliminated in consolidation. The determination of whether we are the primary beneficiary is based on a combination of qualitative and quantitative factors which require management in some cases to estimate future cash flows or likely courses of action.

*Hotels Acquisitions.* Upon acquisition, we allocate the purchase price 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, and that utilize 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. Acquisition costs are expensed as incurred. Changes in estimates and judgments related to the allocation of the purchase price could result in adjustments to real estate or intangible assets, which can impact depreciation and/or amortization expense and our results of operations.

*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. While management believes its estimates are reasonable, a change in the estimated useful lives could affect the results of operations.

*Impairment of Hotels.* 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 will 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. These assessments may impact the results of our operations.

*Revenue Recognition.* Revenue is recognized when rooms are occupied and services have been rendered. These revenue sources are affected by conditions impacting the travel and hospitality industry as well as competition from

other hotels and businesses in similar markets.

*Stock-Based Compensation.* We have adopted the 2010 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 will be 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.

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*Income Taxes.* We intend to elect to be taxed as a REIT under the Code and intend to operate as such beginning with our short taxable year ending December 31, 2010. 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. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders. However, we intend to be organized and operate in such a manner as to qualify for treatment as a REIT.

*Deferred Tax Assets and Liabilities.* We will 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. In the event that these assumptions change, the deferred taxes may change.

## **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. This update is effective for interim and annual reporting periods beginning after December 15, 2009. Our predecessor adopted this ASC update on January 1, 2010, and it had no material impact on our predecessor's consolidated financial statements.

In February 2010, the FASB issued an update (ASU No. 2010-09) to ASC 855, *Subsequent Events*, by removing the requirement for an SEC filer to disclose the date through which that filer had evaluated subsequent events. Our predecessor has adopted this change and therefore has removed the related disclosure from the Basis of Presentation.

Certain provisions of ASU No. 2010-06 to ASC 820, *Fair Value Measurements and Disclosures*, 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. We do not believe that this adoption will have a material impact on our financial statements or disclosures.

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**Structure of Our Company**

We were formed as a Maryland corporation on June 30, 2010. We will conduct our business through an umbrella partnership structure, in which our hotel properties are owned by our operating partnership, Summit Hotel OP, LP, and limited partnerships, limited liability companies or other subsidiaries of our operating partnership. Summit Hotel Properties, Inc. is the sole general partner of our operating partnership. As the sole general partner of our operating partnership, we have the exclusive power to manage and conduct our operating partnership's business, subject to the limitations described in the partnership agreement. We will contribute the net proceeds of this offering to our operating partnership in exchange for additional OP units.

Upon completion of this offering and the formation transactions and the contribution of the net proceeds of this offering to our operating partnership, we will own an approximate % ( % if the underwriters exercise