

Summit Hotel Properties, Inc.
Form 10-Q
August 02, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

For the transition period from _____ to _____

Commission File Number: 001-35074

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

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

12600 Hill Country Boulevard, Suite R-100
Austin, TX 78738
(Address of principal executive offices, including zip code)

(512) 538-2300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) of this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has
elected not to use the extended transition period for complying with any new
or revised financial accounting standards provided pursuant to Section 13(a)
of the Exchange Act.

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

As of July 25, 2017, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was
104,265,488.

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets — June 30, 2017 (Unaudited) and December 31, 2016</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations (Unaudited) — Three and Six Months Ended June 30, 2017 and 2016</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) — Three and Six Months Ended June 30, 2017 and 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Changes in Equity (Unaudited) — Six Months Ended June 30, 2017 and 2016</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) — Six Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Summit Hotel Properties, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Investment in hotel properties, net	\$ 1,857,548	\$ 1,545,122
Investment in hotel properties under development	12,665	—
Land held for development	2,942	5,742
Assets held for sale	20,820	62,695
Investment in real estate loans, net	10,145	17,585
Cash and cash equivalents	29,819	34,694
Restricted cash	25,560	24,881
Trade receivables, net	17,939	11,807
Prepaid expenses and other	8,731	6,474
Deferred charges, net	4,618	3,727
Other assets	5,754	5,778
Total assets	\$ 1,996,541	\$ 1,718,505
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of debt issuance costs	\$ 735,206	\$ 652,414
Accounts payable	7,647	4,623
Accrued expenses and other	47,549	46,880
Derivative financial instruments	595	1,118
Total liabilities	790,997	705,035

Commitments and contingencies (Note 8)

Equity:

Preferred stock, \$.01 par value per share, 100,000,000 shares authorized:

7.875% Series B - 3,000,000 shares issued and outstanding at June 30, 2017 and December 31, 2016 (aggregate liquidation preference of \$75,492 at June 30, 2017 and \$75,509 at December 31, 2016)	30	30
7.125% Series C - 3,400,000 shares issued and outstanding at June 30, 2017 and December 31, 2016 (aggregate liquidation preference of \$85,505 at June 30, 2017 and \$85,522 at December 31, 2016)	34	34
6.45% Series D - 3,000,000 shares issued and outstanding at June 30, 2017 and December 31, 2016 (aggregate liquidation preference of \$75,403 at June 30, 2017 and \$75,417 at December 31, 2016)	30	30
Common stock, \$.01 par value per share, 500,000,000 shares authorized, 104,238,807 and 93,525,469 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,042	935
Additional paid-in capital	1,177,264	1,011,412
Accumulated other comprehensive loss	(456) (977)
Retained earnings (deficit) and distributions	24,318	(1,422)
Total stockholders' equity	1,202,262	1,010,042

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Non-controlling interests in operating partnership	3,282	3,428
Total equity	1,205,544	1,013,470
Total liabilities and equity	\$ 1,996,541	\$ 1,718,505

See Notes to the Condensed Consolidated Financial Statements

1

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Room	\$120,514	\$119,285	\$230,864	\$229,880
Other hotel operations revenue	8,542	7,910	16,181	15,397
Total revenues	129,056	127,195	247,045	245,277
Expenses:				
Hotel operating expenses:				
Room	29,303	26,985	57,817	54,254
Other direct	16,619	16,843	32,409	33,083
Other indirect	33,577	32,929	64,477	63,558
Total hotel operating expenses	79,499	76,757	154,703	150,895
Depreciation and amortization	19,732	17,685	38,458	35,828
Corporate general and administrative	5,310	5,391	10,448	9,970
Hotel property acquisition costs	—	1,728	354	2,282
Total expenses	104,541	101,561	203,963	198,975
Operating income	24,515	25,634	43,082	46,302
Other income (expense):				
Interest expense	(6,927)	(7,123)	(13,718)	(14,606)
Gain on disposal of assets, net	16,350	2,726	35,806	39,506
Other income, net	568	853	2,963	1,193
Total other income (expense)	9,991	(3,544)	25,051	26,093
Income from continuing operations before income taxes	34,506	22,090	68,133	72,395
Income tax expense	(423)	(135)	(844)	(1,706)
Net income	34,083	21,955	67,289	70,689
Less - Income attributable to non-controlling interests in operating partnership	(114)	(90)	(234)	(339)
Net income attributable to Summit Hotel Properties, Inc.	33,969	21,865	67,055	70,350
Preferred dividends	(4,200)	(4,147)	(8,400)	(8,294)
Net income attributable to common stockholders	\$29,769	\$17,718	\$58,655	\$62,056
Earnings per share:				
Basic	\$0.30	\$0.20	\$0.61	\$0.72
Diluted	\$0.30	\$0.20	\$0.61	\$0.71
Weighted average common shares outstanding:				
Basic	98,184	86,433	95,488	86,396
Diluted	98,706	87,355	95,983	87,264

See Notes to the Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$34,083	\$21,955	\$67,289	\$70,689
Other comprehensive income (loss), net of tax:				
Changes in fair value of derivative financial instruments	174	(15)	523	(647)
Comprehensive income	34,257	21,940	67,812	70,042
Less - Comprehensive income attributable to operating partnership	(115)	(90)	(236)	(335)
Comprehensive income attributable to Summit Hotel Properties, Inc.	34,142	21,850	67,576	69,707
Preferred dividends	(4,200)	(4,147)	(8,400)	(8,294)
Comprehensive income attributable to common stockholders	\$29,942	\$17,703	\$59,176	\$61,413

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.
 Condensed Consolidated Statements of Changes in Equity
 For the Six Months Ended June 30, 2017 and 2016
 (Unaudited)
 (in thousands, except share amounts)

	Shares of Preferred Stock	Shares of Preferred Stock	Common Stock	Common Stock	Accumulated Additional Paid-Loss	Retained Earnings and Distributions	Total Stock holders' Equity	Non-controlling Interests and Partnership	Total Equity
Balance at December 31, 2016	9,400,000	\$ 94	93,525,469	\$					
					TD SECURITIES (USA) LLC	WELLS FARGO SECURITIES, LLC			

Supplemental Plan of Distribution
(Conflicts of Interest) - Selling
Restrictions

We have appointed TDS, an affiliate of TD, and Wells Fargo Securities, as the agents for the sale of the Securities. Pursuant to the terms of a distribution agreement, the Agents will purchase the Securities from TD at the public offering price less the underwriting discount set forth on the cover page of this pricing supplement for distribution to other registered broker-dealers, including WFA, or will offer the Securities directly to investors. The Agents may resell the Securities to other registered broker-dealers at the public offering price less a concession not in excess of \$25.00 (2.50%) per Security. In addition to the concession allowed to WFA, Wells Fargo Securities will pay \$1.20 (0.12%) per Security of the agent's discount to WFA as a distribution expense fee for each Security sold by WFA. The Agents or other registered broker-dealers will offer the Securities at the public offering price set forth on the cover page of this pricing supplement. Certain dealers who purchase the Securities for sale to certain fee-based advisory accounts may forego some or all of their selling concessions, fees or commissions. The price for investors purchasing the Securities in these accounts may be as low as \$961.70 (96.17%) per Security. TD will reimburse TDS for certain expenses in connection with its role in the offer and sale of the Securities, and TD will pay TDS a fee in connection with its role in the offer and sale of the Securities.

Conflicts of Interest. TDS is an affiliate of TD and, as such, has a "conflict of interest" in this offering within the meaning of Financial Industry Regulatory Authority, Inc. ("FINRA") Rule 5121. In addition, TD will receive the net proceeds from the initial public offering of the Securities, thus creating an

additional conflict of interest within the meaning of FINRA Rule 5121. This offering of the Securities will be conducted in compliance with the provisions of FINRA Rule 5121. In accordance with FINRA Rule 5121, neither TDS nor any other affiliated agent of ours is permitted to sell the Securities in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

We may use this pricing supplement in the initial sale of the Securities. In addition, TDS or another of our affiliates may use this pricing supplement in a market-making transaction in the Securities after their initial sale. ***If a purchaser buys the Securities from us or TDS or another of our affiliates, this pricing supplement is being used in a market-making transaction unless we or TDS or another of our affiliates informs such purchaser otherwise in the confirmation of sale.***

Selling Restrictions

Argentina. The Toronto-Dominion Bank U.S. Medium-Term Notes program and the related offer of securities and the sale of securities under the terms and conditions provided herein does not constitute a public offering in Argentina. Consequently, no public offering approval has been requested or granted by the Comisión Nacional de Valores, nor has any listing authorization of the securities been requested on any stock market in Argentina.

Brazil. The securities may not be offered or sold to the public in Brazil. Accordingly, this pricing supplement and the accompanying prospectus supplement and prospectus have not been submitted

to the Comissão de Valores Mobiliários for approval. Documents relating to this offering may not be supplied to the public as a public offering in Brazil or be used in connection with any offer for subscription or sale to the public in Brazil.

Chile. The securities have not been registered with the Superintendencia de Valores y Seguros in Chile and may not be offered or sold publicly in Chile. No offer, sales or deliveries of the securities, or distribution of this pricing supplement or the accompanying prospectus supplement and prospectus, may be made in or from Chile except in circumstances that will result in compliance with any applicable Chilean laws and regulations.

China. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC") to any person to whom it is unlawful to make the offer or solicitation in the PRC. TD does not represent that this document may be lawfully distributed, or that any securities may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Neither this document nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

Mexico. The securities have not been registered with the National Registry of Securities maintained by the Mexican National Banking and Securities

Commission and may not be offered or sold publicly in Mexico. This pricing supplement and the accompanying prospectus supplement and prospectus may not be publicly distributed in Mexico.

Paraguay. This is a private and personal offering. The securities offered have not been approved by or registered with the National Securities Commission (Comisión Nacional de Valores) and are not part of a public offering as defined by the Paraguayan Securities Law. The information contained herein is for informational and marketing purposes only and should not be taken as an investment advice.

Peru. The securities have not been and will not be registered with the Capital Markets Public Registry of the Capital Markets Superintendence (SMV) nor the Lima Stock Exchange Registry (RBVL) for their public offering in Peru under the Peruvian Capital Markets Law (Law N°861/ Supreme Decree N°093-2002) and the decrees and regulations thereunder.

Consequently, the securities may not be offered or sold, directly or indirectly, nor may this pricing supplement, the accompanying supplements or any other offering material relating to the securities be distributed or caused to be distributed in Peru to the general public. The securities may only be offered in a private offering without using mass marketing, which is defined as a marketing strategy utilising mass distribution and mass media to offer, negotiate or distribute securities to the whole market. Mass media includes

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P-24

newspapers, magazines, radio, television, mail, meetings, social networks, Internet servers located in Peru, and other media or technology platforms.

Taiwan. The securities may be made available outside Taiwan for purchase by Taiwan residents outside Taiwan but may not be offered or sold in Taiwan.

Uruguay. The sale of the securities qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The securities must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The securities are not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay.

Prohibition of Sales to EEA Retail Investors

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs

Regulation”), for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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P-25

Additional Information Regarding Our
Estimated Value of the Securities

The final terms for the Securities will be determined on the date the Securities are initially priced for sale to the public, which we refer to as the Pricing Date, based on prevailing market conditions on the Pricing Date, and will be communicated to investors in a final pricing supplement.

The economic terms of the Securities are based on our internal funding rate (which is our internal borrowing rate based on variables such as market benchmarks and our appetite for borrowing), and several factors, including any sales commissions expected to be paid to TDS or another affiliate of ours, any selling concessions, discounts, commissions or fees expected to be allowed or paid to non-affiliated intermediaries, the estimated profit that we or any of our affiliates expect to earn in connection with structuring the Securities, estimated costs which we may incur in connection with the Securities and an estimate of the difference between the amounts we pay to an affiliate of WFS and the amounts that an affiliate of WFS pays to us in connection with hedging your Securities as described further under “Supplemental Plan of Distribution (Conflicts of Interest) - Selling Restrictions” above. Because our internal funding rate generally represents a discount from the levels at which our benchmark debt securities trade in the secondary market, the use of an internal funding rate for the Securities rather than the levels at which our benchmark debt securities trade in the secondary market is expected to have an adverse effect on the economic terms of the Securities.

On the cover page of this pricing supplement, we have provided the initial estimated value range for the Securities. This range of estimated values was determined by reference to our internal

pricing models which take into account a number of variables and are based on a number of assumptions, which may or may not materialize, typically including volatility, interest rates (forecasted, current and historical rates), price-sensitivity analysis, time to maturity of the Securities, and our internal funding rate. For more information about the initial estimated value, see “Additional Risk Factors” beginning on page P-9. Because our internal funding rate generally represents a discount from the levels at which our benchmark debt securities trade in the secondary market, the use of an internal funding rate for the Securities rather than the levels at which our benchmark debt securities trade in the secondary market is expected, assuming all other economic terms are held constant, to increase the estimated value of the Securities. For more information see the discussion under “Additional Risk Factors — The Estimated Value of Your Securities Is Based on Our Internal Funding Rate.”

Our estimated value on the Pricing Date is not a prediction of the price at which the Securities may trade in the secondary market, nor will it be the price at which the Agents may buy or sell the Securities in the secondary market. Subject to normal market and funding conditions, the Agents or another affiliate of ours intends to offer to purchase the Securities in the secondary market but it is not obligated to do so.

Assuming that all relevant factors remain constant after the Pricing Date, the price at which the Agents may initially buy or sell the Securities in the secondary market, if any, may exceed our estimated value on the Pricing Date for a temporary period expected to be approximately five months after the Issue Date because, in our discretion, we may elect to effectively reimburse to investors a portion of the estimated cost of hedging our obligations under the Securities and

other costs in connection with the Securities which we will no longer expect to incur over the term of the Securities. We made such discretionary election and determined this temporary reimbursement period on the basis of a number of factors, including the tenor of the Securities and any agreement we may have with the distributors of the Securities. The amount of our estimated costs which we effectively reimburse to investors in this way may not be allocated ratably throughout the reimbursement period, and we may discontinue such reimbursement at any time or revise the duration of the reimbursement period after the issue date of the Securities based on changes in market conditions and other factors that cannot be predicted.

We urge you to read the “Additional Risk Factors” beginning on page P-9 of this pricing supplement.

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P-26

Validity of the Securities

In the opinion of Cadwalader, Wickersham & Taft LLP, as special products counsel to TD, when the Securities offered by this pricing supplement have been executed and issued by TD and authenticated by the trustee pursuant to the indenture and delivered, paid for and sold as contemplated herein, the Securities will be valid and binding obligations of TD, enforceable against TD in accordance with their terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, receivership or other laws relating to or affecting creditors' rights generally, and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by Canadian law, Cadwalader, Wickersham & Taft LLP has assumed, without independent inquiry or investigation, the validity of the matters opined on by McCarthy Tétrauld LLP, Canadian legal counsel for TD, in its opinion expressed below. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and, with respect to the Securities, authentication of the Securities and the genuineness of signatures and certain factual matters, all as stated in the opinion of Cadwalader, Wickersham & Taft LLP dated May 31, 2016 which has been filed as Exhibit 5.3 to the registration statement on form F-3 filed by the Bank on May 31, 2016.

In the opinion of McCarthy Tétrauld LLP, the issue and sale of the Securities has been duly authorized by all necessary corporate action on the part of TD, and when this pricing supplement has been attached to, and duly notated on, the

master note that represents the Securities, the Securities will have been validly executed and issued and, to the extent validity of the Securities is a matter governed by the laws of the Province of Ontario, or the laws of Canada applicable therein, will be valid obligations of TD, subject to the following limitations: (i) the enforceability of the indenture is subject to bankruptcy, insolvency, reorganization, arrangement, winding up, moratorium and other similar laws of general application limiting the enforcement of creditors' rights generally; (ii) the enforceability of the indenture is subject to general equitable principles, including the fact that the availability of equitable remedies, such as injunctive relief and specific performance, is in the discretion of a court; (iii) courts in Canada are precluded from giving a judgment in any currency other than the lawful money of Canada; and (iv) the enforceability of the indenture will be subject to the limitations contained in the Limitations Act, 2002 (Ontario), and such counsel expresses no opinion as to whether a court may find any provision of the indenture to be unenforceable as an attempt to vary or exclude a limitation period under that Act. This opinion is given as of the date hereof and is limited to the laws of the Provinces of Ontario and the federal laws of Canada applicable thereto. In addition, this opinion is subject to: (i) the assumption that the senior indenture has been duly authorized, executed and delivered by, and constitutes a valid and legally binding obligation of, the trustee, enforceable against the trustee in accordance with its terms; and (ii) customary assumptions about the genuineness of signatures and certain factual matters all as stated in the letter of such counsel dated May 31, 2016, which has been filed as Exhibit 5.2 to the registration statement on form F-3 filed by TD on May 31, 2016.

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P-27