Summit Hotel OP, LP
Form 10-Q
August 09, 2012

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-35074 (Summit Hotel Properties, Inc.)
Commission File Number: 001-54273 (Summit Hotel OP, LP)

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

Maryland (Summit Hotel Properties, Inc.) Delaware (Summit Hotel OP, LP) (State or other jurisdiction of incorporation or organization)	27-2962512 (Summit Hotel Properties, Inc.) 27-0617340 (Summit Hotel OP, LP) (I.R.S. Employer Identification No.)

2701 South Minnesota Avenue, Suite 2
Sioux Falls, SD 57105
(Address of principal executive offices, including zip code)

(605) 361-9566
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

] No

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

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

Summit Hotel OP, LP [x] Yes [ ] No

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

Summit Hotel Properties, Inc.

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

Summit Hotel OP, LP

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

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

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

Summit Hotel OP, LP [ ] Yes [x] No

As of August 5, 2012, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 31,501,219 and the number of outstanding units of partnership interest in Summit Hotel OP, LP designated as "Common Units" was 37,586,027, including Common Units held by Summit Hotel Properties, Inc. and its wholly owned subsidiary which is the general partner of Summit Hotel OP, LP.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the three months ended June 30, 2012 of Summit Hotel Properties, Inc., a Maryland corporation, and Summit Hotel OP, LP, a Delaware limited partnership.

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

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

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

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

Summit REIT is the sole member of Summit Hotel GP, LLC, a Delaware limited liability company, which is the sole general partner (the "General Partner") of Summit OP. Effective as of February 14, 2011, our predecessor merged with and into Summit OP, with the former members of our predecessor exchanging their membership interests in our predecessor for common units of partnership interest of Summit OP ("Common Units") and Summit OP succeeding to the business and assets of our predecessor. Also, on February 14, 2011, Summit REIT completed its initial public offering ("IPO") and a concurrent private placement of its common stock and contributed the net proceeds of the IPO and concurrent private placement to Summit OP in exchange for Common Units. On October 28, 2011, Summit REIT completed a follow-on public offering of 2,000,000 shares of its 9.25% Series A cumulative redeemable preferred stock ("Series A Preferred Stock"). As of June 30, 2012, Summit REIT owned approximately 81.8% of the issued and outstanding Common Units, including the sole general partnership interest held by the General Partner. As of June 30, 2012, Summit REIT owned all of the issued and outstanding 9.25% Series A Cumulative Redeemable Preferred Units of Summit OP ("Series A Preferred Units"). As the sole member of the General Partner, Summit REIT has exclusive control of Summit OP's day-to-day management. The remaining interests in Summit OP are owned by third parties, including the former members of our predecessor.

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

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

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

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

We believe it is important to understand the few differences between Summit REIT and Summit OP in the context of how Summit REIT and Summit OP operate as a consolidated company. Summit REIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its short taxable year ending December 31, 2011 upon filing its federal income tax return for that year.

As of June 30, 2012, Summit REIT's only material assets were its ownership of Common Units and Series A Preferred Units of Summit OP and its ownership of the membership interests in the General Partner. As a result, Summit REIT does not conduct business itself, other than controlling, through the General Partner, Summit OP, raising capital through issuances of equity securities from time to time and guaranteeing certain debt of Summit OP and its subsidiaries. Summit OP and its subsidiaries hold all the assets of the consolidated company. Except for net proceeds from securities issuances by Summit REIT, which are contributed to Summit OP in exchange for partnership units of Summit OP, Summit OP and its subsidiaries generate capital from the operation of our business and through borrowings and the issuance of partnership units of Summit OP.

Stockholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Summit REIT and those of Summit OP. As of June 30, 2012, Summit OP's capital interests include Common Units, representing general and limited partnership interests, and Series A Preferred Units. The Common Units owned by limited partners other than Summit REIT and its subsidiaries are accounted for in partners' capital in Summit OP's consolidated financial statements and (within stockholders' equity) as noncontrolling interests in Summit REIT's consolidated financial statements.

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

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

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

"the LLC" refer to Summit Hotel Properties, LLC and references to "our predecessor" include the LLC and its consolidated subsidiaries, including Summit Group of Scottsdale, Arizona, LLC ("Summit of Scottsdale");

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

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

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

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SUMMIT HOTEL PROPERTIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 (UNAUDITED) AND DECEMBER 31, 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$11,623,207	$10,537,132
Restricted cash	3,107,998	1,464,032
Trade receivables	6,946,025	3,424,630
Prepaid expenses and other	3,329,337	4,268,393
Land held for development	19,006,473	20,294,973
Assets held for sale	1,629,412	-
Property and equipment, net	558,546,155	498,876,238
Deferred charges and other assets, net	9,574,069	8,923,906
Deferred tax benefit	2,971,350	2,195,820
Other assets	4,758,390	4,019,870
TOTAL ASSETS	$621,492,416	$554,004,994
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$1,933,060	$1,670,994
Derivative liabilities	280,841	-
Liabilities related to assets held for sale	55,410	-
Accrued expenses	15,351,899	15,781,577
Mortgages and notes payable	298,432,922	217,103,728
TOTAL LIABILITIES	316,054,132	234,556,299
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred stock, $.01 par value per share, 100,000,000 shares authorized, 2,000,000 issued and outstanding	20,000	20,000
Common stock, $.01 par value per share, 450,000,000 shares authorized, 30,756,089 and 27,278,000 issued and oustanding, respectively	307,561	272,780
Additional paid-in capital	279,911,652	288,902,331
Accumulated other comprehensive income (loss)	(228,980)	-
Accumulated deficit and distributions	(21,666,806)	(11,020,151)
Total stockholders' equity	258,343,427	278,174,960
Noncontrolling interest	47,094,857	41,273,735
TOTAL EQUITY	305,438,284	319,448,695

TOTAL LIABILITIES AND EQUITY	$621,492,416	$554,004,994

(See Notes to Condensed Consolidated Financial Statements)

1

SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	Summit Hotel Properties, Inc.			Summit Hotel Properties, Inc.	Summit Hotel Properties, LLC (Predecessor)
	Three months ended 06/30/12	Three months ended 06/30/11	Six months ended 06/30/12	Period 2/14/11 through 6/30/11	Period 1/1/11 through 2/13/11
REVENUE					
Room revenue	$46,153,920	$36,233,265	$85,069,804	$54,008,560	$ 13,761,984
Other hotel operations revenue	1,126,223	763,619	2,121,149	1,125,918	330,251
Total Revenue	47,280,143	36,996,884	87,190,953	55,134,478	14,092,235
EXPENSES					
Hotel operating expenses					
Rooms	13,318,174	11,252,600	25,046,345	15,925,611	4,783,081
Other direct	5,274,760	4,856,876	10,025,519	6,934,125	2,533,904
Other indirect	12,617,580	8,849,929	23,801,932	13,610,269	4,521,906
Other	232,318	201,047	443,004	274,085	73,038
Total hotel operating expenses	31,442,832	25,160,452	59,316,800	36,744,090	11,911,929
Depreciation and amortization	8,143,923	6,546,156	16,332,359	9,827,698	3,288,931
Corporate general and administrative:					
Salaries and other compensation	711,770	699,014	1,523,408	1,066,032	-
Other	912,622	751,749	1,772,117	1,513,482	-
Equity based compensation	388,695	175,656	514,569	302,484	-
Loan transaction costs	423,110	-	423,110	-	-
Hotel property acquisition costs	747,295	-	1,327,233	-	-
Total Expenses	42,770,247	33,333,027	81,209,596	49,453,786	15,200,860
INCOME (LOSS) FROM OPERATIONS	4,509,896	3,663,857	5,981,357	5,680,692	(1,108,625)
OTHER INCOME (EXPENSE)					
Interest income	300	10,280	1,691	14,227	7,139
Other income	474,576	-	474,576	-	-
Interest expense	(4,270,723)	(2,923,852)	(7,699,198)	(6,416,058)	(4,477,631)
Gain (loss) on disposal of assets	(186,589)	(36,031)	(186,589)	(36,031)	-
Gain (loss) on derivatives	(1,012)	-	(1,012)	-	-
Total Other Income (Expense)	(3,983,448)	(2,949,603)	(7,410,532)	(6,437,862)	(4,470,492)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	526,448	714,254	(1,429,175)	(757,170)	(5,579,117)

INCOME TAX (EXPENSE) BENEFIT	144,101	(329,981)	411,856	(497,655)	(325,239)
INCOME (LOSS) FROM CONTINUING OPERATIONS	670,549	384,273	(1,017,319)	(1,254,825)	(5,904,356)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,027,340)	219,588	(2,144,282)	244,565	(302,200)
NET INCOME (LOSS)	(356,791)	603,861	(3,161,601)	(1,010,260)	(6,206,556)
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(274,942)	163,042	(1,345,270)	(272,770)	-
NET INCOME (LOSS) ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC./PREDECESSOR	(81,849)	440,819	(1,816,331)	(737,490)	(6,206,556)
PREFERRED DIVIDENDS	(1,156,250)	-	(2,312,500)	-	-
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS/MEMBERS	$(1,238,099)	$440,819	$(4,128,831)	$(737,490)	$ (6,206,556)
Basic and diluted net income (loss) per share from continuing operations:	$(0.01)	$0.01	$(0.08)	$(0.04)	
Basic and diluted net income (loss) per share from discontinued operations:	(0.03)	0.01	(0.06)	0.01	
Basic and diluted net income (loss) per share:	$(0.04)	$0.02	$(0.14)	$(0.03)	
Weighted-average common shares outstanding:					
Basic and diluted	30,553,158	27,278,000	28,915,579	27,278,000	

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	Summit Hotel Properties, Inc.			Summit Hotel Properties, Inc.	Summit Hotel Properties, LLC (Predecessor)
	Three months ended 06/30/12	Three months ended 06/30/11	Six months ended 06/30/12	Period 2/14/11 through 6/30/11	Period 1/1/11 through 2/13/11
NET INCOME (LOSS)	$(356,791)	$603,861	$(3,161,601)	$(1,010,260)	$ (6,206,556)
Comprehensive income (loss), net of tax:					
Change in unrealized loss on derivatives	(279,829)	-	(279,829)	-	-
Total comprehensive income (loss)	(279,829)	-	(279,829)	-	-
COMPREHENSIVE INCOME (LOSS)	(636,620)	603,861	(3,441,430)	(1,010,260)	(6,206,556)
NET COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(325,791)	-	(1,396,119)	-	-
NET COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC./PREDECESSOR	(310,829)	603,861	(2,045,311)	(1,010,260)	(6,206,556)
PREFERRED DIVIDENDS	(1,156,250)	-	(2,312,500)	-	-
NET COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS/MEMBERS	$(1,467,079)	$603,861	$(4,357,811)	$(1,010,260)	$ (6,206,556)

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	# of Shares of Preferred Stock	Preferred Stock	# of Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit and Distributions	Total Stockholders' Equity	No
BALANCES, JANUARY 1, 2012	2,000,000	$20,000	27,278,000	$272,780	$288,902,331	$-	$(11,020,151)	$278,174,960	$
Summit Hotel Properties, Inc.									
Registration and offering costs	-	-	-	-	(348,608)	-	-	(348,608)	
Common stock redemption of common units	-	-	3,270,062	32,701	(9,061,055)	-	-	(9,028,354)	
Dividends paid	-	-	-	-	-	-	(8,830,324)	(8,830,324)	
Stock awards	-	-	208,027	2,080	(2,080)	-	-	-	
Equity-based compensation	-	-	-	-	421,064	-	-	421,064	
Comprehensive income (loss)	-	-	-	-	-	(228,980)	-	(228,980)	
Net income (loss)	-	-	-	-	-	-	(1,816,331)	(1,816,331)	
BALANCES, JUNE 30, 2012	2,000,000	$20,000	30,756,089	$307,561	$279,911,652	$(228,980)	$(21,666,806)	$258,343,427	$

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Net income (loss)	$(3,161,601)	$(7,216,816)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	16,657,621	13,678,039
Amortization of prepaid lease	23,700	23,700
Loss on impairment of assets	2,098,000	-
Equity-based compensation	514,569	302,484
Deferred tax benefit	(775,530)	-
(Gain) loss on derivatives	1,012	-
(Gain) loss on disposal of assets	186,589	36,031
Changes in operating assets and liabilities:		
Trade receivables	(3,183,395)	(1,819,323)
Prepaid expenses and other	939,056	3,239,939
Accounts payable and related party accounts payable	270,517	(694,799)
Income tax receivable	(16,566)	-
Accrued expenses	(617,719)	3,531,328
Restricted cash released (funded)	201,291	224,124
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	13,137,544	11,304,707
INVESTING ACTIVITIES		
Land and hotel acquisitions	(50,525,000)	(37,700,000)
Purchases of other property and equipment	(11,665,820)	(11,147,843)
Proceeds from asset dispositions, net of closing costs	16,786,568	357,843
Restricted cash released (funded)	(1,845,257)	685,035
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(47,249,509)	(47,804,965)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	127,085,266	57,882,528
Principal payments on debt	(78,859,072)	(226,599,060)
Financing fees on debt	(1,944,604)	(3,641,499)
Proceeds from equity offerings, net of offering costs	(348,608)	240,855,458
Distributions to members and dividends paid	(10,734,942)	(10,385,448)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	35,198,040	58,111,979
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,086,075	21,611,721

CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	10,537,132	7,977,418
END OF PERIOD	$11,623,207	$29,589,139

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC. AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$7,656,874	$12,122,358
Cash payments for state income taxes, net of refunds	$316,837	$568,967

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 (UNAUDITED) AND DECEMBER 31, 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$11,623,207	$10,537,132
Restricted cash	3,107,998	1,464,032
Trade receivables	6,946,025	3,424,630
Prepaid expenses and other	3,329,337	4,268,393
Land held for development	19,006,473	20,294,973
Assets held for sale	1,629,412	-
Property and equipment, net	558,546,155	498,876,238
Deferred charges and other assets, net	9,574,069	8,923,906
Deferred tax benefit	2,971,350	2,195,820
Other assets	4,758,390	4,019,870
TOTAL ASSETS	$621,492,416	$554,004,994
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$1,933,060	$1,670,994
Derivative liabilities	280,841	-
Liabilities related to assets held for sale	55,410	-
Accrued expenses	15,351,899	15,781,577
Mortgages and notes payable	298,432,922	217,103,728
TOTAL LIABILITIES	316,054,132	234,556,299
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Partners' equity:		
Summit Hotel Properties, Inc., 30,756,089 and 27,278,000 common units outstanding, respectively, and 2,000,000 preferred units outstanding	258,343,427	278,174,960
Unaffiliated limited partners, 6,829,938 and 10,100,000 common units outsanding, respectively	47,094,857	41,273,735
TOTAL EQUITY	305,438,284	319,448,695
TOTAL LIABILITIES AND EQUITY	$621,492,416	$554,004,994

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	Summit Hotel OP, LP			Summit Hotel OP, LP	Summit Hotel Properties, LLC (Predecessor)
	Three months ended 06/30/12	Three months ended 06/30/11	Six months ended 06/30/12	Period 2/14/11 through 06/30/11	Period 1/1/11 through 2/13/11
REVENUE					
Room revenue	$46,153,920	$36,233,265	$85,069,804	$54,008,560	$ 13,761,984
Other hotel operations revenue	1,126,223	763,619	2,121,149	1,125,918	330,251
Total Revenue	47,280,143	36,996,884	87,190,953	55,134,478	14,092,235
EXPENSES					
Hotel operating expenses					
Rooms	13,318,174	11,252,600	25,046,345	15,925,611	4,783,081
Other direct	5,274,760	4,856,876	10,025,519	6,934,125	2,533,904
Other indirect	12,617,580	8,849,929	23,801,932	13,610,269	4,521,906
Other	232,318	201,047	443,004	274,085	73,038
Total hotel operating expenses	31,442,832	25,160,452	59,316,800	36,744,090	11,911,929
Depreciation and amortization	8,143,923	6,546,156	16,332,359	9,827,698	3,288,931
Corporate general and administrative:					
Salaries and other compensation	711,770	699,014	1,523,408	1,066,032	-
Other	912,622	751,749	1,772,117	1,513,482	-
Equity based compensation	388,695	175,656	514,569	302,484	-
Loan transaction costs	423,110	-	423,110	-	-
Hotel property acquisition costs	747,295	-	1,327,233	-	-
Total Expenses	42,770,247	33,333,027	81,209,596	49,453,786	15,200,860
INCOME (LOSS) FROM OPERATIONS	4,509,896	3,663,857	5,981,357	5,680,692	(1,108,625)
OTHER INCOME (EXPENSE)					
Interest income	300	10,280	1,691	14,227	7,139
Other income	474,576	-	474,576	-	-
Interest expense	(4,270,723)	(2,923,852)	(7,699,198)	(6,416,058)	(4,477,631)
Gain (loss) on disposal of assets	(186,589)	(36,031)	(186,589)	(36,031)	-
Gain (loss) on derivatives	(1,012)	-	(1,012)	-	-
Total Other Income (Expense)	(3,983,448)	(2,949,603)	(7,410,532)	(6,437,862)	(4,470,492)

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	526,448	714,254	(1,429,175)	(757,170)	(5,579,117)
INCOME TAX (EXPENSE) BENEFIT	144,101	(329,981)	411,856	(497,655)	(325,239)
INCOME (LOSS) FROM CONTINUING OPERATIONS	670,549	384,273	(1,017,319)	(1,254,825)	(5,904,356)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,027,340)	219,588	(2,144,282)	244,565	(302,200)
NET INCOME (LOSS)	(356,791)	603,861	(3,161,601)	(1,010,260)	(6,206,556)
PREFERRED DIVIDENDS	(1,156,250)	-	(2,312,500)	-	-
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON UNIT HOLDERS	(1,513,041)	603,861	(5,474,101)	(1,010,260)	(6,206,556)
Basic and diluted net income (loss) per unit from continuing operations:	$(0.01)	$0.01	$(0.09)	$(0.04)	
Basic and diluted net income (loss) per unit from discontinued operations:	(0.03)	0.01	(0.06)	0.01	
Basic and diluted net income (loss) per unit:	$(0.04)	$0.02	$(0.15)	$(0.03)	
Weighted-average common units outstanding:					
Basic and diluted	37,383,096	37,378,000	37,380,548	37,378,000	

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	Summit Hotel OP, LP			Summit Hotel OP, LP	Summit Hotel Properties, LLC (Predecessor)
	Three months ended 06/30/12	Three months ended 06/30/11	Six months ended 06/30/12	Period 2/14/11 through 6/30/11	Period 1/1/11 through 2/13/11
NET INCOME (LOSS)	$(356,791)	$603,861	$(3,161,601)	$(1,010,260)	$ (6,206,556)
Comprehensive income (loss), net of tax:					
Change in unrealized loss on derivatives	(279,829)	-	(279,829)	-	-
Total comprehensive income (loss)	(279,829)	-	(279,829)	-	-
COMPREHENSIVE INCOME (LOSS)	(636,620)	603,861	(3,441,430)	(1,010,260)	(6,206,556)
PREFERRED DIVIDENDS	(1,156,250)	-	(2,312,500)	-	-
NET COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON UNIT HOLDERS	$(1,792,870)	$603,861	$(5,753,930)	$(1,010,260)	$ (6,206,556)

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Preferred	Common		
	Summit Hotel Properties, Inc.	Summit Hotel Properties, Inc.	Total Unaffiliated Limited Partners' Equity	Total Equity
BALANCES, JANUARY 1, 2012	$ 47,875,094	$ 230,299,866	$ 41,273,735	$ 319,448,695
Summit Hotel OP, LP				
Registration and offering costs	-	(348,608)	-	(348,608)
Common stock redemption of common units	-	(9,028,354)	9,028,354	-
Distributions	(2,312,500)	(6,517,824)	(1,904,618)	(10,734,942)
Equity-based compensation	-	421,064	93,505	514,569
Other comprehensive income (loss)		(228,980)	(50,849)	(279,829)
Net income (loss)	2,312,500	(4,128,831)	(1,345,270)	(3,161,601)
BALANCES, JUNE 30, 2012	$ 47,875,094	$ 210,468,333	$ 47,094,857	$ 305,438,284

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Net income (loss)	$(3,161,601)	$(7,216,816)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	16,657,621	13,678,039
Amortization of prepaid lease	23,700	23,700
Loss on impairment of assets	2,098,000	-
Equity-based compensation	514,569	302,484
Deferred tax benefit	(775,530)	-
(Gain) loss on derivatives	1,012	-
(Gain) loss on disposal of assets	186,589	36,031
Changes in operating assets and liabilities:		
Trade receivables	(3,183,395)	(1,819,323)
Prepaid expenses and other	939,056	3,239,939
Accounts payable and related party accounts payable	270,517	(694,799)
Income tax receivable	(16,566)	-
Accrued expenses	(617,719)	3,531,328
Restricted cash released (funded)	201,291	224,124
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	13,137,544	11,304,707
INVESTING ACTIVITIES		
Land and hotel acquisitions	(50,525,000)	(37,700,000)
Purchases of other property and equipment	(11,665,820)	(11,147,843)
Proceeds from asset dispositions, net of closing costs	16,786,568	357,843
Restricted cash released (funded)	(1,845,257)	685,035
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(47,249,509)	(47,804,965)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	127,085,266	57,882,528
Principal payments on debt	(78,859,072)	(226,599,060)
Financing fees on debt	(1,944,604)	(3,641,499)
Contributions, net of offering costs	(348,608)	240,855,458
Distributions	(10,734,942)	(10,385,448)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	35,198,040	58,111,979
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,086,075	21,611,721

CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	10,537,132	7,977,418
END OF PERIOD	$11,623,207	$29,589,139

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL OP, LP AND SUMMIT HOTEL
PROPERTIES, LLC (PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$7,656,874	$12,122,358
Cash payments for state income taxes, net of refunds	$316,837	$568,967

(See Notes to Condensed Consolidated Financial Statements)

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS

Basis of Presentation

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

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

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

As of June 30, 2012, our real estate investment portfolio consists of 73 upscale, upper midscale and midscale hotels with a total of 7,489 guestrooms located in small, mid-sized and suburban markets in 20 states (see Note 3 for new acquisitions). The hotels are leased to subsidiaries (“TRS Lessees”) of the Company’s taxable REIT subsidiaries (“TRSs”). The Company indirectly owns 100% of the outstanding equity interests in the TRS Lessees.

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on interim periods. Accordingly, certain information

and footnotes required by Generally Accepted Accounting Principles (“GAAP”) for complete financial statements have been condensed or omitted. Interim results may not be indicative of fiscal year performance because of seasonal and other factors. These interim statements should be read in conjunction with the financial statements and notes thereto included in our combined Annual Report on Form 10-K for the year ended December 31, 2011. In management’s opinion, all adjustments made were normal and recurring in nature, and were necessary for a fair statement of the results of the interim period.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Use of Estimates

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

Consolidation

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation with no impact to net income, shareholders' equity or cash flows.

Recent Accounting Pronouncements

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

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. ASU 2011-05 is effective for interim and fiscal years beginning after December 15, 2011. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive income in Accounting Standards Update 2011-05. The adoption of this ASU did not have an impact on the consolidated financial statements.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Revenue Recognition

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

Derivatives and Hedges

We use interest rate derivatives to hedge our risks on variable-rate debt and to capitalize on the historical correlation between changes in LIBOR (London Interbank Offered Rate) and RevPAR (Revenue per Available Room). We apply hedge accounting to our interest rate swap derivatives. Interest rate derivatives could include swaps, caps, and floors. We assess the effectiveness of each hedging relationship by comparing changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction.

All derivatives are recorded at fair value and reported as a derivative asset or liability in the condensed consolidated balance sheets. For interest rate derivatives designated as cash flow hedges:

a) the effective portion of changes in fair value is initially reported as a component of “Accumulated Other Comprehensive Income (Loss)” (“OCI”) in the equity section of the consolidated balance sheets and reclassified to interest expense in the consolidated statements of operations in the period during which the hedged transaction affects earnings, and
b) the ineffective portion of changes in fair value is recognized directly in earnings “gain (loss) on derivatives” in the consolidated statements of operations.

Fair Value

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

Our estimates of the fair value of financial instruments as of June 30, 2012 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

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

As of June 30, 2012, the aggregate fair value of our consolidated mortgages and notes payable, (Level 2) is approximately $299.3 million, compared to the aggregate carrying value of approximately $298.4 million on our consolidated balance sheet.

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

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Depreciation and Amortization

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. Depreciation and amortization expense consists of depreciation of real property, amortization of deferred financing costs and amortization of franchise fees. Depreciation expense was $7,437,937 and $6,346,679 for the three months ended June 30, 2012 and 2011, respectively. Depreciation expense was $15,013,179 and $12,484,678 for the six months ended June 30, 2012 and 2011, respectively. Amortization of deferred financing costs was $457,360 and $337,938 for the three months ended June 30, 2012 and 2011, respectively. Amortization of deferred financing costs was $1,222,693 and $617,325 for the six months ended June 30, 2012 and 2011, respectively. Amortization of franchise fees was $282,036 and $134,991 for the three months ended June 30, 2012 and 2011, respectively. Amortization of franchise fees was $421,749 and $576,036 for the six months ended June 30, 2012 and 2011, respectively.

Long-Lived Assets and Impairment

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

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

During the second quarter of 2012, the Company disposed of three hotels located in Twin Falls, ID for a sales price of $16.5 million. As a result of entering into this sales agreement, we recorded an impairment loss of approximately $932,000 during the first quarter of 2012 for those assets as the anticipated net proceeds are less than the carrying value. During the second quarter of 2012, the Company entered into an agreement to sell a hotel in Missoula, MT and expects to close on this sale during third quarter of 2012. We recorded an impairment loss of approximately $1,166,000 during the second quarter of 2012 for that asset as the anticipated net proceeds are less than the carrying value. This asset is classified as “held for sale” at June 30, 2012, and operations related to these hotels are included in discontinued operations (see Note 5).

Assets Held for Sale

FASB ASC 360 requires a long-lived asset to be sold to be classified as “held for sale” in the period in which certain criteria are met, including that the sale of the asset within one year is probable. If assets are classified as held for sale, they are carried at the lower of carrying amount or fair value, less costs to sell. FASB ASC 360 also requires that the

results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from our ongoing operations. FASB ASC 360 also states that depreciation will cease to continue on held for sale assets.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

As a part of routine procedures, we periodically review hotels based on established criteria such as age of hotel property, type of franchise associated with hotel property, and adverse economic and competitive conditions in the region surrounding the property. During the period, we completed a comprehensive review of our investment strategy and of our existing hotel portfolio and our land held for development to identify properties which we believe are either non-core or no longer complement the business as required by FASB ASC 360. We have reclassified one hotel located in Missoula, MT as held for sale at June 30, 2012, as we have entered into a purchase and sale agreement on this hotel and plan to close on the sale during the third quarter of 2012. (see Note 5 for discontinued operations)

Assets and liabilities held for sale consisted of the following as of June 30, 2012:

		2012
Land	$	690,048
Building		741,257
Furniture, fixtures and equipment		198,107
	$	1,629,412
Accounts payable	$	8,451
Accrued expenses		46,959
Mortgage		-
	$	55,410

Acquisitions

We allocate the purchase price of acquisitions based on the fair value of the acquired assets and assumed liabilities. We determine the acquisition-date fair values of all assets and assumed liabilities using appraisals or methods similar to those used by independent appraisers, for example, using a discounted cash flow analysis that utilizes appropriate discount and/or capitalization rates and available market information (level 3). Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions (see Note 3 for new acquisitions). Acquisition costs are expensed as incurred.

Equity-Based Compensation

Effective as of the closing of the IPO, we adopted the 2011 Equity Incentive Plan, which provides for the grants of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights and other stock-based awards, or any combination of the foregoing. In accordance with FASB ASC 718, Compensation-Stock Compensation, equity-based compensation is recognized as an expense in the financial statements over the vesting period and measured at the fair value of the award on the date of grant. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the equity-based award and the application of accounting guidance.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Income Taxes

We elected to be taxed as a REIT under the Code commencing with our short taxable year ended December 31, 2011. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute annually to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, which does not necessarily equal net income as calculated in accordance with GAAP. As a REIT, we generally will not be subject to federal income tax (other than taxes paid by our TRSs) to the extent we currently distribute 100% of our REIT taxable income to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for the four taxable years following the year during which qualification is lost unless we satisfy certain relief provisions.

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

NOTE 2 - EQUITY

Common Shares

On February 14, 2011, the Company completed an underwritten public offering of 27,274,000 common shares, par value of $.01 per share. Upon completion of the offering, the Company issued 4,000 common shares to our independent directors pursuant to the 2011 Equity Incentive Plan. Effective February 14, 2011, the Company granted options to purchase 940,000 common shares (see Note 7). The Company paid dividends of $.1125 per share on February 28, 2012 and May 31, 2012.

On April 2, 2012, the Company issued an aggregate of 3,270,062 shares of common stock to limited partners of our operating partnership in connection with the redemption of their common units (see Note 6). During the second quarter, the Company also issued 208,027 common shares to our independent directors and executive officers pursuant to the 2011 Equity Incentive Plan (see Note 7). As a result, the Company increased our common shares to 30,756,089 as of June 30, 2012.

Preferred Shares

On October 28, 2011, the Company completed an underwritten public offering of 2,000,000 shares of 9.25% Series A Cumulative Redeemable Preferred Stock, par value of $.01 per share. Dividends are payable quarterly in arrears on or about the last day of February, May, August and November of each year. The Company paid dividends of $.578125 per share on February 28, 2012 and May 31, 2012.

18

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

NOTE 3 - ACQUISITIONS

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

We have acquired three hotels during the first quarter of 2012. We purchased the Courtyard by Marriott in Atlanta, GA on January 12, 2012 for approximately $28.5 million, the Hilton Garden Inn in Birmingham, AL for approximately $11.5 million on February 28, 2012, and another Hilton Garden Inn in Birmingham, AL for approximately $8.6 million on February 28, 2012. We assumed debt of approximately $19.0 million on the Atlanta, GA acquisition.

We have acquired three hotels during the second quarter of 2012. We purchased the Hilton Garden Inn in Smyrna, TN on May 16, 2012 for approximately $11.5 million, the Hampton Inn & Suites in Smyrna, TN on June 21, 2012 for approximately $8.0 million, and the Courtyard by Marriott in Arlington, TX on May 16, 2012 for approximately $15.0 million. We assumed debt of approximately $14.1 million on the two hotel acquisitions in Smyrna, TN.

The following table illustrates our initial allocation of the aggregated purchase prices for the hotel acquisitions discussed above during 2011 and 2012:

	2012 (in thousands)	2011 (in thousands)
Land	$ 8,197	$ 7,254
Hotel buildings and improvements	71,603	41,368
Furniture, fixtures and equipment	3,725	1,428
Other assets	338	365
Total assets acquired	$ 83,863	$ 50,415
Other liabilities	235	398
Debt acquired	33,103	-
Total liabilities acquired	33,338	398
Net assets acquired	$ 50,525	$ 50,017

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Total revenues and net income (loss) for the three and six months ended June 30, 2012 of hotels acquired during the six months ended June 30, 2012 and the year ended December 31, 2011, which are included in the accompanying unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011, were as follows (in thousands):

	For the three months ended		For the six months ended	
2012 acquisitions	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue	$3,866	$-	$5,649	$-
Net income	$475	$-	$607	$-

	For the three months ended		For the six months ended	
2011 acquisitions	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue	$4,186	$2,200	$8,158	$2,200
Net income	$721	$561	$1,322	$561

The following unaudited condensed pro forma financial information presents the results of operations as if the 2012 and 2011 acquisitions had taken place on January 1, 2011. The condensed pro forma financial information excludes discontinued operations and is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had taken place on January 1, 2011, nor does it purport to represent the results of operations for future periods. The unaudited condensed pro forma financial information, excluding discontinued operations, is as follows (in thousands, except per share data):

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue	$48,605	$43,563	$91,934	$83,241
Net income (loss)	$(335)	$1,080	$(2,843)	$(6,584)
Net income (loss) per share attributable to common shareholders - basic and diluted	$(0.01)	$0.03	$(0.08)	$(0.18)

NOTE 4 - DEBT OBLIGATIONS

Mortgage loans and notes payable at June 30, 2012 and December 31, 2011, are comprised of the following (dollars in millions):

	2012	2011

	(in millions)	(in millions)
Fixed-rate mortgage loans	$206.1	$122.6
Variable-rate mortgage loans	92.3	94.5
	$298.4	$217.1

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

On January 12, 2012, the Company entered into a $19.0 million term loan with Empire Financial Services, Inc. to modify the $19.0 million loan assumed in the acquisition of the Courtyard by Marriott in Atlanta, GA (see Note 3). The interest rate is 6.00% fixed. The loan matures February 1, 2017 and is secured by a first mortgage lien on the hotel. The loan carries a prepayment penalty of one percent (1%) for prepayments occurring before January 13, 2013.

On February 14, 2012, we refinanced the MetaBank loan of $7.0 million. It now matures February 1, 2017, is amortized over approximately 17 years and bears an annual interest rate of 4.95%. There is a prepayment penalty of 3% if the loan is paid off in the first two years, 2% in year 3 and 1% in years 4 and 5. The loan is collateralized by a first mortgage lien on two hotels containing 197 rooms.

On March 2, 2012, we entered into a $5.6 million term loan with General Electric Capital Corporation to purchase the 95-unit Hilton Garden Inn in Birmingham, Alabama. The interest rate is fixed for three years at 5.46%. On the third anniversary of the note, the rate will convert to a variable rate of 90-day LIBOR plus 5.28%. The note matures on April 1, 2017, and is secured by a first priority lien on the 95-unit Hilton Garden Inn in Birmingham, Alabama. The loan may not be prepaid during the first 12 months, and may be prepaid with a 2% prepayment fee during the second loan year, and 1% prepayment during the third loan year. The note is cross-defaulted and cross-collateralized with the $6.5 million note on the 130-unit Hilton Garden Inn in Birmingham, Alabama.

On March 2, 2012, we entered into a $6.5 million term loan with General Electric Capital Corporation to purchase the 130-unit Hilton Garden Inn in Birmingham, Alabama. The interest rate is fixed for three years at 5.46%. On the third anniversary of the note, the rate will convert to a variable rate of 90-day LIBOR plus 5.28%. The note matures on April 1, 2017, and is secured by a first priority lien on the 130-unit Hilton Garden Inn in Birmingham, Alabama. The loan may not be prepaid during the first 12 months, and may be prepaid with a 2% prepayment fee during the second loan year, and 1% prepayment during the third loan year. The note is cross-defaulted and cross-collateralized with the $5.6 million note on the 95-unit Hilton Garden Inn in Birmingham, Alabama.

On February 13, 2012, we closed on the consolidation and refinance of our four loans with ING Life Insurance and Annuity, which four loans collectively had an aggregate outstanding balance of approximately $69.5 million as of December 31, 2011. The loans were consolidated into a single term loan with a principal balance of $67.5 million, maturity date of March 1, 2032, amortized over 20 years and bearing an annual interest rate of 6.10%, collateralized by first mortgage liens on 16 properties containing 1,639 guestrooms. The lender has the right to call the loan so as to be payable in full at March 1, 2019, March 1, 2024 or March 1, 2029. If the loan is repaid prior to maturity, other than if called by the lender, there is a prepayment penalty equal to the greater of (i) 1% of the principal being repaid and (ii) the yield maintenance premium. Pursuant to the consolidation, the mortgages on the Courtyard by Marriott, Missoula, MT and the Courtyard by Marriott, Memphis, TN were released and new mortgages were taken on the Country Inn & Suites and the Holiday Inn Express in Charleston, West Virginia.

On April 4, 2012, we refinanced the National Western Life Insurance and Annuity loan on the SpringHill Suites by Marriott in Scottsdale, Arizona with a $5.25 million term loan with GE Capital Financing Inc. The interest rate is 6.03%. The loan matures May 1, 2017 and is secured by a first mortgage lien on the SpringHill by Marriott hotel in Scottsdale, Arizona. The loan carries a prepayment penalty of one percent (1%) plus defeasance. The loan is cross-defaulted and cross-collateralized with the $9.75 million loan on the Courtyard by Marriott in Scottsdale, Arizona.

21

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

On April 4, 2012, we refinanced the National Western Life Insurance and Annuity loan on the Courtyard by Marriott in Scottsdale, Arizona with a $9.75 million term loan with GE Capital Financing Inc. The interest rate is 6.03%. The loan matures May 1, 2017 and is secured by a first mortgage lien on the Courtyard by Marriott hotel in Scottsdale, Arizona. The loan carries a prepayment penalty of one percent (1%) plus defeasance. The loan is cross-defaulted and cross-collateralized with the $5.25 million loan on the SpringHill Suites by Marriott in Scottsdale, Arizona.

On May 16, 2012, the Company assumed an $8.7 million term loan with Banc of America Commercial Mortgage, Inc. The interest rate is 6.41% fixed. The loan matures September 1, 2017 and is secured by a first mortgage lien on the Hilton Garden Inn hotel in Smyrna, TN.

On June 21, 2012, the Company assumed a $5.4 million term loan with Merrill Lynch Mortgage Lending, Inc. The interest rate is 6.3840% fixed. The loan matures August 1, 2016 and is secured by a first mortgage lien on the Hampton Inn hotel in Smyrna, TN.

On June 24, 2012, the Chambers Bank loan of approximately $1.5 million was refinanced, extending the maturity date to June 24, 2014. Summit Hotel Properties, Inc. executed a guaranty limited to non-recourse carve-outs, replacing the guaranty in place from an affiliate of our Predecessor.

On June 29, 2012, the Bank of the Ozarks loan was refinanced, extending the maturity date to July 10, 2017. In addition, Bank of the Ozarks advanced an additional $2.6 million, representing the amount available pursuant to the earn-out provision of the loan, increasing the current outstanding balance to approximately $8.9 million. The interest rate was fixed at 5.75% for three years, with the rate at LIBOR plus 3.75% or a fixed rate of 5.5% thereafter.

We entered into a $125.0 million senior secured revolving credit facility with Deutsche Bank AG New York Branch, as administrative agent, Deutsche Bank Securities Inc., as lead arranger, and a syndicate of lenders including Deutsche Bank AG New York Branch, Royal Bank of Canada, KeyBank National Association, Regions Bank, and U.S. Bank National Association. On May 17, 2012, we entered into a Third Amendment to Credit Agreement, which resulted in the Company being able to borrower a higher percentage of the value of each property in the borrowing base, an extended termination date of the facility, a decrease in the interest rate, a reduction in the unused fee, and a reduction in the leverage requirement and the consolidated fixed charge coverage ratio requirements. The terms of the credit facility, as amended, are described in the summary below.

The facility matures May 16, 2015, with an option to extend for one additional year if we meet certain requirements. Outstanding borrowings on the revolving credit facility are limited to the least of (1) $125.0 million, (2) 60% of the aggregate appraised value of the borrowing base assets and (3) a formula related to the aggregate adjusted net operating income of the borrowing base assets securing the facility. The availability of the credit facility is also subject to a borrowing base having no fewer than 15 properties. As of June 30, 2012, 23 hotel properties are included in the borrowing base and the maximum amount of borrowing permitted by the terms of the credit facility is approximately $88.4 million, of which approximately $32.7 million is available to borrow as of June 30, 2012.

NOTE 5 - DISCONTINUED OPERATIONS

The Company has adjusted its consolidated financial statements of operations for the three and six months ended June 30, 2012 and 2011 to reflect discontinued operations of four consolidated hotel properties sold or classified as held for sale during this period pursuant to the plan for hotel dispositions. These adjustments have no impact on the Company's net income (loss) or the net income (loss) per share.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Condensed results of operations for these hotel properties included in discontinued operations are as follows:

	Summit Hotel Properties, Inc.			Summit Hotel Properties, Inc.	Summit Hotel Properties, LLC (Predecessor)
	Three months ended 06/30/12	Three months ended 06/30/11	Six months ended 06/30/12	Period 02/14/11 to 6/30/11	Period 01/1/11 to 02/13/11
REVENUE	$840,321	$1,591,680	$1,911,970	$2,263,235	$ 506,058
EXPENSES					
Rooms	279,673	474,500	673,189	718,089	177,369
Other direct	96,987	174,334	234,464	218,292	123,856
Other indirect	242,661	329,112	570,395	503,300	164,368
Corporate general and administrative	17,783	22,710	42,003	36,329	-
Loss on impairment of assets	1,166,000	-	2,098,000	-	-
Depreciation and amortization	33,410	273,452	325,262	421,125	140,285
	1,836,514	1,274,108	3,943,313	1,897,135	605,878
INCOME (LOSS) FROM OPERATIONS	(996,193)	317,572	(2,031,343)	366,100	(99,820)
OTHER INCOME (EXPENSE)					
Interest expense	(33,708)	(83,788)	(130,736)	(102,711)	(188,585)
INCOME (LOSS) BEFORE TAXES	(1,029,901)	233,784	(2,162,079)	263,389	(288,405)
INCOME TAX (EXPENSE) BENEFIT	2,561	(14,196)	17,797	(18,824)	(13,795)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$(1,027,340)	$219,588	$(2,144,282)	$244,565	$ (302,200)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO NONCONTROLLING INTEREST	$(186,683)	$59,335	$(485,680)	$66,085	$ (81,658)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO COMMON STOCKHOLDERS/MEMBERS	$(840,657)	$160,253	$(1,658,602)	$178,480	$ (220,542)

NOTE 6 - NONCONTROLLING INTERESTS

As of June 30, 2012, limited partners of the Operating Partnership other than the Company owned 6,829,938 Common Units representing an approximate 18% limited partnership interest in the Operating Partnership. Beginning on or after February 14, 2012, pursuant to the limited partnership agreement, redemption rights of the limited partners other than the Company enable those limited partners, at their election, to cause the Operating Partnership to redeem their Common Units in exchange for cash based upon the fair value of an equivalent number of shares of the Company's common stock at the time of redemption, or at the Company's option, shares of the Company's common stock, on a one-for-one basis. The number of shares of the Company's common stock issuable upon redemption of Common Units may be adjusted upon the occurrence of certain events such as share dividends, share subdivisions or combinations.

The Company classifies these Common Units as noncontrolling interests as a component of permanent equity on the June 30, 2012 consolidated balance sheet. The share of net loss allocated to these Common Units is reported on the accompanying consolidated statement of operations for three and six months ended June 30, 2012 and the period of February 14, 2011 through June 30, 2011 as net loss attributable to noncontrolling interests. During the three months ended June 30, 2012, 3,270,062 Common Units were redeemed.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

NOTE 7 - EQUITY-BASED COMPENSATION

The Company measures and recognizes compensation expense for all equity-based payments. The compensation expense is recognized based on the grant-date fair value of those awards. All of the Company's existing stock option awards have been determined to be equity-classified awards.

The Company's 2011 Equity Incentive Plan provides for the granting of options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other equity-based award or incentive award up to an aggregate of 2,318,290 shares of the Company's common stock. Options granted may be either incentive stock options or nonqualified stock options. Vesting terms may vary with each grant, and option terms are generally five to ten years.

Concurrent with the completion of the IPO, the Company granted options to purchase 940,000 shares of the Company's common stock. Options to purchase shares of common stock were granted with exercise prices equal to $9.75 per share, the fair value of the common stock on the date of grant. Options vest on a ratable basis over a five year period following the date of grant and option terms are generally five to ten years following the date of grant. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following assumptions:

	2011	
Expected dividend yield at date of grant	5.09	%
Expected stock price volatility	56.6	%
Risk-free interest rate	2.57	%
Expected life of options (in years)	6.5	

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was based on historical monthly price changes of a peer group of comparable entities based on the expected life of the options at the date of grant. The expected life of options is the average number of years the Company estimates that options will be outstanding. The Company considers groups of associates that have similar historical exercise behavior separately for valuation purposes.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

The following table summarizes stock option activity under the Company's 2011 Equity Incentive Plan for the six months ended June 30, 2012:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (years)	Aggregate Intrinsic Value (in thousands)	
Outstanding at December 31, 2011	940,000	$9.75	9.1	$-	
Granted	-	$-	-	$-	
Exercised	-	$-	-	$-	
Cancelled	(47,000)	$9.75	-	$-	
Outstanding at June 30, 2012	893,000	$9.75	8.7	$-	(1)
Exercisable at June 30, 2012	178,600	$9.75	8.7	$-	

(1) Exercise price exceeds our market price at June 30, 2012.

Concurrent with the completion of the IPO, the Company granted 4,000 shares of stock to directors of the Company under the 2011 Equity Incentive Plan and recognized $39,000 of compensation expense. These shares vested concurrent with the grant. On June 7, 2012, the Company granted 15,288 shares of stock to directors of the Company under the 2011 Equity Incentive Plan and recognized $120,011 of compensation expense. These shares vested concurrent with the grant.

Under the 2011 Equity Incentive Plan, the Company awarded 192,739 restricted shares to the executive officers on April 25, 2012. The shares issued vest over a period of time as determined by the Board at the date of grant. The Company recognizes compensation expense for non-vested shares on a straight-line basis over the vesting period based upon the fair market value of the shares on the date of issuance, adjusted for forfeitures.

A summary of the non-vested shares as of June 30, 2012 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2012	-	$
Granted	192,739	7.78
Vested	-	
Forfeited	-	
Non-vested at June 30, 2012	192,739	$ 7.78

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

For the three and six months ended June 30, 2012, the Company recognized $142,810 of share-based compensation expense related to these restricted share awards. As of June 30, 2012, there was $1.4 million of total unrecognized compensation costs related to non-vested share awards. These costs are expected to be primarily recognized over an average period of 2.75 years.

NOTE 8 - EARNINGS (LOSS) PER SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per share. The Company applies the two-class method of computing earnings per share, which requires the calculation of separate earnings per share amounts for non-vested share-based awards and for common stock. Non-vested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. Under the two-class computation method, net losses are not allocated to participating securities unless the holder of the security has a contractual obligation to share in the losses. The non-vested share-based payment awards are not allocated losses as the awards do not have a contractual obligation to share in the losses of the Company.

Summit Hotel Properties, Inc.

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Numerator:				
Income from continuing operations	$670,549	$384,273	$(1,017,319)	$(1,254,825)
Less: preferred dividend requirements	(1,156,250)	-	(2,312,500)	-
noncontrolling interest adjustments	88,259	(103,707)	859,590	338,855
allocation to participating securities	(12,390)	-	(12,390)	-
Net income (loss) attributable to common shareholders before discontinued operations	(409,832)	280,566	(2,482,619)	(915,970)
Net income (loss) attributable to common shareholders from discontinued operations	(840,657)	160,253	(1,658,602)	178,480
Net income (loss) attributable to common shareholders - basic and diluted	$(1,250,489)	$440,819	$(4,141,221)	$(737,490)
Denominator:				
Weighted average number of common shares - basic and diluted	30,553,158	27,278,000	28,915,579	27,278,000
Earnings per Common Share - Basic and Diluted:				
Net income (loss) attributable to common shareholders before discontinued operations	$(0.01)	$0.01	$(0.08)	$(0.04)
Net income (loss) attributable to common shareholders from discontinued operations	(0.03)	0.01	$(0.06)	0.01
Net income (loss) attributable to common				

shareholders	$(0.04)	$0.02	$(0.14)	$(0.03)

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Summit Hotel OP, LP

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Numerator:				
Income from continuing operations	$670,549	$384,273	$(1,017,319)	$(1,254,825)
Less: preferred dividend requirements	(1,156,250)	-	(2,312,500)	-
Net income (loss) attributable to common shareholders before discontinued operations	(485,701)	384,273	(3,329,819)	(1,254,825)
Net income (loss) attributable to common shareholders from discontinued operations	(1,027,340)	219,588	(2,144,282)	244,565
Net income (loss) attributable to common shareholders - basic and diluted	$(1,513,041)	$603,861	$(5,474,101)	$(1,010,260)
Denominator:				
Weighted average number of common shares - basic and diluted	37,383,096	37,378,000	37,380,548	37,378,000
Earnings per Common Share - Basic and Diluted:				
Net income (loss) attributable to common shareholders before discontinued operations	$(0.01)	$0.01	$(0.09)	$(0.04)
Net income (loss) attributable to common shareholders from discontinued operations	(0.03)	0.01	$(0.06)	0.01
Net income (loss) attributable to common shareholders	$(0.04)	$0.02	$(0.15)	$(0.03)

Diluted loss per share was the same as basic loss per share for the six months ended June 30, 2012 and 2011 as options to purchase 893,000 and 940,000 shares of common stock were anti-dilutive, respectively.

NOTE 9 - DERIVATIVE INSTRUMENTS AND HEDGING

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's

borrowings.

SUMMIT HOTEL PROPERTIES, INC., SUMMIT HOTEL OP, LP, AND
SUMMIT HOTEL PROPERTIES, LLC (PREDECESSOR)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2012, such derivatives were used to hedge the variable cash flows associated with variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2012, the Company recorded $1,012 of hedge ineffectiveness in earnings due to slight mismatches in timing of payments.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional $181,000 will be reclassified from other comprehensive income as an increase to interest expense.

As of June 30, 2012, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands):

Interest Rate Derivative	Number of Instruments		Notional Amount
Interest Rate Swaps	3	$	29,483

The maximum length of time over which the Company is hedging its exposure to the transactions related to the payment of variable interest on the existing derivative instruments is approximately seven years. The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheet as of June 30, 2012 (amounts in thousands). The Company had no active derivatives as of December 31, 2011.

		June 30, 2012
Derivative designated as hedging instruments:		
Interest Rate Swaps	Derivatives, at fair value	$ (281)