

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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
(State or other jurisdiction
of incorporation or organization)

27-2962512
(I.R.S. Employer Identification No.)

13215 Bee Cave Parkway, Suite B-300
Austin, TX 78738
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	INN	New York Stock Exchange
Series E Cumulative Redeemable Preferred Stock, \$0.01 par value	INN-PE	New York Stock Exchange
Series F Cumulative Redeemable Preferred Stock, \$0.01 par value	INN-PF	New York Stock Exchange

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):

- | | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of October 22, 2021, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 106,450,760.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Summit Hotel Properties, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share amounts)

	September 30, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Investment in hotel properties, net	\$ 2,078,014	\$ 2,105,946
Undeveloped land	1,500	1,500
Assets held for sale, net	425	425
Cash and cash equivalents	59,650	20,719
Restricted cash	25,521	18,177
Investment in real estate loans, net	26,369	23,689
Right-of-use assets, net	27,290	28,420
Trade receivables, net	14,209	11,775
Prepaid expenses and other	7,308	9,763
Deferred charges, net	4,249	4,429
Other assets	3,785	8,176
Total assets	<u>\$ 2,248,320</u>	<u>\$ 2,233,019</u>
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of debt issuance costs	\$ 1,056,667	\$ 1,094,745
Lease liabilities, net	17,527	18,438
Accounts payable	4,330	2,674
Accrued expenses and other	70,289	65,099
Total liabilities	<u>1,148,813</u>	<u>1,180,956</u>
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock, \$0.01 par value per share, 100,000,000 shares authorized:		
6.45% Series D - 3,000,000 shares issued and outstanding December 31, 2020 (aggregate liquidation preference of \$75,417 at December 31, 2020)	—	30
6.25% Series E - 6,400,000 shares issued and outstanding at September 30, 2021 and December 31, 2020 (aggregate liquidation preference of \$160,833 at September 30, 2021 and \$160,861 at December 31, 2020)	64	64
5.875% Series F - 4,000,000 shares issued and outstanding at September 30, 2021 (aggregate liquidation preference of \$100,816 at September 30, 2021)	40	—
Common stock, \$0.01 par value per share, 500,000,000 shares authorized, 106,445,760 and 105,708,787 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	1,064	1,057
Additional paid-in capital	1,221,426	1,197,320
Accumulated other comprehensive loss	(20,925)	(30,716)
Accumulated deficit and distributions in excess of retained earnings	<u>(247,364)</u>	<u>(179,013)</u>
Total stockholders' equity	954,305	988,742
Non-controlling interests in operating partnership	828	1,111
Non-controlling interests in joint venture (Note 8)	144,374	62,210
Total equity	<u>1,099,507</u>	<u>1,052,063</u>
Total liabilities and equity	<u>\$ 2,248,320</u>	<u>\$ 2,233,019</u>

See Notes to the Condensed Consolidated Financial Statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues:				
Room	\$ 102,521	\$ 48,636	\$ 235,761	\$ 171,067
Food and beverage	2,097	628	4,656	5,760
Other	6,068	3,148	14,647	9,406
Total revenues	<u>110,686</u>	<u>52,412</u>	<u>255,064</u>	<u>186,233</u>
Expenses:				
Room	22,186	11,352	52,320	42,340
Food and beverage	1,476	520	3,000	4,890
Other hotel operating expenses	34,713	22,535	88,672	74,406
Property taxes, insurance and other	10,679	11,007	32,573	34,171
Management fees	2,888	1,335	6,757	5,051
Depreciation and amortization	25,893	27,503	79,776	82,147
Corporate general and administrative	6,099	4,652	18,283	14,635
Transaction costs	—	—	3,849	—
(Reversal of) provision for credit losses	(2,632)	—	(2,632)	2,530
Loss on impairment and write-off of assets	4,361	—	4,361	782
Total expenses	<u>105,663</u>	<u>78,904</u>	<u>286,959</u>	<u>260,952</u>
Gain on disposal of assets, net	—	211	81	176
Operating income (loss)	<u>5,023</u>	<u>(26,281)</u>	<u>(31,814)</u>	<u>(74,543)</u>
Other income (expense):				
Interest expense	(10,817)	(10,904)	(32,567)	(32,665)
Other income, net	2,250	1,278	7,777	4,260
Total other income (expense)	<u>(8,567)</u>	<u>(9,626)</u>	<u>(24,790)</u>	<u>(28,405)</u>
Loss from continuing operations before income taxes	(3,544)	(35,907)	(56,604)	(102,948)
Income tax (expense) benefit (Note 12)	(695)	132	(1,075)	(1,589)
Net loss	<u>(4,239)</u>	<u>(35,775)</u>	<u>(57,679)</u>	<u>(104,537)</u>
Less - Loss (income) attributable to non-controlling interests:				
Operating Partnership	10	70	98	203
Joint venture	(275)	1,159	3,020	4,049
Net loss attributable to Summit Hotel Properties, Inc.	<u>(4,504)</u>	<u>(34,546)</u>	<u>(54,561)</u>	<u>(100,285)</u>
Preferred dividends	(3,750)	(3,710)	(11,168)	(11,128)
Premium on redemption of preferred stock	(2,710)	—	(2,710)	—
Net loss attributable to common stockholders	<u>\$ (10,964)</u>	<u>\$ (38,256)</u>	<u>\$ (68,439)</u>	<u>\$ (111,413)</u>
Loss per share:				
Basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.37)</u>	<u>\$ (0.66)</u>	<u>\$ (1.07)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>104,548</u>	<u>104,200</u>	<u>104,441</u>	<u>104,117</u>

See Notes to the Condensed Consolidated Financial Statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (4,239)	\$ (35,775)	\$ (57,679)	\$ (104,537)
Other comprehensive income (loss), net of tax:				
Changes in fair value of derivative financial instruments	2,265	2,834	9,830	(17,233)
Comprehensive loss	(1,974)	(32,941)	(47,849)	(121,770)
Less - Comprehensive loss (income) attributable to non-controlling interests:				
Operating Partnership	8	63	84	233
Joint venture	(275)	1,159	3,020	4,049
Comprehensive loss attributable to Summit Hotel Properties, Inc.	(2,241)	(31,719)	(44,745)	(117,488)
Preferred dividends	(3,750)	(3,710)	(11,168)	(11,128)
Premium on redemption of preferred stock	(2,710)	—	(2,710)	—
Comprehensive loss attributable to common stockholders	<u>\$ (8,701)</u>	<u>\$ (35,429)</u>	<u>\$ (58,623)</u>	<u>\$ (128,616)</u>

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended September 30, 2021 and 2020
(Unaudited)
(in thousands, except share amounts)

	Shares of Preferred Stock	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit and Distributions in Excess of Retained Earnings	Total Stockholders' Equity	Non-controlling Interests		
									Operating Partnership	Joint Venture	Total Equity
Balance at June 30, 2021	9,400,000	\$ 94	106,416,315	\$ 1,064	\$ 1,195,002	\$ (23,161)	\$ (236,400)	\$ 936,599	\$ 1,024	\$ 128,099	\$ 1,065,722
Net proceeds from sale of preferred stock	4,000,000	40	—	—	96,577	—	—	96,617	—	—	96,617
Redemption of preferred stock	(3,000,000)	(30)	—	—	(72,260)	—	(2,710)	(75,000)	—	—	(75,000)
Contribution by non-controlling interest in joint venture	—	—	—	—	—	—	—	—	—	16,000	16,000
Common stock redemption of common units	—	—	29,445	—	217	(27)	—	190	(190)	—	—
Dividends	—	—	—	—	—	—	(3,750)	(3,750)	—	—	(3,750)
Equity-based compensation	—	—	—	—	1,890	—	—	1,890	2	—	1,892
Other comprehensive income	—	—	—	—	—	2,263	—	2,263	2	—	2,265
Net (loss) income	—	—	—	—	—	—	(4,504)	(4,504)	(10)	275	(4,239)
Balance at September 30, 2021	<u>10,400,000</u>	<u>\$ 104</u>	<u>106,445,760</u>	<u>\$ 1,064</u>	<u>\$ 1,221,426</u>	<u>\$ (20,925)</u>	<u>\$ (247,364)</u>	<u>\$ 954,305</u>	<u>\$ 828</u>	<u>\$ 144,374</u>	<u>\$ 1,099,507</u>
Balance at June 30, 2020	9,400,000	\$ 94	105,696,833	\$ 1,057	\$ 1,194,178	\$ (36,086)	\$ (93,994)	\$ 1,065,249	\$ 1,332	\$ 64,955	\$ 1,131,536
Common stock redemption of common units	—	—	921	—	8	(1)	—	7	(7)	—	—
Dividends	—	—	—	—	—	—	(3,710)	(3,710)	—	—	(3,710)
Equity-based compensation	—	—	(1,746)	—	1,514	—	—	1,514	3	—	1,517
Other comprehensive income	—	—	—	—	—	2,827	—	2,827	7	—	2,834
Net loss	—	—	—	—	—	—	(34,546)	(34,546)	(70)	(1,159)	(35,775)
Balance at September 30, 2020	<u>9,400,000</u>	<u>\$ 94</u>	<u>105,696,008</u>	<u>\$ 1,057</u>	<u>\$ 1,195,700</u>	<u>\$ (33,260)</u>	<u>\$ (132,250)</u>	<u>\$ 1,031,341</u>	<u>\$ 1,265</u>	<u>\$ 63,796</u>	<u>\$ 1,096,402</u>

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.
Condensed Consolidated Statements of Changes in Equity
For the Nine Months Ended September 30, 2021 and 2020
(Unaudited)
(in thousands, except share amounts)

	Shares of Preferred Stock	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit and Distributions in Excess of Retained Earnings	Total Stockholders' Equity	Non-controlling Interests		Total Equity
									Operating Partnership	Joint Venture	
Balance at December 31, 2020	9,400,000	\$ 94	105,708,787	\$ 1,057	\$ 1,197,320	\$ (30,716)	\$ (179,013)	\$ 988,742	\$ 1,111	\$ 62,210	\$ 1,052,063
Net proceeds from sale of preferred stock	4,000,000	40	—	—	96,577	—	—	96,617	—	—	96,617
Redemption of preferred stock	(3,000,000)	(30)	—	—	(72,260)	—	(2,710)	(75,000)	—	—	(75,000)
Contribution by non-controlling interests in joint venture	—	—	—	—	16,444	—	—	16,444	—	85,229	101,673
Purchases of capped call options	—	—	—	—	(21,131)	—	—	(21,131)	—	—	(21,131)
Common stock redemption of common units	—	—	31,945	—	232	(25)	—	207	(207)	—	—
Dividends	—	—	—	—	—	—	(11,080)	(11,080)	—	(45)	(11,125)
Equity-based compensation	—	—	860,633	9	5,844	—	—	5,853	8	—	5,861
Shares acquired for employee withholding requirements	—	—	(155,605)	(2)	(1,600)	—	—	(1,602)	—	—	(1,602)
Other comprehensive income	—	—	—	—	—	9,816	—	9,816	14	—	9,830
Net loss	—	—	—	—	—	—	(54,561)	(54,561)	(98)	(3,020)	(57,679)
Balance at September 30, 2021	<u>10,400,000</u>	<u>\$ 104</u>	<u>106,445,760</u>	<u>\$ 1,064</u>	<u>\$ 1,221,426</u>	<u>\$ (20,925)</u>	<u>\$ (247,364)</u>	<u>\$ 954,305</u>	<u>\$ 828</u>	<u>\$ 144,374</u>	<u>\$ 1,099,507</u>
Balance at December 31, 2019	9,400,000	\$ 94	105,169,515	\$ 1,052	\$ 1,190,949	\$ (16,034)	\$ (2,283)	\$ 1,173,778	\$ 1,809	\$ 67,803	\$ 1,243,390
Contribution by non-controlling interest in joint venture	—	—	—	—	—	—	—	—	—	577	577
Common stock redemption of common units	—	—	34,500	—	306	(23)	—	283	(283)	—	—
Dividends	—	—	—	—	—	—	(29,682)	(29,682)	(37)	(535)	(30,254)
Equity-based compensation	—	—	557,338	6	4,943	—	—	4,949	9	—	4,958
Shares acquired for employee withholding requirements	—	—	(65,345)	(1)	(468)	—	—	(469)	—	—	(469)
Other	—	—	—	—	(30)	—	—	(30)	—	—	(30)
Other comprehensive loss	—	—	—	—	—	(17,203)	—	(17,203)	(30)	—	(17,233)
Net loss	—	—	—	—	—	—	(100,285)	(100,285)	(203)	(4,049)	(104,537)
Balance at September 30, 2020	<u>9,400,000</u>	<u>\$ 94</u>	<u>105,696,008</u>	<u>\$ 1,057</u>	<u>\$ 1,195,700</u>	<u>\$ (33,260)</u>	<u>\$ (132,250)</u>	<u>\$ 1,031,341</u>	<u>\$ 1,265</u>	<u>\$ 63,796</u>	<u>\$ 1,096,402</u>

See Notes to the Condensed Consolidated Financial Statements

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

	For the Nine Months Ended September 30,	
	2021	2020
OPERATING ACTIVITIES		
Net loss	\$ (57,679)	\$ (104,537)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	79,776	82,147
Amortization of deferred financing costs	3,239	1,655
Loss on impairment and write-off of assets	4,361	782
(Reversal of) provision for credit losses	(2,632)	2,530
Equity-based compensation	5,861	4,958
Deferred tax asset, net	—	2,058
Gain on disposal of assets, net	(81)	(176)
Non-cash interest income	(779)	(2,297)
Debt transaction costs	160	336
Other	326	303
Changes in operating assets and liabilities:		
Trade receivables, net	(2,434)	732
Prepaid expenses and other	3,130	2,043
Accounts payable	2,051	(311)
Accrued expenses and other	14,990	(11,614)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	50,289	(21,391)
INVESTING ACTIVITIES		
Acquisition of hotel properties	(33,170)	—
Improvements to hotel properties	(10,659)	(19,234)
Contract termination payment for asset dispositions	—	(2,200)
Funding of real estate loans	(7,416)	(6,171)
Proceeds from principal payments on real estate loans	—	250
Increase in escrow deposits for acquisitions	(635)	—
NET CASH USED IN INVESTING ACTIVITIES	(51,880)	(27,355)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	318,500	191,500
Principal payments on debt	(350,916)	(122,789)
Proceeds from equity offerings, net of issuance costs	96,617	—
Redemption of preferred stock	(75,000)	—
Purchases of capped call options	(21,131)	—
Dividends paid	(11,213)	(30,495)
Proceeds from contribution by non-controlling interests in joint venture	101,673	577
Financing fees on debt and other issuance costs	(9,062)	(2,804)
Other	(1,602)	(469)
NET CASH PROVIDED BY FINANCING ACTIVITIES	47,866	35,520
Net change in cash, cash equivalents and restricted cash	46,275	(13,226)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of period	38,896	69,833
End of period	\$ 85,171	\$ 56,607
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ (29,384)	\$ (30,927)
Accrued improvements to hotel properties	\$ (1,777)	\$ (1,668)
Income tax cash (payments) refunds, net	\$ (526)	\$ 516

See Notes to the Condensed Consolidated Financial Statements

SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

General

Summit Hotel Properties, Inc. (the “Company”) is a self-managed hotel investment company that was organized on June 30, 2010 as a Maryland corporation. The Company holds both general and limited partnership interests in Summit Hotel OP, LP (the “Operating Partnership”), a Delaware limited partnership also organized on June 30, 2010. Unless the context otherwise requires, “we,” “us,” and “our” refer to the Company and its consolidated subsidiaries.

We focus on owning premium-branded hotels with efficient operating models primarily in the Upscale segment of the lodging industry. At September 30, 2021, our portfolio consisted of 73 hotels with a total of 11,398 guestrooms located in 23 states. As of September 30, 2021, we own 100% of the outstanding equity interests in 61 of our 73 hotels. We own a 51% controlling interest in 12 hotels through a joint venture. We have elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, all of our hotels are leased to our taxable REIT subsidiaries (“TRS Lessees”).

Risks and Uncertainties

The Company is subject to risks and uncertainties as a result of the effects of the novel coronavirus, designated as COVID-19 (“COVID-19”) and its variants, for at least the near future. The pandemic has had a significant negative effect on the U.S. and global economies, including a rapid and sharp decline in all forms of travel, both domestic and international, and a significant decline in hotel demand. These conditions resulted in a substantial decline in our revenues, profitability and cash flows from operations beginning in March, 2020.

During the first three quarters of 2021, we experienced sequential improvement in our business driven primarily by leisure travel. The improvement was the result of a steady decline in COVID-19 cases following the administration of vaccines and the easing of government restrictions and guidance in many jurisdictions. A recovery in business travel and group business has been slower to date. We anticipate that continued improvement in operating trends will be dependent on continued growth in leisure travel and a recovery of business travel. More broadly, a return to normalized levels of operations is dependent upon the dissipation of concerns related to COVID-19 and its variants, continued easing of government restrictions and guidance, restoration of consumer confidence, and a recovery in corporate and overall travel-related demand.

Beginning in March 2020, the Company took several actions to reduce costs and increase liquidity to mitigate the effects of the COVID-19 pandemic on the Company. We continue to engage in certain steps to reduce costs while taking appropriate actions to maintain guest safety and satisfaction. For additional information concerning such actions taken in response to the effects of the COVID-19 pandemic on our business, please see our Annual Report on Form 10-K for the year ended December 31, 2020.

It is currently extremely difficult to predict the length of time it will take for us to return to pre-pandemic operational and financial performance. Despite the uncertainty, based on the actions we have taken, we believe we have sufficient cash and access to liquidity to meet our obligations for the foreseeable future and to continue to pursue selective growth opportunities.

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

We prepare our Condensed Consolidated Financial Statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation in accordance with GAAP have been included. Results for the three and nine months ended September 30, 2021 may not be indicative of the results that may be expected for the full year of 2021. For further information, please read the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

The accompanying Condensed Consolidated Financial Statements consolidate the accounts of all entities in which we have a controlling financial interest, as well as variable interest entities for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in the Condensed Consolidated Financial Statements.

We evaluate joint venture partnerships to determine if they should be consolidated based on whether the partners exercise joint control. For a joint venture where we exercise primary control and we also own a majority of the equity interests, we consolidate the joint venture partnership. We have consolidated the accounts of our joint venture partnership with GIC in our accompanying Condensed Consolidated Financial Statements. See “*Note 8 - Equity - Non-controlling Interests in Joint Venture*” for further information.

Investment in Hotel Properties

The Company allocates the purchase price of acquired hotel properties based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Intangible assets may include certain value associated with the on-going operations of the hotel business being acquired as part of the hotel property acquisition. Acquired intangible assets that derive their values from real property or an interest in real property, are inseparable from that real property or interest in real property, and do not produce or contribute to the production of income other than consideration for the use or occupancy of space, are recorded as a component of the related real estate asset in our Condensed Consolidated Financial Statements. We allocate the purchase price of acquired hotel properties to land, building and furniture, fixtures and equipment based on independent third-party appraisals.

If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the asset or asset group is not considered a business. When we conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties.

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

On a limited basis, we provide financing to developers of hotel properties for development projects. We evaluate these arrangements to determine if we participate in residual profits of the hotel property through the loan provisions or other agreements. Where we conclude that these arrangements are more appropriately treated as an investment in the hotel property, we reflect the loan as Investment in hotel properties, net in our Condensed Consolidated Balance Sheets.

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

Intangible Assets

We amortize intangible assets with determined finite useful lives using the straight-line method. We do not amortize intangible assets with indefinite useful lives, but we evaluate these assets for impairment annually or at interim periods if events or circumstances indicate that the asset may be impaired.

Trade Receivables and Credit Policies

We grant credit to qualified customers, generally without collateral, in the form of trade accounts receivable. Trade receivables result from the rental of hotel guestrooms and the sales of food, beverage, and banquet services and are payable under normal trade terms. Trade receivables also include credit and debit card transactions that are in the process of being settled. Trade receivables are stated at the amount billed to the customer and do not accrue interest. We regularly review the collectability of our trade receivables. A provision for losses is determined on the basis of previous loss experience and current economic conditions. Our allowance for doubtful accounts was \$0.4 million at September 30, 2021 and December 31, 2020 and bad debt expense was \$0.1 million for the three months ended September 30, 2021 and 2020 and \$0.3 million and \$0.6 million for the nine months ended September 30, 2021 and 2020, respectively.

Leases

In accordance with ASU No. 2016-02, *Leases (Topic 842)*, we record the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet for all leases with a term of greater than 12 months regardless of their classification.

Several of our hotels lease retail or restaurant space to third-party tenants. The majority of our third-party tenants requested rent deferrals to ease the negative financial effects of the COVID-19 pandemic on their businesses. We have primarily negotiated rent deferrals with these tenants that defer rent for a specified number of months and require repayment of the deferred rent over a negotiated period of time. We have adopted a policy that the deferrals are not a change in the provisions of the lease. As such, we are accounting for the concessions using the rights and obligations of the existing lease and recognizing a short-term lease receivable in the period that the cash payment is owed.

Notes Receivables

We selectively provide mezzanine financing to developers where we also have the opportunity to acquire the hotel at or after the completion of the development project, and we also may provide seller financing under limited circumstances. We classify notes receivable as held-to-maturity and carry the notes receivable at cost less the unamortized discount, if any. On January 1, 2020, we adopted ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. We routinely evaluate our notes receivable and interest receivables for collectability. Probable losses on notes receivable are recognized in a valuation account that is deducted from the amortized cost basis of the notes receivable and recorded as Provision for credit losses in our Condensed Consolidated Statements of Operations. When we place notes receivable on nonaccrual status, we suspend the recognition of interest income until cash interest payments are received. Generally, we return notes receivable to accrual status when all delinquent interest becomes current and collectability of interest is reasonably assured. We do not measure an allowance for credit losses for accrued interest receivable. Accrued interest receivable is written-off to bad debt expense when collection is not reasonably assured.

Cash and Cash Equivalents

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

Restricted Cash

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

Revenue Recognition

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

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

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

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

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

Equity-Based Compensation

Our 2011 Equity Incentive Plan, which was amended and restated effective May 13, 2021 (as amended, the "Equity Plan"), provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other stock-based awards. We account for time-based and performance-based stock awards using the grant date fair value of those equity awards. Restricted stock awards with performance-based vesting conditions are market-based awards tied to total stockholder return and are valued using a Monte Carlo simulation model in accordance with ASC Topic 718, *Compensation — Stock Compensation*. We expense the fair value of awards under the Equity Plan ratably over the vesting period and market-based awards are not adjusted for performance. The amount of stock-based compensation expense may be subject to adjustment in future periods due to a change in forfeiture assumptions or modification of previously granted awards.

Derivative Financial Instruments and Hedging

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

The change in the fair value of the hedging instruments is recorded in Other comprehensive income. Amounts deferred in Other comprehensive income will be reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings.

Income Taxes

We have elected to be taxed as a REIT under certain provisions of the Internal Revenue Code. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute annually to our stockholders at least 90% of our REIT taxable income, subject to certain adjustments and excluding any capital gain. As a REIT, we generally will not be subject to federal income tax (other than taxes paid by our TRSs at regular corporate income tax rates) to the extent we distribute 100% of our REIT taxable income to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions.

Substantially all of our assets are held by and all of our operations are conducted through our Operating Partnership or our subsidiary REITs. Partnerships are not subject to U.S. federal income taxes as revenues and expenses pass through to and are taxed on the owners. Generally, the states and cities where our partnerships operate follow the U.S. federal income tax treatment. However, there are a limited number of local and state jurisdictions that tax the taxable income of the Operating Partnership. Accordingly, we provide for income taxes in these jurisdictions for the Operating Partnership.

Taxable income related to our TRSs are subject to federal, state and local income taxes at applicable tax rates. Our consolidated income tax provision includes the income tax provision related to the operations of the TRSs as well as state and local income taxes related to the Operating Partnership.

Where required, we account for federal and state income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for: i) the future tax consequences attributable to differences between carrying amounts of existing assets and liabilities based on GAAP and the respective carrying amounts for tax purposes, and ii) operating losses and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which 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 of the change in tax rates. However, deferred tax assets are recognized only to the extent that it is more likely than not they will be realized based on consideration of available evidence. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance for deferred tax assets is needed. Due to the effects of the COVID-19 pandemic, certain of our TRSs have incurred operating losses in the past and are expected to be in a cumulative loss for the foreseeable future. As such, the realizability of our deferred tax assets at September 30, 2021 is not reasonably assured. Therefore, we have recorded a valuation allowance against substantially all of our deferred tax assets at September 30, 2021.

We perform a quarterly review for any uncertain tax positions. The Company had no accruals for uncertain tax positions as of September 30, 2021 and December 31, 2020.

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1:	Observable inputs such as quoted prices in active markets.
Level 2:	Directly or indirectly observable inputs, other than quoted prices in active markets.
Level 3:	Unobservable inputs in which there is little or no market information, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

Market approach:	Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
Cost approach:	Amount required to replace the service capacity of an asset (replacement cost).
Income approach:	Techniques used to convert future amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

Our estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. We classify assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

We have elected a measurement alternative for equity investments, such as our purchase option, that do not have readily determinable fair values. Under the alternative, our purchase option is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, if any.

Non-controlling Interests

Non-controlling interests represent the portion of equity in a consolidated entity held by owners other than the consolidating parent. Non-controlling interests are reported in the Condensed Consolidated Balance Sheets within equity, separately from stockholders' equity. Revenue, expenses and net income attributable to both the Company and the non-controlling interests are reported in the Condensed Consolidated Statements of Operations.

Our Condensed Consolidated Financial Statements include non-controlling interests related to common units of limited partnership interests ("Common Units") in the Operating Partnership held by unaffiliated third parties and third-party ownership of a 49% interest in a consolidated joint venture. See "*Note 8 - Equity - Non-controlling Interests in Joint Venture*" for further information.

Use of Estimates

Our Condensed Consolidated Financial Statements are prepared in conformity with GAAP, which requires us to make estimates based on assumptions about current and, for some estimates, future economic and market conditions that affect reported amounts and related disclosures in our Condensed Consolidated Financial Statements. Although our current estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could materially differ from our expectations, which could materially affect our expectations for our consolidated financial position and results of operations. In particular, a number of estimates have been and will continue to be affected by the ongoing COVID-19 pandemic.

New Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. ASU No. 2020-04 contains practical expedients for reference rate reform related activities that affect debt, leases, derivatives and other contracts. The guidance in ASU No. 2020-04 is optional and may be elected over time as reference rate reform activities occur. During 2020, the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. The Company continues to evaluate the effect of the guidance and may apply other elections as applicable as additional changes in the market occur.

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40) – Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*. The objective of ASU No. 2020-06 is to address issues identified as a result of the complexity associated with applying generally accepted accounting principles for certain financial instruments with characteristics of liabilities and equity.

The amendments in ASU No. 2020-06 reduce the number of accounting models for convertible debt instruments and convertible preferred stock. For convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, *Derivatives and Hedging*, or that do not result in substantial premiums accounted for as paid-in capital, the embedded conversion features no longer are separated from the host contract. The amendments in ASU No. 2020-06 remove certain conditions that should be considered in the derivatives scope exception evaluation under Subtopic 815-40, *Derivatives and Hedging—Contracts in Entity’s Own Equity*, and clarify the scope and certain requirements under Subtopic 815-40. The amendments also improve the guidance related to the disclosures and earnings-per-share (EPS) for convertible instruments and contracts in an entity’s own equity.

ASU No. 2020-06 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. We elected to adopt ASU No. 2020-06 effective January 1, 2021 in connection with our Convertible Notes Offering closed on January 12, 2021 as described in "Note 5 – Debt." In accordance with the provisions of ASU No. 2020-06, we will account for the convertible notes issued in 2021 entirely as a liability and we will use the if-converted method for diluted share calculations.

NOTE 3 - INVESTMENT IN HOTEL PROPERTIES, NET

Investment in Hotel Properties, net

Investment in hotel properties, net is as follows (in thousands):

	September 30, 2021	December 31, 2020
Hotel buildings and improvements	\$ 2,102,027	\$ 2,066,986
Land	321,435	319,603
Furniture, fixtures and equipment	165,485	173,351
Construction in progress	10,547	8,903
Intangible assets	11,231	11,231
Real estate development loan	24,703	16,508
	<u>2,635,428</u>	<u>2,596,582</u>
Less - accumulated depreciation and amortization	(557,414)	(490,636)
	<u>\$ 2,078,014</u>	<u>\$ 2,105,946</u>

We provided a mezzanine loan to fund up to \$28.9 million for a mixed-use development project that includes a hotel property, retail space, and parking. We have classified the mezzanine loan as Investment in hotel properties, net in our Condensed Consolidated Balance Sheets at September 30, 2021 and December 31, 2020. See "Note 4 - Investment in Real Estate Loans" for further information.

On May 1, 2021, the Company contributed a portfolio of six hotels containing 846 guestrooms to our consolidated joint venture with an affiliate of GIC, Singapore's sovereign wealth fund. The estimated market value of the portfolio of hotel properties was \$172.0 million and GIC contributed \$84.3 million in cash for its 49% interest in the joint venture after the completion of the transfer of the six hotels. The transfer of the six hotel properties was recorded by the joint venture at the Company's net book values as of the transfer date since the transaction was a transfer of assets between entities under common control. The excess of the \$84.3 million of cash contributed by GIC over 49% of the net carrying amount of the assets transferred totaling \$16.4 million was recorded in Additional paid-in capital. Transfer taxes of \$1.8 million and legal costs of \$0.3 million related to this transaction were recorded as Transaction costs during the nine months ended September 30, 2021. GIC, our joint venture partner, paid 49%, or \$0.9 million, of the \$1.8 million transfer tax which is reflected in non-controlling interest on our Condensed Consolidated Statement of Operations.

On July 9, 2021, the Company acquired the 110-guestroom Residence Inn by Marriott in Steamboat Springs, CO for \$33.0 million through its joint venture with GIC, of which the Company owns 51%. We did not acquire any hotel properties during the nine months ended September 30, 2020.

NOTE 4 — INVESTMENT IN REAL ESTATE LOANS

Investment in real estate loans, net is as follows (in thousands):

	September 30, 2021	December 31, 2020
Real estate loans	\$ 28,719	\$ 28,671
Allowance for credit losses	(2,350)	(4,982)
Investment in real estate loans, net	<u>\$ 26,369</u>	<u>\$ 23,689</u>

The amortized cost bases of our Investment in real estate loans, net approximate their fair value.

Real Estate Development Loans

We provided mezzanine loans on three real estate development projects to fund up to an aggregate of \$29.6 million for the development of three hotel properties. The three real estate development loans closed in the fourth quarter of 2017 and each had a stated interest rate of 8.00% and an initial term of approximately three years. During the year ended December 31, 2020, one of the real estate loans with a principal balance of \$3.8 million was repaid in full. We had separate options related to each outstanding loan (each the "Initial Option") to purchase a 90% interest in each joint venture that owns the respective hotel upon completion of construction. We recorded the aggregate estimated fair value of each Initial Option totaling \$4.4 million in Other assets.

The COVID-19 pandemic adversely affected the operations of the hotels that collateralize the outstanding mezzanine loans. As a result, at September 30, 2021 we had an allowance for credit losses of \$2.6 million that was recorded in March 2020, to reduce the carrying amounts of the loans to their estimated net realizable values.

As of September 30, 2021, we reached an agreement with the borrowers of the mezzanine loans on the two remaining real estate development projects for the full repayment of the loans in the fourth quarter of 2021, which would result in us foregoing the exercise of the Initial Options. Accordingly, during the three months ended September 30, 2021, the Company reversed the \$2.6 million allowance for credit losses and recorded a Loss on impairment during the three months ended September 30, 2021 to write-off the carrying amounts of the Initial Options at September 30, 2021 totaling \$4.4 million.

During the year ended December 31, 2019, we provided a mezzanine loan to fund up to \$28.9 million for a mixed-use development project that includes a hotel property, retail space, and parking. The loan closed in the third quarter of 2019 and has a stated interest rate of 9.00%. The loan is secured by a second mortgage on the development project and a pledge of the equity in the project owner. As of September 30, 2021, we have funded \$25.1 million of the loan commitment. Upon completion of construction, we have an option to purchase a 90% interest in the hotel (the "Initial Purchase Option"). We also have the right to purchase the remaining interest in the hotel five years after the completion of construction. We have issued a \$10.0 million letter of credit under our senior revolving credit facility to secure the exercise of the Initial Purchase Option. As such, we have classified the loan as Investment in hotel properties, net on our Condensed Consolidated Balance Sheets. Interest income on the mezzanine loan will be recorded in our Condensed Consolidated Statement of Operations as it is earned. We have recorded the aggregate estimated fair value of the Initial Purchase Option totaling \$2.8 million in Other assets and as a contra-asset to Investment in hotel properties, net. The contra-asset will be amortized as a component of non-cash interest income over the term of the real estate development loan using the straight-line method, which approximates the interest method. We recorded amortization of the contra-asset of \$0.3 million for the three months ended September 30, 2021 and 2020 and \$0.8 million for the nine months ended September 30, 2021 and 2020 as non-cash interest income. Including the amortization of the contra-asset, the current effective interest rate on this loan is approximately 11.40%.

We expect that the construction of the hotel will be completed during the fourth quarter of 2021 or the first quarter of 2022, after which we will be able to exercise the Initial Purchase Option at our sole discretion.

Seller-Financing Loans

On June 29, 2018, we sold the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA for an aggregate selling price of \$24.9 million. We provided seller financing totaling \$3.6 million on the sale of these properties under two, 3.5 year second mortgage notes with a blended interest rate of 7.38% that are further collateralized by a personal guarantee from the principal of the borrower. As of September 30, 2021, there was \$2.4 million outstanding on the seller-financing loans. During the year ended December 31, 2020, we recorded an allowance for credit losses in an amount equal to the outstanding balance of the loans.

On June 1, 2021, we amended the terms of the seller-financing loans and extended the maturity date of each loan to December 31, 2022. Interest will accrue at a rate of 9.00% monthly, including 5.00% payable in cash and 4.00% paid-in-kind. Semi-annual principal payments of \$0.3 million will begin on April 1, 2022. In connection with the modifications, the borrower paid all interest due through May 31, 2021. As a result, the Company recognized interest income related to these loans of \$0.3 million during the nine months ended September 30, 2021.

NOTE 5 - DEBT

At September 30, 2021, our indebtedness was comprised of borrowings under our 2018 Senior Credit Facility (as defined below), the 2018 Term Loan (as defined below), the 2017 Term Loan (as defined below), the Joint Venture Credit Facility (as defined below), the Convertible Notes (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. The weighted average interest rate, after giving effect to our interest rate derivatives, for all borrowings was 3.34% at September 30, 2021 and 3.43% at December 31, 2020.

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

	September 30, 2021	December 31, 2020
Revolving debt	\$ 68,500	\$ 222,500
Term loans	562,000	725,000
Convertible notes	287,500	—
Mortgage loans	151,064	153,978
	<u>1,069,064</u>	<u>1,101,478</u>
Unamortized debt issuance costs	(12,397)	(6,733)
Debt, net of debt issuance costs	<u>\$ 1,056,667</u>	<u>\$ 1,094,745</u>

We have entered into interest rate swaps to partially fix the interest rates on a portion of our variable interest rate indebtedness. See "Note 7 - Derivative Financial Instruments and Hedging" to the Condensed Consolidated Financial Statements for additional information. Our total fixed-rate and variable-rate debt, after considering our interest rate derivative agreements that are currently effective, is as follows (in thousands):

	September 30, 2021	Percentage	December 31, 2020	Percentage
Fixed-rate debt	\$ 830,540	78%	\$ 545,754	50%
Variable-rate debt	238,524	22%	555,724	50%
	<u>\$ 1,069,064</u>		<u>\$ 1,101,478</u>	

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

	September 30, 2021		December 31, 2020		Valuation Technique
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Convertible notes	\$ 287,500	\$ 302,824	\$ —	\$ —	Level 1 - Market approach
Fixed-rate mortgage loans	143,040	143,065	145,754	143,244	Level 2 - Market approach
	<u>\$ 430,540</u>	<u>\$ 445,889</u>	<u>\$ 145,754</u>	<u>\$ 143,244</u>	

At September 30, 2021 and December 31, 2020, we had \$400.0 million of debt with variable interest rates that had been converted to fixed interest rates through derivative financial instruments which are carried at fair value. Differences between carrying value and fair value of our fixed-rate debt are primarily due to changes in interest rates. Inherently, fixed-rate debt is subject to fluctuations in fair value as a result of changes in the current market rate of interest on the valuation date. For additional information on our use of derivatives as interest rate hedges, refer to "Note 7 - Derivative Financial Instruments and Hedging."

\$600 Million Senior Credit and Term Loan Facility

On December 6, 2018, the Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the loan documentation as a subsidiary guarantor, entered into a \$600.0 million senior credit facility (the "2018 Senior Credit Facility") with Deutsche Bank AG New York Branch, as administrative agent, and a syndicate of lenders. The 2018 Senior Credit Facility is comprised of a \$400.0 million revolver (the "\$400 Million Revolver") and a \$200.0 million term loan facility (the "\$200 Million Term Loan"). At September 30, 2021, we had \$200.0 million borrowed and \$340.0 million available to borrow plus an additional \$50.0 million available to borrow subject to certain security requirements to be provided to the lender. At September 30, 2021, we had no borrowings outstanding on the \$400 Million Revolver.

Amendments to \$600.0 Million Senior Credit Facility

Between May 2020 and February 2021, the Company entered into several amendments to the Credit Agreement of the 2018 Senior Credit Facility (the “Credit Facility Amendments”).

As of September 30, 2021, the cumulative effect of the Credit Facility Amendments resulted in the waiver or adjustment of certain financial and other covenants under the 2018 Senior Credit Facility, for the periods described below:

- Waivers of key financial and certain other covenants in the 2018 Senior Credit Facility for the period April 1, 2020 through March 31, 2022; and
- Beginning on April 1, 2022, adjustments to certain of the key financial covenants go into effect through December 31, 2022 including:
 - Reduction of the Minimum Consolidated Fixed Charge Coverage Ratio;
 - Increase of the Maximum Unsecured Leverage Ratio;
 - Reduction of the Minimum Unsecured Interest Coverage Ratio; and
 - Increases to the Maximum Leverage Ratio, adjusting down beginning in the second quarter of 2022 and continuing through calendar year 2023.

The interest rate on the 2018 Senior Credit Facility is based on a pricing grid ranging from 140 basis points to 240 basis points plus LIBOR for the \$400 Million Revolver and 135 basis points to 235 basis points plus LIBOR for the \$200 Million Term Loan, depending upon the Company's leverage ratio. The pricing grid was modified under the Credit Facility Amendments such that during the period ending December 31, 2021, or earlier at the Company's election subject to certain requirements (the "Amendment Period"), the applicable margin was at Pricing Level VII, as defined in the 2018 Senior Credit Facility documents. The applicable margin is currently set at Pricing Level VIII. The interest rate at September 30, 2021 for the \$200 Million Term Loan was 2.60%.

The Credit Facility Amendments require the borrower and certain subsidiaries to pledge to the secured parties all of the equity interests in the entities that own all properties included in the unencumbered asset pool supporting the facility (“Unencumbered Properties”), as well as the equity interests in the TRS lessees related to such Unencumbered Properties until the borrower meets certain conditions for their release. The Credit Facility Amendments also permitted the Company to complete the Convertible Notes Offering (defined below).

The Credit Facility Amendments allow the borrower to advance up to \$350 million on the \$400 million Revolver. Furthermore, the Credit Facility Amendments permit the borrower to advance an additional \$50 million, in addition to the \$350 million advance described in the preceding sentence, upon filing mortgages and related security agreements on all Unencumbered Properties, with such security documents to be released upon the borrower meeting certain conditions for their release.

The Credit Facility Amendments revise the restrictions that were previously placed on certain investments in assets, equity offerings and securing of permitted indebtedness to permit the borrower and Company to take such actions, provided that (i) portions of the proceeds from such events will be used to pay down the balance of the 2018 Senior Credit Facility, the 2018 Term Loan (defined below) and 2017 Term Loan (defined below) in accordance with the terms of the Credit Facility Amendments, and (ii) the borrower and Company comply with the other conditions to taking such actions, including maintaining a minimum of \$150 million in liquidity.

Certain other typical limitations and conditions for credit facilities of this nature include, among other provisions, limitations on the use of revolving facility advances, certain restrictions on payments of dividends and establishment of a minimum liquidity requirement as indicated above. At September 30, 2021, we were in compliance with all financial covenants.

The 2018 Senior Credit Facility has an accordion feature which will allow the Company to increase the total commitments by an aggregate of up to \$300.0 million. The \$400 Million Revolver will mature on March 31, 2023 and can be extended to March 31, 2024 at the Company's option, subject to certain conditions. The \$200 Million Term Loan will mature on April 1, 2024.

Term Loans

2018 Term Loan

On February 15, 2018, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a new \$225.0 million term loan (the "2018 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation, which is fully drawn as of September 30, 2021. The 2018 Term Loan has an accordion feature that allows us to increase the total commitments by \$150.0 million prior to the maturity date of February 14, 2025, subject to certain conditions.

Amendments to \$225.0 Million 2018 Term Loan

Between May 2020 and February 2021, the Company entered into several amendments to the First Amended and Restated Credit Agreement (the "2018 Term Loan Amendments"). As of September 30, 2021, the cumulative effect of the changes to the 2018 Term Loan effected by the 2018 Term Loan Amendments are substantially similar to the changes described above effected by the Credit Facility Amendments.

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.35% and 1.95%, depending upon our leverage ratio (as defined in the loan documents). The pricing grid was modified under the 2018 Term Loan Amendments such that during the Amendment Period the applicable margin was set at Pricing Level VII, as defined in the 2018 Term Loan documents. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2021 was 2.40%.

Financial and Other Covenants. We are required to comply with various financial and other covenants to draw and maintain borrowings under the 2018 Term Loan. The 2018 Term Loan Amendments provide that certain financial and other covenants under the 2018 Term Loan were waived or adjusted, which waivers and adjustments are the same as under the amendments to the Company's 2018 Senior Credit Facility. At September 30, 2021, we were in compliance with all financial covenants.

Unencumbered Assets. The 2018 Term Loan Amendments require the borrower and certain subsidiaries to pledge to the secured parties all of the equity interests in the entities that own the Unencumbered Properties, as well as the equity interests in the TRS lessees related to such Unencumbered Properties until the borrower meets certain conditions for the release of such pledges. During the period that the pledges are in place, as well as at all other times during the term of the facility, borrowings under the 2018 Term Loan are limited by the value of the Unencumbered Assets.

2017 Term Loan

On September 26, 2017, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a \$225.0 million term loan (the "2017 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation, which 2017 Term Loan has a principal balance of \$62.0 million as of September 30, 2021.

Amendments to \$225.0 Million 2017 Term Loan

Between May 2020 and February 2021, the Company entered into various amendments to the 2017 Term Loan (the "2017 Term Loan Amendments"). As of September 30, 2021, the cumulative effect of the changes to the 2017 Term Loan effected by the 2017 Term Loan Amendments are substantially similar to the changes described above effected by the Credit Facility Amendments.

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

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.45% and 2.25%, depending upon our leverage ratio (as defined in the loan documents). The pricing grid was modified under the 2017 Term Loan Amendments such that during the Amendment Period the applicable margin was set at Pricing Level VI, as defined in the 2017 Term Loan documents. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2021 was 2.70%.

Financial and Other Covenants. We are required to comply with a series of financial and other covenants to draw and maintain borrowings under the 2017 Term Loan. The 2017 Term Loan Amendments provide that certain financial and other covenants under the 2017 Term Loan were waived or adjusted, which waivers and adjustments are the same as under the Credit Facility Amendments. At September 30, 2021, we were in compliance with all financial covenants.

Unencumbered Assets. The 2017 Term Loan Amendments require the borrower and certain subsidiaries to pledge to the secured parties all of the equity interests in the entities that own the Unencumbered Properties, as well as the equity interests in the TRS lessees related to such Unencumbered Properties until the borrower meets certain conditions for the release of such pledges. During the period that the pledges are in place, as well as at all other times during the term of the facility, borrowings under the 2017 Term Loan are limited by the value of the Unencumbered Assets.

Joint Venture Credit Facility

On October 8, 2019, Summit JV MR 1, LLC (the “Borrower”), as borrower, Summit Hospitality JV, LP (the “Parent”), as parent, and each party executing the credit facility documentation as a subsidiary guarantor, entered into a \$200.0 million credit facility (the “Joint Venture Credit Facility”) with Bank of America, N.A., as administrative agent and sole initial lender, and BofA Securities, Inc., as sole lead arranger and sole bookrunner.

The Parent is the joint venture between the Operating Partnership and an affiliate of GIC, Singapore's sovereign wealth fund. See “*Note 8 – Equity – Non-controlling Interests in Joint Venture*” for additional information. The Operating Partnership and the Company are not borrowers or guarantors of the Joint Venture Credit Facility. The Joint Venture Credit Facility is guaranteed by all of the Borrower’s existing and future subsidiaries, subject to certain exceptions.

The Joint Venture Credit Facility is comprised of a \$125.0 million revolving credit facility (the “\$125 Million Revolver”) and a \$75.0 million term loan (the “\$75 Million Term Loan”). The Joint Venture Credit Facility has an accordion feature which will allow us to increase the total commitments by up to \$300.0 million, for aggregate potential borrowings of up to \$500.0 million on the Joint Venture Credit Facility. At September 30, 2021, we had \$68.5 million outstanding under the \$125 Million Revolver.

The \$125 Million Revolver and the \$75 Million Term Loan will mature on October 8, 2023. Each can be extended for a single consecutive twelve-month period at the Borrower's option, subject to certain conditions.

Interest is paid on revolving credit advances at varying rates based upon, at the Borrower's option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a margin of 2.15% for Eurodollar rate advances, or (ii) LIBOR, plus a margin of 2.15% for LIBOR floating rate advances. The applicable margin for a term loan advance shall be five basis points less than revolving credit advances referenced above.

At September 30, 2021, we were in compliance with all financial covenants.

Amendments to \$200 Million Joint Venture Credit Facility

On June 18, 2020, the Company entered into a Second Amendment to Credit Agreement concerning the Joint Venture Credit Facility (“Second Amendment”). The Second Amendment resulted in waivers or adjustments to certain financial and other covenants under the Joint Venture Credit Facility, which are described in the Current Report on Form 8-K filed by the Company on June 24, 2020.

On April 29, 2021, the Borrower, Parent, and each party executing the credit facility documentation as a subsidiary guarantor, entered into a Third Amendment to Credit Agreement concerning the Joint Venture Credit Facility (the “Joint Venture Amendment”).

Certain financial and other covenants under the Joint Venture Credit Facility were waived or adjusted, for the periods described below:

- The Maximum Leverage Ratio and borrowing base leverage ratio (for purposes of determining availability) shall not exceed the following:
 - 55.0% through the fourth quarter of 2021
 - 65.0% for the first and second quarters of 2022
 - 60.0% for the third quarter of 2022 until the initial maturity date
 - 55.0% during any extension period
- Temporary waiver of the Minimum Consolidated Fixed Charge Coverage Ratio through the fourth quarter of 2021 and adjusting up through the second quarter of 2022; and
- Temporary waiver of the Borrowing Base Coverage Ratio through the first quarter of 2022 and adjusting up through June 30, 2023.

During the covenant waiver period, the applicable margin was increased to 230 basis points and 225 basis points for the revolver and term loan, respectively. After the covenant waiver period, the applicable margin will revert to 215 basis points and 210 basis points for the revolver and term loan, respectively.

The Joint Venture Amendment confirmed that the Borrower may make additional advances on the \$125 million Revolver, subject to certain financial covenant limitations. Certain other typical limitations and conditions for credit facilities of this nature were included among the provisions in the amendments including, among other provisions, limitations on the use of revolving facility advances, certain restrictions on payments of dividends and limitations on investments and dispositions. We retain the right to opt out of certain additional restrictive covenants upon demonstration of compliance with the required financial covenants.

Borrowing Base Assets. The Joint Venture Credit Facility is secured primarily by a first priority pledge of the Borrower's equity interests in the subsidiaries that hold the initial five borrowing base assets financed by the facility, and the related TRS entities, which wholly own the TRS Lessees that lease each of the borrowing base assets.

Convertible Senior Notes and Capped Call Options

On January 7, 2021, we entered into an underwriting agreement (the "Convertible Notes Offering") pursuant to which the Company agreed to offer and sell \$287.5 million aggregate principal amount of the Company's 1.50% convertible senior notes due 2026 (the "Convertible Notes"). The net proceeds from the Convertible Notes Offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company (including net proceeds from the full exercise by the underwriters of their over-allotment option to purchase additional Convertible Notes), were approximately \$280.0 million before consideration of the Capped Call Transactions (as defined below). These proceeds were used to pay the cost of the Capped Call Transactions and to partially repay outstanding obligations under the 2018 Senior Credit Facility and 2017 Term Loan.

The Convertible Notes bear interest at a rate of 1.50% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2021. The Convertible Notes will mature on February 15, 2026 (the "Maturity Date"), unless earlier converted, purchased or redeemed. Prior to August 15, 2025, the Convertible Notes will be convertible only upon certain circumstances and during certain periods. On or after August 15, 2025 and through the Maturity Date, holders may convert any of their Convertible Notes into shares of the Company's common stock, at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day prior to the Maturity Date, unless the Convertible Notes have been previously purchased or redeemed by the Company. During the three and nine months ended September 30, 2021, the Company recorded coupon interest expense of \$1.1 million and \$3.1 million, respectively, and amortized \$0.4 million and \$1.1 million, respectively, of the \$7.6 million debt issuance costs related to the Convertible Notes Offering. Including the amortization of the debt issuance costs, the current effective interest rate on the Convertible Notes is approximately 2.00%.

The initial conversion rate of the Convertible Notes is 83.4028 shares of common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of \$11.99 per share of common stock based on the 37.5% base conversion premium on the reference price of \$8.72 per share. In no event will the conversion rate exceed 114.6788 shares of common stock per \$1,000 principal amount of Convertible Notes, subject to certain adjustments defined in the Convertible Notes Offering.

On January 7, 2021, in connection with the pricing of the Convertible Notes, and on January 8, 2021, in connection with the full exercise by the Underwriters of their option to purchase additional Convertible Notes pursuant to the Underwriting Agreement, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with certain of the underwriters or their respective affiliates and another financial institution (the "Capped Call Counterparties"). The Capped Call Transactions initially cover, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes, the number of shares of common stock underlying the Convertible Notes. The Capped Call Transactions are generally expected to reduce the potential dilution to holders of shares of common stock upon conversion of the Convertible Notes or offset the potential cash payments that the Company could be required to make in excess of the principal amount of any converted Convertible Notes upon conversion thereof, with such reduction or offset subject to a cap.

The effective strike price of the Capped Call Transactions is initially \$15.26, which represents a premium of 75.0% over the last reported sale price of the common stock on the New York Stock Exchange on January 7, 2021, and is subject to certain adjustments under the terms of the Capped Call transactions.

MetaBank Loan

On June 30, 2017, we entered into a \$47.6 million secured, non-recourse loan with MetaBank (the "MetaBank Loan"). The MetaBank Loan provides for a fixed interest rate of 4.44%, amortizes over 25 years, and matures on July 1, 2027. The MetaBank Loan is secured by three hotels and is subject to a prepayment penalty if prepaid prior to April 1, 2027. On May 1, 2020, MetaBank waived the annual minimum debt service covenant ratio for the year ended December 31, 2020, and on April 12, 2021, MetaBank extended such waiver for the year ended December 31, 2021. The next covenant measurement date is December 31, 2022.

Mortgage Loans

At September 30, 2021, we had mortgage loans totaling \$151.1 million that are secured primarily by first mortgage liens on 15 hotel properties.

NOTE 6 - LEASES

The Company has operating leases related to the land under certain hotel properties, conference centers, parking spaces, automobiles, our corporate office and other miscellaneous office equipment. These leases have remaining terms of 1 year to 77 years, some of which include options to extend the leases for additional years. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Certain of our lease agreements include rental payments based on a percentage of revenue over contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or restrictive covenants that materially affect our business. In addition, we rent or sublease certain owned real estate to third parties. We recorded gross third-party tenant income of \$0.5 million and \$0.4 million during the three months ended September 30, 2021 and 2020, respectively, and \$1.5 million and \$1.3 million during the nine months ended September 30, 2021 and 2020, respectively, which were recorded in Other income in the Condensed Consolidated Statement of Operations.

The majority of our third-party tenants requested rent deferrals to ease the negative financial effects of the COVID-19 pandemic on their businesses. We have generally negotiated with these tenants and granted rent deferrals that defer rent for a specified number of months and require repayment of the deferred rent over a negotiated period of time.

On January 1, 2019, the Company adopted ASC No. 842, *Leases*, and recognized right-of-use lease assets and related liabilities. The right-of-use assets and related liabilities include renewal options reasonably certain to be exercised. We base our lease calculations on our estimated incremental borrowing rate. As of September 30, 2021, our weighted average incremental borrowing rate was 4.91%.

During the three months ended September 30, 2021 and 2020, the Company's total operating lease cost was \$0.9 million and \$0.7 million, respectively, and the operating cash outflows from operating leases was \$0.8 million and \$0.7 million, respectively. During the nine months ended September 30, 2021 and 2020, the Company's total operating lease cost was \$2.4 million and \$2.3 million, respectively, and the operating cash outflows from operating leases was \$2.2 million and \$2.1 million, respectively. As of September 30, 2021, the weighted average operating lease term was 28.2 years.

Operating lease maturities as of September 30, 2021 are as follows (in thousands):

2021	\$	1,007
2022		1,592
2023		953
2024		910
2025		918
Thereafter		27,763
Total lease payments ⁽¹⁾		33,143
Less interest		(15,616)
Total	\$	<u>17,527</u>

(1) Certain payments above include future increases to the minimum fixed rent based on the Consumer Price Index in effect at the initial measurement of the lease balances.

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Information about our derivative financial instruments at September 30, 2021 and December 31, 2020 is as follows (dollars in thousands):

Contract date	Effective Date	Expiration Date	Average Annual Effective Fixed Rate	Notional Amount		Fair Value	
				September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
October 2, 2017	January 29, 2018	January 31, 2023	1.98 %	\$ 100,000	\$ 100,000	\$ (2,424)	\$ (3,831)
October 2, 2017	January 29, 2018	January 31, 2023	1.98 %	100,000	100,000	(2,438)	(3,853)
June 11, 2018	September 28, 2018	September 30, 2024	2.87 %	75,000	75,000	(5,177)	(7,371)
June 11, 2018	December 31, 2018	December 31, 2025	2.93 %	125,000	125,000	(10,981)	(15,795)
				<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ (21,020)</u>	<u>\$ (30,850)</u>

Our interest rate swaps have been designated as cash flow hedges and are valued using a market approach, which is a Level 2 valuation technique. At September 30, 2021 and December 31, 2020, all of our interest rate swaps were in a liability position as a result of a decline in short-term interest rates and a continued flattening of the forward yield curve. Our interest rate swaps are recorded in Accrued expenses and other in our Condensed Consolidated Balance Sheets. We are not required to post any collateral related to these agreements and are not in breach of any financial provisions of the agreements.

Changes in the fair value of the hedging instruments are deferred in Other comprehensive income and are reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings. In the next twelve months, we estimate that \$9.4 million will be reclassified from Other comprehensive income and recorded as an increase to Interest expense.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
(Loss) gain recognized in Other comprehensive income on derivative financial instruments	\$ (138)	\$ 504	\$ 2,743	\$ (22,300)
Loss reclassified from Other comprehensive income to Interest expense	\$ (2,403)	\$ (2,330)	\$ (7,087)	\$ (5,067)
Total Interest expense in which the effects of cash flow hedges are recorded	\$ (10,817)	\$ (10,904)	\$ (32,567)	\$ (32,665)

NOTE 8 - EQUITY

Common Stock

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

On May 25, 2017, the Company and the Operating Partnership entered into separate sales agreements (collectively, the "Sales Agreements") with several underwriters (the "Sales Agents"), pursuant to which the Company may sell our Common Stock having an aggregate offering price of up to \$200.0 million (the "Shares"), from time to time through the Sales Agents, each acting as a sales agent and/or principal (the "2017 ATM Program"). To date, we have not sold any shares of our Common Stock under the 2017 ATM Program.

Changes in Common Stock during the nine months ended September 30, 2021 and 2020 were as follows:

	For the Nine Months Ended September 30,	
	2021	2020
Beginning common shares outstanding	105,708,787	105,169,515
Grants under the Equity Plan	860,910	676,171
Common Unit redemptions	31,945	34,500
Annual grants to independent directors	60,546	93,810
Performance share and other forfeitures	(60,823)	(212,643)
Shares retained for employee tax withholding requirements	(155,605)	(65,345)
Ending common shares outstanding	106,445,760	105,696,008

Preferred Stock

The Company is authorized to issue up to 100,000,000 shares of preferred stock, \$0.01 par value per share, of which 89,600,000 is currently undesignated, 6,400,000 shares have been designated as 6.25% Series E Cumulative Redeemable Preferred Stock (the "Series E preferred shares") and 4,000,000 shares have been designated as 5.875% Series F Cumulative Redeemable Preferred Stock (the "Series F preferred shares").

The Company completed the offering of 4,000,000 Series F preferred shares on August 12, 2021 for net proceeds of \$96.6 million, after the underwriting discount and offering-related expenses of \$3.4 million.

On September 4, 2021, the Company paid \$75.0 million to redeem all 3,000,000 of its outstanding 6.45% Series D Cumulative Redeemable Preferred Stock at a redemption price of \$25 per share plus accrued and unpaid dividends. The premium on redemption of \$2.7 million was recorded as a reduction to retained earnings.

The Company's outstanding shares of preferred stock (collectively, "Preferred Shares") rank senior to our common stock and on parity with each other with respect to the payment of dividends and distributions of assets in the event of a liquidation, dissolution, or winding up. The Preferred Shares do not have any maturity date and are not subject to mandatory redemption or sinking fund requirements. The Company may not redeem the Series E or Series F preferred shares prior to November 13, 2022 and August 12, 2026, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or in connection with certain changes in control. After those dates, the Company may, at its option, redeem the applicable Preferred Shares, in whole or from time to time in part, by payment of \$25 per share, plus any accumulated, accrued and unpaid distributions up to, but not including, the date of redemption. If the Company does not exercise its rights to redeem the Preferred Shares upon certain changes in control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company's common shares based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each Series E preferred share is 3.1686 shares of common stock and each Series F preferred share is 5.8275 shares of common stock, all subject to certain adjustments.

The Company pays dividends at an annual rate of \$1.5625 for each Series E preferred share and \$1.46875 for each Series F preferred share. Dividend payments are made quarterly in arrears on or about the last day of February, May, August and November of each year.

Non-controlling Interests in Operating Partnership

Pursuant to the limited partnership agreement of our Operating Partnership, the unaffiliated third parties who hold Common Units in our Operating Partnership have the right to cause us to redeem their Common Units in exchange for cash based upon the fair value of an equivalent number of our shares of Common Stock at the time of redemption; however, the Company has the option to redeem Common Units with shares of our Common Stock on a one-for-one basis. The number of shares of our Common Stock issuable upon redemption of Common Units may be adjusted upon the occurrence of certain events such as share dividend payments, share subdivisions or combinations.

At September 30, 2021 and December 31, 2020, unaffiliated third parties owned 129,797 and 161,742 Common Units of the Operating Partnership, respectively, representing less than a 1% limited partnership interest in the Operating Partnership for each period.

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

Non-controlling Interests in Joint Venture

In July 2019, the Company entered into a joint venture agreement with GIC, Singapore's sovereign wealth fund, to acquire assets that align with the Company's current investment strategy and criteria. The Company serves as general partner and asset manager of the joint venture and intends to invest 51% of the equity capitalization of the limited partnership, with GIC investing the remaining 49%. The Company earns fees for providing services to the joint venture and will have the potential to earn incentive fees based on the joint venture achieving certain return thresholds. As of September 30, 2021, the joint venture owns the five hotel properties acquired in 2019, the six hotels contributed to the joint venture in the second quarter of 2021 and the hotel acquired by the joint venture in the third quarter of 2021.

The joint venture owns the hotels through a master real estate investment trust ("Master REIT") and subsidiary REITs ("Subsidiary REIT"). All of the hotels owned by the joint venture are leased to taxable REIT subsidiaries of the Subsidiary REITs ("Subsidiary REIT TRSs"). To qualify as a REIT, the Master REIT and each Subsidiary REIT must meet all of the REIT requirements summarized under "Note 2 - Basis of Presentation and Significant Accounting Policies - Income Taxes." Taxable income related to the Subsidiary REIT TRSs is subject to federal, state and local income taxes at applicable tax rates.

We classify the Non-controlling interests in the joint venture as a component of equity in the Company's Condensed Consolidated Balance Sheets. The portion of net income (losses) allocated to these non-controlling interests is reported on the Company's Condensed Consolidated Statements of Operations as Net income (losses) attributable to non-controlling interests of the joint venture.

NOTE 9 - FAIR VALUE MEASUREMENT

The following table presents information about our financial instruments measured at fair value on a recurring basis at September 30, 2021 and December 31, 2020. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, we classify assets and liabilities based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

	Fair Value Measurements at September 30, 2021 using			
	Level 1	Level 2	Level 3	Total
Assets:				
Purchase Options related to real estate loans	\$ —	\$ —	\$ 2,800	\$ 2,800
Liabilities:				
Interest rate swaps	—	21,020	—	21,020

	Fair Value Measurements at December 31, 2020 using			
	Level 1	Level 2	Level 3	Total
Assets:				
Purchase Options related to real estate loans	\$ —	\$ —	\$ 7,161	\$ 7,161
Liabilities:				
Interest rate swaps	—	30,850	—	30,850

Our Purchase Options related to real estate loans do not have readily determinable fair values. The original fair value of each Purchase Option was estimated using a Black-Scholes model.

Due to the adverse effects of the COVID-19 pandemic, we evaluated our Purchase Options for impairment during the nine months ended September 30, 2020. The fair value of each Purchase Option was estimated using the Black-Scholes model. The estimated fair values of the Purchase Options were based on unobservable inputs for which there is little or no market information available and required us to develop our own assumptions as follows (dollar amounts in thousands):

	Real Estate Loan 1	Real Estate Loan 2	Real Estate Loan 3
Exercise price	\$ 15,143	\$ 17,377	\$ 37,800
Term	2.59 ^{(1) (2)}	2.68 ^{(1) (2)}	1.42 ⁽³⁾
Expected volatility	65.0 %	55.0 %	55.0 %
Risk-free rate	0.3 %	0.3 %	0.2 %
Expected annualized equity dividend yield	6.5 %	7.5 %	— %

(1) The purchase option is currently exercisable.

(2) The option term is the period from April 1, 2020 through the fully extended original maturity dates of the respective mezzanine loans.

(3) The option term is the period from April 1, 2020 through the date in which the development project is completed and the option becomes exercisable.

During the three months ended September 30, 2021, we recorded a Loss on impairment and write-off of assets of \$4.4 million as follows (dollar amounts in thousands):

	Real Estate Loan 1	Real Estate Loan 2	Real Estate Loan 3
Purchase Option value at December 31, 2020	\$ 1,600	\$ 2,761	\$ 2,800
Loss on impairment and write-off of assets ⁽¹⁾	(1,600)	(2,761)	—
Purchase Option value at September 30, 2021	\$ —	\$ —	\$ 2,800

- (1) As of September 30, 2021, we reached an agreement with the borrowers of Real Estate Loans 1 and 2 for the full repayment of the loans in the fourth quarter of 2021, which would result in us forgoing the exercise of the purchase options. As a result, the Company wrote-off the carrying amount of the purchase options totaling \$4.4 million as a Loss on impairment during the quarter ended September 30, 2021.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Restricted Cash

The Company maintains reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at some of our hotel properties in accordance with management, franchise or mortgage loan agreements. These agreements generally require us to reserve cash ranging from 2.0% to 5.0% of the revenues of the individual hotel in restricted cash escrow accounts. Any unused restricted cash balances revert to us upon the termination of the underlying agreement or may be released to us from the restricted cash escrow accounts upon proof of expenditures and approval from the lender or other party requiring the restricted cash reserves.

On April 13, 2020, as a result of the COVID-19 pandemic, Marriott International, Inc. (“Marriott”) agreed to allow us to use \$1.6 million of cash deposited in FF&E Reserve Accounts for seven of our Marriott-branded hotels managed by Marriott affiliates (“Marriott Hotels”) to pay for the working capital needs of the respective hotels. In addition, Marriott released \$8.9 million to us from the FF&E Reserve Accounts (“Borrowed Reserve”) of the Marriott Hotels for general operational purposes. The Borrowed Reserve must be replenished into the respective FF&E Reserve Accounts in ten equal monthly installments beginning on the date that is twelve months prior to the next scheduled renovation date for each of the Marriott Hotels (“Renovation Date”) or in a lump sum payment no later than sixty days prior to each respective Renovation Date. We do not expect to replenish any of the Borrowed Reserve over the next twelve months.

Furthermore, Marriott has suspended our obligation to fund monthly FF&E reserves for the Marriott Hotels through December 31, 2021. During January 2021, we transitioned the management of the Courtyard by Marriott - Fort Worth, TX from Marriott to Aimbridge Hospitality. As such, we are no longer obligated to replenish \$0.5 million of the Borrowed Reserve.

At September 30, 2021 and December 31, 2020, approximately \$25.5 million and \$18.2 million, respectively, was available in restricted cash reserve funds required by certain of our property managers, franchisors, or mortgage lenders for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at our hotel properties.

Franchise Agreements

We expensed fees related to our franchise agreements of \$7.7 million and \$4.6 million for the three months ended September 30, 2021 and 2020, respectively, and \$17.7 million and \$16.5 million for the nine months ended September 30, 2021 and 2020, respectively.

Management Agreements

Our hotel properties operate pursuant to management agreements with various professional third-party management companies. We pay base management fees that are a percentage of gross room revenues and incentive management fees based on achievement of certain financial targets pursuant to contracts that generally have remaining terms of less than five years. Management fee expenses were \$2.9 million and \$1.3 million for the three months ended September 30, 2021 and 2020, respectively, and \$6.8 million and \$5.1 million for the nine months ended September 30, 2021 and 2020, respectively.

Litigation

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

NOTE 11 - EQUITY-BASED COMPENSATION

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

Stock options granted may be either incentive stock options or non-qualified stock options. Vesting terms may vary with each grant, and stock option terms are generally five to ten years. We have outstanding equity-based awards in the form of restricted stock awards. All of our outstanding equity-based awards are classified as equity awards.

Stock Options Granted Under our Equity Plan

The 235,000 stock options outstanding as of December 31, 2020 expired unexercised on February 13, 2021 and were forfeited.

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

The following table summarizes time-based restricted stock award activity under our Equity Plan for the nine months ended September 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)	Aggregate Current Value (in thousands)
Non-vested at December 31, 2020	573,577	\$ 10.18	\$ 5,168
Granted	536,980	10.27	
Vested	(219,636)	11.20	
Non-vested at September 30, 2021	<u>890,921</u>	<u>\$ 9.98</u>	\$ 8,580

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

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

The holders of these awards have the right to vote the related shares of common stock and receive all dividends declared and paid whether or not vested. The fair value of time-based restricted stock awards granted is calculated based on the market value of our common stock on the date of grant.

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

The following table summarizes performance-based restricted stock activity under the Equity Plan for the nine months ended September 30, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value (1) (per share)	Aggregate Current Value (in thousands)
Non-vested at December 31, 2020	922,239	\$ 11.65	\$ 8,309
Granted	323,930	14.05	
Vested	(182,480)	13.73	
Forfeited	(60,823)	13.73	
Non-vested at September 30, 2021	<u>1,002,866</u>	<u>\$ 11.92</u>	\$ 9,658

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

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

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

Equity-Based Compensation Expense

Equity-based compensation expense included in Corporate general and administrative expenses in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020 was as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Time-based restricted stock	\$ 891	\$ 622	\$ 2,399	\$ 1,847
Performance-based restricted stock	1,001	895	2,879	2,664
Director stock	—	—	583	447
	<u>\$ 1,892</u>	<u>\$ 1,517</u>	<u>\$ 5,861</u>	<u>\$ 4,958</u>

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

Unrecognized equity-based compensation expense for all non-vested awards pursuant to our Equity Plan was \$12.2 million at September 30, 2021 and will be recorded as follows (in thousands):

	Total	2021	2022	2023	2024	2025
Time-based restricted stock	\$ 6,257	\$ 891	\$ 2,872	\$ 2,067	\$ 406	\$ 21
Performance-based restricted stock	5,914	1,001	2,927	1,731	255	—
	<u>\$ 12,171</u>	<u>\$ 1,892</u>	<u>\$ 5,799</u>	<u>\$ 3,798</u>	<u>\$ 661</u>	<u>\$ 21</u>

NOTE 12 - INCOME TAXES

As a REIT, we generally will not be subject to U.S. federal income tax on ordinary income and capital gains income generated by our REIT activities that we distribute to our stockholders. We are subject to federal and state income taxes on the earnings of our TRS Lessees. In addition, our Operating Partnership is subject to tax in a limited number of local and state jurisdictions.

The Company recorded income tax expense of \$0.7 million for the three months ended September 30, 2021 and an income tax benefit of \$0.1 million for the three months ended September 30, 2020. The Company recorded income tax expense of \$1.1 million and \$1.6 million for the nine months ended September 30, 2021 and 2020, respectively. The \$1.6 million income tax expense recorded in the nine months ended September 30, 2020 included a \$2.1 million discrete non-cash deferred income tax related to the establishment of valuation allowances against our TRS Lessees' deferred tax assets. Due to the effects of the COVID-19 pandemic, certain of our TRS Lessees have incurred operating losses in the past and are expected to be in a cumulative loss for the foreseeable future. A cumulative loss is significant negative evidence that the realizability of our deferred tax assets at September 30, 2021 is not reasonably assured. Therefore, we have recorded a valuation allowance against substantially all our deferred tax assets at September 30, 2021.

We had no unrecognized tax benefits at September 30, 2021. We expect no significant changes in unrecognized tax benefits within the next year.

The American Rescue Plan Act of 2021 was signed into law on March 11, 2021. Some of the key income tax provisions include:

- An extension of the employee retention tax credit through 2021. To be eligible for the credit in 2021, an organization's gross receipts must be less than 80% of the same quarter in 2019. The credit is calculated based on 70% of qualifying wages, capped at \$10,000 of compensation each quarter in 2021. We expect a credit totaling approximately \$1.3 million for the year ended December 31, 2021. As of September 30, 2021, we have received \$0.9 million of this credit and expect to receive the remainder of the credit in the fourth quarter of 2021 or early in 2022.
- Expanded limits on executive compensation deductions. Section 162(m) limits the deduction for compensation paid to each covered employee to \$1 million for public companies. Covered employees generally include the CEO, CFO, and the next three highest paid officers as determined under the SEC rules. For tax years after December 31, 2026, Section 162(m) applies to the CEO, CFO, and the next five highest paid employees.

NOTE 13 - EARNINGS PER SHARE

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net loss	\$ (4,239)	\$ (35,775)	\$ (57,679)	\$ (104,537)
Less: Preferred dividends	(3,750)	(3,710)	(11,168)	(11,128)
Premium on redemption of preferred stock	(2,710)	—	(2,710)	—
Allocation to participating securities	—	—	—	(81)
Attributable to non-controlling interest in Operating Partnership	10	70	98	203
Attributable to non-controlling interests in joint venture	(275)	1,159	3,020	4,049
Net loss attributable to common stockholders, net of amount allocated to participating securities	<u>\$ (10,964)</u>	<u>\$ (38,256)</u>	<u>\$ (68,439)</u>	<u>\$ (111,494)</u>
Denominator:				
Weighted average common shares outstanding - basic and diluted	104,548	104,200	104,441	104,117
Loss per share:				
Basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.37)</u>	<u>\$ (0.66)</u>	<u>\$ (1.07)</u>

The Common Units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income would also be added to derive net income attributable to common stockholders. Our unvested performance-based restricted stock awards and outstanding convertible notes have been excluded from the denominator of the diluted earnings per share calculation as their inclusion would be antidilutive.

NOTE 14 - SUBSEQUENT EVENTS

Dividends

On October 29, 2021, our Board of Directors declared cash dividends of \$0.390625 per share of 6.25% Series E Cumulative Redeemable Preferred Stock and \$0.440625 per share of 5.875% Series F Cumulative Redeemable Preferred Stock. These dividends are payable November 30, 2021 to stockholders of record on November 16, 2021.

Acquisition of Hotel Property Portfolio

On November 2, 2021, we entered into a definitive contribution agreement to acquire a 27-hotel portfolio totaling 3,709 guestrooms, two parking structures and various financial incentives through our joint venture with GIC for a total consideration of \$822 million (the "Transaction") from affiliates of NewcrestImage. The Company expects to fund its 51% equity contribution for the Transaction with a combination of common operating partnership units and preferred operating partnership units. The Company plans to issue 15.9 million common operating partnership units valued at \$160 million to seller affiliates, based on the 10-day trailing VWAP of \$10.0853 per unit and will result in an approximate 13% pro forma seller ownership interest. The Company will also issue \$50 million of newly designated 5.25% Series Z preferred units. The preferred operating partnership units will be entitled to distributions at a rate of 5.25% per annum, may be redeemed by the holder on the 10th anniversary of the issuance date and may be called by the Company at any time after the 5th anniversary of the issuance date. GIC's 49% estimated equity contribution of \$208 million will be in the form of cash. The Company has secured a \$410 million financing commitment from Bank of America and Wells Fargo Bank, which will be the primary debt financing for the Transaction.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2020 and our unaudited interim Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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

Cautionary Statement about Forward-Looking Statements

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

- the effects of the novel coronavirus (COVID-19) pandemic and other infectious disease outbreaks;
- potential changes in operations as a result of regulations or changes in brand standards imposed in connection with, or changes in consumer behavior in response to, the COVID-19 pandemic;
- financing risks, including the risk of leverage and the corresponding risk of default on our existing indebtedness and potential inability to refinance or extend the maturities of our existing indebtedness;
- default by borrowers to which we lend or provide seller financing;
- global, national, regional and local economic and geopolitical conditions;
- levels of spending for business and leisure travel, as well as consumer confidence;
- supply and demand factors in our markets or sub-markets;
- the effect of alternative accommodations on our business;
- adverse changes in occupancy, average daily rate (“ADR”) and revenue per available room (“RevPAR”) and other hotel operating metrics;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
- financial condition of, and our relationships with, third-party property managers and franchisors;
- the degree and nature of our competition;
- increased interest rates;
- increased operating costs, including but not limited to labor costs;
- increased renovation costs, which may cause actual renovation costs to exceed our current estimates;
- changes in zoning laws;
- increases in real property taxes that are significantly higher than our expectations;
- risks associated with hotel acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history or that require substantial amounts of capital improvements for us to earn economic returns consistent with our expectations at the time of acquisition;
- risks associated with dispositions of hotel properties, including our ability to successfully complete the sale of hotel properties under contract to be sold, including the risk that the purchaser may not have access to the capital needed to complete the purchase;
- the nature of our structure and transactions such that our federal and state taxes are complex and there is risk of successful challenges to our tax positions by the Internal Revenue Service (“IRS”) or other federal and state taxing authorities;
- the recognition of taxable gains from the sale of hotel properties as a result of the inability to complete certain like-kind exchanges in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the “IRC”);
- availability of and the abilities of our property managers and us to retain qualified personnel at our hotels and corporate offices;
- our failure to maintain our qualification as a real estate investment trust (“REIT”) under the IRC;

- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- general volatility of the capital markets and the market price of our common stock;
- environmental uncertainties and risks related to natural disasters;
- our ability to recover fully under third party indemnities or our existing insurance policies for insurable losses and our ability to maintain adequate or full replacement cost “all-risk” property insurance policies on our properties on commercially reasonable terms;
- the effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber-attacks that are greater than insurance coverages or indemnities from service providers;
- the effect on our interest rates when LIBOR is replaced with a new benchmark which may perform differently than LIBOR;
- our ability to effectively manage our joint venture with our joint venture partner;
- current and future changes to the IRC;
- our ability to manage inflationary pressures related to commodities, labor and other costs of our business; and
- the other factors discussed under the heading "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

Overview

Summit Hotel Properties, Inc. is a self-managed hotel investment company that was organized in June 2010 and completed its initial public offering in February 2011. We focus on owning primarily premium-branded, select-service hotels. At September 30, 2021, our portfolio consisted of 73 hotels with a total of 11,398 guestrooms located in 23 states. We own our hotels in fee simple, except for four hotels which are subject to ground leases. As of September 30, 2021, we own 100% of the outstanding equity interests in 61 of our 73 hotels. We own a 51% controlling interest in twelve hotels through a joint venture. Our hotels are typically located in markets with multiple demand generators such as corporate offices and headquarters, retail centers, airports, state capitols, convention centers, and leisure attractions.

Our hotels operate under premium franchise brands owned by Marriott® International, Inc. (“Marriott”), Hilton® Worldwide (“Hilton”), Hyatt® Hotels Corporation (“Hyatt”) and InterContinental® Hotels Group (“IHG”).

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

Management Company	Number of Properties	Number of Guestrooms
Affiliates of Aimbridge Hospitality, including Interstate Management Company, LLC	34	5,336
OTO Development, LLC	15	2,164
Stonebridge Realty Advisors, Inc. and affiliates	9	1,312
Affiliates of Marriott, including Courtyard Management Corporation, SpringHill SMC Corporation and Residence Inn by Marriott, Inc.	6	973
White Lodging Services Corporation	4	791
American Liberty Hospitality, Inc.	2	372
Crestline Hotels & Resorts, LLC	2	198
Intercontinental Hotel Group Resources, Inc., an affiliate of IHG	1	252
Total	73	11,398

Our typical hotel management agreement requires us to pay a base fee to our hotel manager calculated as a percentage of hotel revenues. In addition, our hotel management agreements generally provide that the hotel manager can earn an incentive fee for revenue or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") over certain thresholds or based on a return over our required preferred return. Our TRS Lessees may employ other hotel managers in the future. We do not, and will not, have any ownership or economic interest in any of the hotel management companies engaged by our TRS Lessees.

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

Industry Trends and Outlook

Room-night demand in the U.S. lodging industry is generally correlated to certain macroeconomic trends. Key drivers of lodging demand include changes in gross domestic product, corporate profits, capital investments, employment and more recently, travel-related health and safety restrictions. Volatility in the economy and risks arising from global and domestic political or economic conditions may cause slowing economic growth, which would have an adverse effect on lodging demand. The global and U.S. economies, and the travel and lodging industries, have experienced a significant downturn as a result of the COVID-19 global pandemic. During the first nine months of 2021, we began to see a significant recovery in hotel demand driven primarily by leisure travelers. Corporate transient and group demand remains significantly reduced from historical levels and is recovering more slowly than leisure demand.

Effects of COVID-19 Pandemic on Our Business

The effects of the COVID-19 pandemic and the restrictions implemented in response to the COVID-19 pandemic have had a significant negative effect on the U.S. and global economies, including a rapid and sharp decline in all forms of travel, both domestic and international, and a significant decline in hotel demand. These conditions resulted in a substantial decline from pre-pandemic levels in our revenues, profitability and cash flows from operations.

During the first three quarters of 2021, we experienced sequential improvement in our business driven primarily by leisure travel. The improvement was the result of a steady decline in COVID-19 cases following the administration of vaccines and the easing of government restrictions and guidance in many jurisdictions. A recovery in business travel and group business has been slower to date. We anticipate that continued improvement in operating trends will be dependent on continued growth in leisure travel and a recovery of business travel. More broadly, a return to normalized levels of operations is dependent upon the dissipation of concerns related to COVID-19 and its variants, continued easing of government restrictions and guidance, restoration of consumer confidence, and a recovery in corporate and overall travel-related demand.

Management's Actions in Response to the Effects of COVID-19 on Our Operations

We have taken the following actions to mitigate the negative effects of the COVID-19 pandemic on our consolidated financial position, results of operations and cash flows:

Operational Adjustments

In response to the rapid decline in demand for room nights and loss of revenues as a result of the COVID-19 pandemic, we, along with our property managers, evaluated each hotel in our portfolio to determine if market conditions warranted the temporary suspension of operations, and to adjust labor cost structures for hotels that would continue to operate. Although the vast majority of our hotels have remained open, staffing levels have been reduced to levels that safely and effectively maintain reasonable accommodations for our guests, including essential hotel functions such as cleaning and disinfecting to mitigate the spread of COVID-19. As demand at our hotels has increased, we have also increased staffing commensurately.

Financial Measures and Liquidity

Beginning in March 2020, we took significant action to enhance our overall liquidity position in response to the COVID-19 pandemic's effect on our financial position. For additional information concerning such actions taken in response to the effects of the COVID-19 pandemic on our business, please see our Annual Report on Form 10-K for the year ended December 31, 2020.

We expect that the operational, financial and liquidity measures that we have taken will allow us to meet our funding needs for the foreseeable future. However, there is substantial uncertainty as to how long the economic hardship caused by the COVID-19 pandemic will last and the timing and rate of an economic recovery afterwards.

Health and Well-being

All of our hotels are licensed with national franchise brands and we have worked closely with our brand partners to develop and implement comprehensive protocols for the safety and well-being of employees and guests to address a broad spectrum of pathogens and viruses, including COVID-19 and variants thereof. We continue to apply advanced cleaning procedures developed during the COVID-19 pandemic to all of our hotel properties.

Forward-looking Information and Use of Estimates

The full effects of the COVID-19 pandemic and its variants on our Company will depend on future developments, such as the ultimate duration and scope of the outbreak, its effect on our customers, brands and business partners, the rate at which normal economic conditions, operations, and the demand for lodging resume, and the magnitude of the recessionary conditions in any of our markets. Accordingly, the full effects on our Company cannot be determined at this time; however, despite the uncertainty of the effects of the COVID-19 pandemic, we expect our full year 2021 results of operations to be adversely affected. While the potential magnitude and duration of the business and economic effects of COVID-19 are uncertain, we believe that the nascent recovery in our business that began during 2020 will continue into the year ending December 31, 2021 and operating performance will improve gradually over a multi-year period before reaching prior peak performance levels. We believe that a recovery in business conditions resulting in positive operating cash flows, together with cash on hand, and the current availability under our credit facilities, will provide sufficient liquidity to fund operations for at least the next twelve months. There can be no assurance that the assumptions used to evaluate the carrying amounts of our assets or to estimate our liquidity requirements will be correct. For additional information on the current and potential future effects of the COVID-19 pandemic, please see Item 1A. Risk Factors.

Our Hotel Property Portfolio

At September 30, 2021, our portfolio consisted of 73 hotels with a total of 11,398 guestrooms. According to current chain scales as defined by STR, Inc., two of our hotel properties with a total of 280 guestrooms are categorized as Upper-upscale hotels, 61 of our hotel properties with a total of 9,647 guestrooms are categorized as Upscale hotels and 10 of our hotel properties with a total of 1,471 guestrooms are categorized as Upper-midscale hotels. Information about our hotel properties as of September 30, 2021 is as follows:

Franchise/Brand	Number of Hotel Properties	Number of Guestrooms
Marriott		
Courtyard by Marriott	15	2,761
Residence Inn by Marriott	12	1,746
SpringHill Suites by Marriott	5	761
AC Hotel by Marriott	1	255
Marriott	1	165
Fairfield Inn & Suites by Marriott	1	140
Four Points by Sheraton	1	101
Total Marriott	36	5,929
Hilton		
Hilton Garden Inn	7	1,067
Hampton Inn & Suites	7	986
Homewood Suites	2	251
DoubleTree by Hilton	1	210
Total Hilton	17	2,514
Hyatt		
Hyatt Place	13	1,908
Hyatt House	3	466
Total Hyatt	16	2,374
IHG		
Holiday Inn Express & Suites	2	345
Staybridge Suites	1	121
Hotel Indigo	1	115
Total IHG	4	581
Total	73	11,398

Hotel Property Portfolio Activity

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

On July 9, 2021, we acquired the 110-guestroom Residence Inn by Marriott in Steamboat Springs, CO for \$33.0 million through our joint venture with GIC.

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

Results of Operations

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

Comparison of the Three Months Ended September 30, 2021 with the Three Months Ended September 30, 2020

The following table contains key operating metrics for our total portfolio for the three months ended September 30, 2021 compared with the three months ended September 30, 2020 (dollars in thousands, except ADR and RevPAR).

	For the Three Months Ended September 30,				Quarter-over-Quarter		Quarter-over-Quarter	
	2021		2020		Dollar Change		Percentage Change	
	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)
Revenues:								
Room	\$ 102,521	\$ 101,033	\$ 48,636	\$ 48,636	\$ 53,885	\$ 52,397	110.8 %	107.7 %
Food and beverage	2,097	2,082	628	628	1,469	1,454	233.9 %	231.5 %
Other	6,068	6,037	3,148	3,148	2,920	2,889	92.8 %	91.8 %
Total	<u>\$ 110,686</u>	<u>\$ 109,152</u>	<u>\$ 52,412</u>	<u>\$ 52,412</u>	<u>\$ 58,274</u>	<u>\$ 56,740</u>	<u>111.2 %</u>	<u>108.3 %</u>
Expenses:								
Room	\$ 22,186	\$ 21,927	\$ 11,352	\$ 11,352	\$ 10,834	\$ 10,575	95.4 %	93.2 %
Food and beverage	1,476	1,461	520	520	956	941	183.8 %	181.0 %
Other hotel operating expenses	34,713	34,302	22,535	22,535	12,178	11,767	54.0 %	52.2 %
Total	<u>\$ 58,375</u>	<u>\$ 57,690</u>	<u>\$ 34,407</u>	<u>\$ 34,407</u>	<u>\$ 23,968</u>	<u>\$ 23,283</u>	<u>69.7 %</u>	<u>67.7 %</u>
Operational Statistics:								
Occupancy	68.7 %	68.5 %	45.0 %	45.0 %	n/a	n/a	52.4 %	52.1 %
ADR	\$ 142.52	\$ 142.03	\$ 103.98	\$ 103.98	\$ 38.54	\$ 38.05	37.1 %	36.6 %
RevPAR	\$ 97.85	\$ 97.29	\$ 46.83	\$ 46.83	\$ 51.02	\$ 50.46	108.9 %	107.7 %

Changes from the three months ended September 30, 2021 compared with the three months ended September 30, 2020 were due to the following:

- *Revenues.* The increase in revenues was due to an improvement in our business that has been primarily driven by leisure travel in the third quarter of 2021 as COVID-19 cases began to decline following the administration of vaccines and government restrictions in many jurisdictions being eased or lifted. See *"Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business"* for further information.
- *RevPAR.* The increase in RevPAR was due to an improvement in our business that has been primarily driven by leisure travel in the third quarter of 2021 as our business continues to recover from the negative effect of the COVID-19 pandemic. The increase in RevPAR during the current period is due to a 52.4% increase in occupancy and a 37.1% increase in ADR. See *"Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business"* for further information.
- *Expenses.* The increase in expenses was driven by the increase in occupancy relative to the third quarter of 2020. The occupancy related increases have been partially offset by comprehensive cost reduction initiatives, including the reduction of labor and temporary elimination of certain services and amenities, at all hotels. Although revenues have begun to improve, we have maintained operating costs at lower levels than pre-pandemic periods.

The following table includes other consolidated income and expenses for the three months ended September 30, 2021 compared with the three months ended September 30, 2020 (dollars in thousands).

	For the Three Months Ended September 30,		Dollar Change	Percentage Change
	2021	2020		
Property taxes, insurance and other	\$ 10,679	\$ 11,007	\$ (328)	(3.0)%
Management fees	2,888	1,335	1,553	116.3 %
Depreciation and amortization	25,893	27,503	(1,610)	(5.9)%
Corporate general and administrative	6,099	4,652	1,447	31.1 %
Reversal of credit losses	(2,632)	—	(2,632)	(1)
Loss on impairment and write-off of assets	4,361	—	4,361	(1)
Gain on disposal of assets, net	—	211	(211)	(1)
Interest expense	10,817	10,904	(87)	(0.8)%
Other income, net	2,250	1,278	972	76.1 %
Income tax expense (benefit)	695	(132)	827	(1)

(1) Not meaningful.

Changes from the three months ended September 30, 2021 compared with the three months ended September 30, 2020 were due to the following:

- *Property Taxes, Insurance and Other.* This decrease is primarily due to a reduction in property taxes due to lower property tax assessments for 2021, which were based on our lower operating performance during 2020 as a result of the negative effects of the COVID-19 pandemic.
- *Management Fees.* The increase in management fees during the current period is primarily due to increased consolidated revenues as our business has experienced a steady improvement in performance during the three months ended September 30, 2021.
- *Depreciation and Amortization.* This decrease is due to the effect of certain assets becoming fully amortized, partially offset by capital expenditures.
- *Corporate General and Administrative.* The increase in corporate, general and administrative costs during the current period is primarily due to higher incentive and other compensation costs.
- *Reversal of credit losses.* As of September 30, 2021, we reached an agreement with the borrowers of the mezzanine loans on two of the remaining real estate development projects for the full repayment of the loans in the fourth quarter of 2021. Accordingly, the Company reversed the \$2.6 million allowance for credit losses related to these two loans during the three months ended September 30, 2021. See "Note 4 - Investment in Real Estate Loans" to the Condensed Consolidated Financial Statements for further information.
- *Loss on Impairment and Write-off of Assets.* As of September 30, 2021, we reached an agreement with the borrowers of the mezzanine loans on two of the remaining real estate development projects for the full repayment of the loans in the fourth quarter of 2021, which would result in us foregoing the exercise of the purchase options. As such, the Company recorded a Loss on impairment during the three months ended September 30, 2021 to write-off the carrying amounts of the purchase options at September 30, 2021 totaling \$4.4 million. See "Note 4 - Investment in Real Estate Loans" to the Condensed Consolidated Financial Statements for further information.
- *Interest Expense.* Interest expense decreased slightly due to a reduction in our weighted average interest rate, primarily due to the Convertible Notes Offering. This decline was partially offset by an increase in amortization of deferred financing costs, primarily related to the Convertible Notes Offering.
- *Other Income, net.* This increase is primarily due to the receipt of COVID-19 relief grants from certain jurisdictions in which we operate which were recorded as Other income during the three months ended September 30, 2021.
- *Income Tax Expense.* The Company recorded a \$0.7 million income tax expense during the three months ended September 30, 2021 primarily attributable to current federal and state income taxes of our TRSs.

Comparison of the Nine Months Ended September 30, 2021 with the Nine Months Ended September 30, 2020

The following table contains key operating metrics for our total portfolio for the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020 (dollars in thousands, except ADR and RevPAR).

	For the Nine Months Ended September 30,							
	2021		2020		Dollar Change		Percentage Change	
	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)	Total Portfolio (73 hotels)	Same-Store Portfolio (72 hotels)
Revenues:								
Room	\$ 235,761	\$ 234,273	\$ 171,067	\$ 171,067	\$ 64,694	\$ 63,206	37.8 %	36.9 %
Food and beverage	4,656	4,641	5,760	5,760	(1,104)	(1,119)	(19.2)%	(19.4)%
Other	14,647	14,616	9,406	9,406	5,241	5,210	55.7 %	55.4 %
Total	<u>\$ 255,064</u>	<u>\$ 253,530</u>	<u>\$ 186,233</u>	<u>\$ 186,233</u>	<u>\$ 68,831</u>	<u>\$ 67,297</u>	<u>37.0 %</u>	<u>36.1 %</u>
Expenses:								
Room	\$ 52,320	\$ 52,061	\$ 42,340	\$ 42,340	\$ 9,980	\$ 9,721	23.6 %	23.0 %
Food and beverage	3,000	2,986	4,890	4,890	(1,890)	(1,904)	(38.7)%	(38.9)%
Other hotel operating expenses	88,672	88,260	74,406	74,406	14,266	13,854	19.2 %	18.6 %
Total	<u>\$ 143,992</u>	<u>\$ 143,307</u>	<u>\$ 121,636</u>	<u>\$ 121,636</u>	<u>\$ 22,356</u>	<u>\$ 21,671</u>	<u>18.4 %</u>	<u>17.8 %</u>
Occupancy	61.4 %	61.3 %	43.6 %	43.6 %	n/a	n/a	40.9 %	40.7 %
ADR	\$ 124.28	\$ 124.02	\$ 126.97	\$ 126.97	\$ (2.69)	\$ (2.95)	(2.1)%	(2.3)%
RevPAR	\$ 76.28	\$ 76.02	\$ 55.31	\$ 55.31	\$ 20.97	\$ 20.71	37.9 %	37.4 %

Changes from the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020 were due to the following:

- *Revenues.* The increase in revenues was due to an improvement in our business that has been primarily driven by leisure travel in the first nine months of 2021 as COVID-19 cases began to decline following the administration of vaccines and government restrictions in many jurisdictions being eased or lifted. See *"Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business"* for further information.
- *RevPAR.* The increase in RevPAR was due to an improvement in our business that has been primarily driven by leisure travel in the first nine months of 2021 as COVID-19 cases began to decline following the administration of vaccines and government restrictions in many jurisdictions being eased or lifted. See *"Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business"* for further information.
- *Expenses.* The increase in expenses was driven by the increase in occupancy relative to the nine months ended September 30, 2020. The occupancy related increases have been partially offset by comprehensive cost reduction initiatives, including the reduction of labor and temporary elimination of certain services and amenities, at all hotels. Although revenues have begun to improve, we have maintained operating costs at lower levels than pre-pandemic periods.

The following table includes other consolidated income and expenses for the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020 (dollars in thousands).

	For the Nine Months Ended September 30,		Dollar Change	Percentage Change
	2021	2020		
Property taxes, insurance and other	\$ 32,573	\$ 34,171	\$ (1,598)	(4.7)%
Management fees	6,757	5,051	1,706	33.8 %
Depreciation and amortization	79,776	82,147	(2,371)	(2.9)%
Corporate general and administrative	18,283	14,635	3,648	24.9 %
Transaction costs	3,849	—	3,849	(1)
(Reversal of) provision for credit losses	(2,632)	2,530	(5,162)	(1)
Loss on impairment and write-off of assets	4,361	782	3,579	457.7 %
Gain on disposal of assets, net	81	176	(95)	(54.0)%
Interest expense	32,567	32,665	(98)	(0.3)%
Other income, net	7,777	4,260	3,517	82.6 %
Income tax expense	1,075	1,589	(514)	(32.3)%

(1) Not meaningful.

Changes from the nine months ended September 30, 2021 compared with the nine months ended September 30, 2020 were due to the following:

- *Property Taxes, Insurance and Other.* This decrease is primarily due to a reduction in property taxes due to lower property tax assessments for 2021, which were based on our lower operating performance during 2020 as a result of the negative effects of the COVID-19 pandemic.
- *Management Fees.* The increase in management fees during the current period is primarily due to increased consolidated revenues as our business has experienced a steady improvement in performance during the nine months ended September 30, 2021.
- *Depreciation and Amortization.* This decrease is due to the effect of certain assets becoming fully amortized, offset partially by capital expenditures.
- *Corporate General and Administrative.* This increase is primarily due to higher incentive and other compensation costs.
- *Transaction Costs.* During the nine months ended September 30, 2021, we incurred costs of \$2.1 million in transfer taxes and legal fees related to the contribution of six hotels to our joint venture. GIC, our joint venture partner, paid 49%, or \$0.9 million, of the \$1.8 million transfer tax which is reflected in non-controlling interest on our Condensed Consolidated Statement of Operations. We also recorded \$1.7 million in transaction costs in pursuit of the acquisition of a company with a portfolio of hotel properties that ultimately was not consummated.
- *(Reversal of) provision for credit losses.* As of September 30, 2021, we reached an agreement with the borrowers of the mezzanine loans on two of the remaining real estate development projects for the full repayment of the loans in the fourth quarter of 2021. Accordingly, the Company reversed the \$2.6 million allowance for credit losses related to these two loans during the nine months ended September 30, 2021. See "Note 4 - Investment in Real Estate Loans" to the Condensed Consolidated Financial Statements for further information.
- *Loss on Impairment and Write-off of Assets.* As of September 30, 2021, we reached an agreement with the borrowers of the mezzanine loans on two of the remaining real estate development projects for the full repayment of the loans in the fourth quarter of 2021, which would result in us foregoing the exercise of the purchase options. As such, the Company recorded a Loss on impairment during the nine months ended September 30, 2021 to write-off the carrying amounts of the purchase options at September 30, 2021 totaling \$4.4 million. See "Note 4 - Investment in Real Estate Loans" to the Condensed Consolidated Financial Statements for further information.
- *Gain on Disposal of Assets.* The gain on disposal of assets, net for the nine months ended September 30, 2021 is due to the receipt of a legal settlement related to properties sold in a prior period and the sale of shuttle vans at certain of our hotel properties.
- *Interest Expense.* Interest expense decreased as a result of a reduction in our weighted average interest rate, primarily due to the Convertible Notes Offering. This decline was offset by an increase in amortization of deferred financing costs, primarily related to the Convertible Notes Offering.

- *Other Income, net.* This increase is primarily due to the interest income recorded on our mezzanine loans as a result of the interest payments made in connection with the loan amendments completed during the nine months ended September 30, 2021. See "Note 4 - Investment in Real Estate Loans" to the Condensed Consolidated Financial Statements for further information. The Company also received COVID-19 relief grants from certain jurisdictions in which we operate which were recorded as Other income during the nine months ended September 30, 2021.
- *Income Tax Expense.* The Company recorded a \$1.1 million income tax expense during the nine months ended September 30, 2021 primarily attributable to current federal and state income taxes of our TRSs. The \$1.6 million income tax expense recorded in the nine months ended September 30, 2020 included a \$2.1 million discrete non-cash deferred income tax related to the establishment of valuation allowances against our TRS Lessees' deferred tax assets.

Non-GAAP Financial Measures

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

FFO and AFFO

As defined by Nareit, FFO represents net income or loss (computed in accordance with GAAP), excluding preferred dividends, gains (or losses) from sales of real property, impairment losses on real estate assets, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization related to real estate assets, and adjustments for unconsolidated partnerships, and joint ventures. AFFO represents FFO excluding amortization of deferred financing costs, franchise fees, equity-based compensation expense, debt transaction costs, premiums on redemption of preferred shares, losses from net casualties, non-cash lease expense, non-cash interest income and non-cash income tax related adjustments to our deferred tax assets. Unless otherwise indicated, we present FFO and AFFO applicable to our common shares and common units. We present FFO and AFFO because we consider FFO and AFFO important supplemental measures of our operational performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO and AFFO when reporting their results. FFO and AFFO are intended to exclude GAAP historical cost depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO and AFFO exclude depreciation and amortization related to real estate assets, gains and losses from real property dispositions and impairment losses on real estate assets, FFO and AFFO provide performance measures that, when compared year over year, reflect the effect to operations from trends in occupancy, guestroom rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. Our computation of FFO differs slightly from the computation of Nareit-defined FFO related to the reporting of corporate depreciation and amortization expense, and adjustments related to provision for credit losses. Our computation of FFO may also differ from the methodology for calculating FFO used by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO and AFFO should not be considered as alternatives to net income (loss) (computed in accordance with GAAP) as an indicator of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. Where indicated in this Quarterly Report on Form 10-Q, FFO is based on our computation of FFO and not the computation of Nareit-defined FFO unless otherwise noted.

The following is a reconciliation of our GAAP net loss to FFO and AFFO for the three and nine months ended September 30, 2021 and 2020 (in thousands, except per share/unit amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (4,239)	\$ (35,775)	\$ (57,679)	\$ (104,537)
Preferred dividends	(3,750)	(3,710)	(11,168)	(11,128)
Premium on redemption of preferred stock	(2,710)	—	(2,710)	—
(Income) loss related to non-controlling interests in joint venture	(275)	1,159	3,020	4,049
Net loss applicable to common shares and common units	(10,974)	(38,326)	(68,537)	(111,616)
Real estate-related depreciation	25,773	27,388	79,421	81,802
Loss on impairment and write-off of assets	4,361	—	4,361	782
Gain on disposal of assets, net	—	(211)	(81)	(176)
Adjustments related to non-controlling interests in consolidated joint venture	(2,319)	(1,493)	(6,004)	(4,439)
FFO applicable to common shares and common units	16,841	(12,642)	9,160	(33,647)
(Reversal of) provision for credit losses ⁽¹⁾	(2,632)	—	(2,632)	2,530
Amortization of lease-related intangible assets, net	22	22	65	65
Amortization of deferred financing costs	1,115	643	3,239	1,655
Amortization of franchise fees	120	115	355	345
Equity-based compensation	1,892	1,517	5,861	4,958
Transaction costs	—	—	3,849	—
Debt transaction costs	17	65	160	336
Premium on redemption of preferred stock	2,710	—	2,710	—
Non-cash interest income	(262)	(757)	(779)	(2,297)
Non-cash lease expense, net	131	101	388	275
Casualty losses, net	627	117	781	407
Increase in deferred tax asset valuation allowance	—	—	—	2,058
Adjustments related to non-controlling interests in consolidated joint venture	(97)	(78)	(1,176)	(235)
Severance payments	—	91	—	91
AFFO applicable to common shares and common units	\$ 20,484	\$ (10,806)	\$ 21,981	\$ (23,459)
FFO per common share/common unit	\$ 0.16	\$ (0.12)	\$ 0.09	\$ (0.32)
AFFO per common share/common unit ⁽²⁾	\$ 0.19	\$ (0.10)	\$ 0.21	\$ (0.22)
Weighted average diluted common shares/common units:				
FFO and AFFO ⁽³⁾⁽⁴⁾	105,265	104,375	105,282	104,302

- (1) The adjustment for Provision for credit losses has been reclassified from the calculation of FFO applicable to common shares and common units to the calculation of AFFO applicable to common shares and common units for the nine months ended September 30, 2020 to conform to the current period presentation.
- (2) AFFO for the three and nine months ended September 30, 2021 has not been adjusted for interest related to our Convertible Notes for purposes of calculating AFFO per common share/common unit because we intend to settle the principal portion of the Convertible Notes in cash and we did not include in the denominator of our calculation of AFFO per common share/common unit the potential dilutive effect of shares that would be issued if the principal portion of the Convertible Notes were converted into shares of our common stock.
- (3) Includes common units in the Operating Partnership held by limited partners (other than us and our subsidiaries) because the common units are redeemable for cash or, at our election, shares of our common stock.
- (4) The weighted average diluted common shares/common units used to calculate FFO and AFFO per common share/common unit for the three and nine months ended September 30, 2021 includes the dilutive effect of our outstanding restricted stock awards. These shares were excluded from our weighted average shares outstanding used to calculate net loss per share because they would have been antidilutive. The weighted average common shares/common units used to calculate FFO and AFFO per common share/common unit for the three and nine months ended September 30, 2021 exclude the potential dilution related to our Convertible Notes as we intend to settle the principal value of the Convertible Notes in cash.

A reconciliation of weighted average diluted common shares to non-GAAP weighted average diluted common shares/common units for FFO and AFFO is as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted average dilutive common shares outstanding	104,548	104,200	104,441	104,117
Dilutive effect of restricted stock awards	425	48	410	33
Dilutive effect of shares issuable upon conversion of convertible debt	23,978	—	23,012	—
Adjusted weighted dilutive common shares outstanding	128,951	104,248	127,863	104,150
Non-GAAP adjustment for dilutive effects of common units	133	175	151	185
Non-GAAP adjustment for dilutive effects of restricted stock awards	159	(48)	280	(33)
Non-GAAP adjustment for dilutive effect of shares issuable upon conversion of convertible debt	(23,978)	—	(23,012)	—
Non-GAAP weighted dilutive common shares/common units outstanding	105,265	104,375	105,282	104,302

AFFO applicable to common shares and common units increased \$31.3 million for the three months ended September 30, 2021 compared to the same period of 2020 and \$45.4 million for the nine months ended September 30, 2021 compared to the same period of 2020. These increases were due to an improvement in our business that has been primarily driven by leisure travel in the first nine months of 2021 as our business continues to recover from the negative effect of the COVID-19 pandemic. See "Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business" for further information.

EBITDA, EBITDAre and Adjusted EBITDAre

EBITDA

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

EBITDAre and Adjusted EBITDAre

EBITDAre is based on EBITDA and is expected to provide additional relevant information about REITs as real estate companies in support of growing interest among generalist investors. EBITDAre is intended to be a supplemental non-GAAP performance measure that is independent of a company's capital structure and will provide a uniform basis to measure the enterprise value of a company compared to other REITs.

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

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

The following is a reconciliation of our GAAP net loss to EBITDA, EBITDAre and Adjusted EBITDAre for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (4,239)	\$ (35,775)	\$ (57,679)	\$ (104,537)
Depreciation and amortization	25,893	27,503	79,776	82,147
Interest expense	10,817	10,904	32,567	32,665
Interest income	(4)	(31)	(6)	(141)
Income tax expense (benefit)	695	(132)	1,075	1,589
EBITDA	33,162	2,469	55,733	11,723
Loss on impairment and write-off of assets	4,361	—	4,361	782
Gain on disposal of assets, net	—	(211)	(81)	(176)
EBITDAre	37,523	2,258	60,013	12,329
(Reversal of) provision for credit losses ⁽¹⁾	(2,632)	—	(2,632)	2,530
Amortization of lease-related intangible assets, net	22	22	65	65
Equity-based compensation	1,892	1,517	5,861	4,958
Transaction costs	—	—	3,849	—
Debt transaction costs	17	65	160	336
Non-cash interest income	(262)	(757)	(779)	(2,297)
Non-cash lease expense, net	131	101	388	275
Casualty losses, net	627	117	781	407
(Income) loss related to non-controlling interests in joint venture	(275)	1,159	3,020	4,049
Adjustments related to non-controlling interests in consolidated joint venture	(3,019)	(2,034)	(8,744)	(6,245)
Severance payments	—	91	—	91
Adjusted EBITDAre	\$ 34,024	\$ 2,539	\$ 61,982	\$ 16,498

(1) The adjustment for Provision for credit losses has been reclassified from the calculation of EBITDAre to the calculation of Adjusted EBITDAre for the nine months ended September 30, 2020 to conform to the current period presentation.

Adjusted EBITDAre increased \$31.5 million for the three months ended September 30, 2021 compared to the same period of 2020 and \$45.5 million for the nine months ended September 30, 2021 compared to the same period of 2020. These increases were due to an improvement in our business that has been primarily driven by leisure travel in the first nine months of 2021 as COVID-19 cases began to decline following the administration of vaccines and government restrictions in many jurisdictions being eased or lifted. See "Industry Trends and Outlook - Effects of COVID-19 Pandemic on Our Business" for further information.

Liquidity and Capital Resources

The effects of the COVID-19 pandemic have adversely affected our financial position and cash flows from operations. The COVID-19 pandemic has also significantly increased economic uncertainty and has led to disruption and volatility in the global capital markets. In addition, we have entered into modifications of our 2018 Senior Credit Facility, which restricts our ability to use advances on the \$400 Million Revolver for certain purposes, however, we continue to be able to access the \$400 Million Revolver to fund operations, in addition to other items. Additionally, certain factors may have an adverse effect on our ability to access certain capital sources, including our financial performance, degree of leverage, the value of our unencumbered hotel properties, borrowing restrictions imposed by lenders, volatility in the equity and debt capital markets and other market conditions. Financing may not be available to us, or on terms that are attractive to us.

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

To satisfy the requirements for qualification as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute annually at least 90% of our REIT taxable income to our stockholders, determined without regard to the deduction for dividends paid and excluding any net capital gains. We intend to distribute a sufficient amount of our taxable income to maintain our status as a REIT and to avoid tax on undistributed income. Because we anticipate distributing a substantial amount of our available cash from operations, if sufficient funds are not available to us from hotel dispositions, our senior revolving credit and term loan facilities and other loans, we may need to raise additional capital to grow our business.

On January 7, 2021, we entered into an underwriting agreement pursuant to which the Company agreed to offer and sell \$287.5 million aggregate principal amount of the Company's 1.50% convertible senior notes due 2026 (the "Convertible Notes"). The net proceeds from the Convertible Notes Offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company (including net proceeds from the full exercise by the underwriters of their over-allotment option to purchase additional Convertible Notes), were approximately \$280.0 million before consideration of the Capped Call Transactions. These proceeds were used to pay the cost of the Capped Call Transactions and to partially repay outstanding obligations under the 2018 Senior Credit Facility and 2017 Term Loan.

The effective strike price of the Capped Call Transactions is initially \$15.26, which represents a premium of 75.0% over the last reported sale price of the common stock on the New York Stock Exchange on January 7, 2021, and is subject to certain adjustments under the terms of the Capped Call transactions. See "Note 5 – Debt," for additional information concerning the Convertible Notes, Convertible Notes Offering and the Capped Call Transactions.

On May 1, 2021, the Company contributed a portfolio of six hotels containing 846 guestrooms to our consolidated joint venture with an affiliate of GIC, Singapore's sovereign wealth fund. The estimated market value of the portfolio of hotel properties was \$172.0 million and GIC contributed \$84.3 million in cash for its 49% interest in the joint venture after the completion of the transfer of the six hotels. Net proceeds from the transaction were used to repay \$62.5 million of our senior debt and \$20.9 million was recorded as Cash and cash equivalents.

On July 9, 2021, we acquired the 110-guestroom Residence Inn by Marriott in Steamboat Springs, CO for \$33.0 million through our joint venture with GIC.

On August 12, 2021, the Company completed the offering of 4,000,000 Series F preferred shares for net proceeds of \$96.6 million, after the underwriting discount and offering-related expenses of \$3.4 million.

On September 4, 2021, the Company paid \$75.0 million to redeem all 3,000,000 of its outstanding 6.45% Series D Cumulative Redeemable Preferred Stock at a redemption price of \$25 per share plus accrued and unpaid dividends.

The remaining net proceeds from the Series F preferred share offering was used to repay \$22.0 million of our senior debt.

Outstanding Indebtedness

Subsequent to quarter-end, at October 22, 2021, we had \$200.0 million outstanding on our \$200 Million Term Loan, \$62.0 million outstanding on our 2017 Term Loan and \$225.0 million outstanding on our 2018 Term Loan. Each of the credit facilities was supported by the 46 hotel properties included in the credit facility borrowing base and a pledge of the equity securities in each of the entities which own one of the 46 hotel properties, and the respective TRS Lessees. We also had \$287.5 million of Convertible Notes outstanding.

Subsequent to quarter-end, at October 22, 2021, our subsidiary joint venture had \$143.5 million outstanding under our Joint Venture Credit Facility, which included borrowings of \$75.0 million on its \$75 million term loan and \$68.5 million on its \$125 million revolving line of credit. The Joint Venture Credit Facility is secured primarily by a first priority pledge of the Borrower's equity interests in the subsidiaries that hold the five hotel borrowing base assets, and the related TRS entities, which wholly own the TRS lessees that lease each of the borrowing base assets. As of October 22, 2021, our subsidiary joint venture also owns seven hotel properties that are not collateral for the joint venture's senior unsecured credit facility (See *Note 5 – Debt*).

At September 30, 2021, we have scheduled debt principal amortization payments during the next twelve months totaling \$4.0 million and no debt maturities. Currently, we have the capacity to pay these scheduled principal debt payments using cash on hand or draws under our \$400 Million Revolver.

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

Our outstanding indebtedness requires us to comply with various financial and other covenants. At September 30, 2021, we are in compliance with all of the Company's loan agreements. On February 5, 2021, the Company entered into certain amendments of the 2018 Senior Credit Facility, the 2018 Term Loan and the 2017 Term Loan that give us full access to the \$400 Million Revolver (subject to certain conditions), provide for financial covenant waivers through March 31, 2022, and modify certain financial covenant measures through December 31, 2023.

Additionally, on April 29, 2021, we amended the Joint Venture Credit Facility to provide for certain financial covenant waivers and adjustments as described in "*Note 5 – Debt*" to the Condensed Consolidated Financial Statements.

There are currently no defaults under any of the Company's mortgage loan agreements.

See "*Note 5 - Debt*" to the Condensed Consolidated Financial Statements for additional information concerning the loan amendments and our financing arrangements.

A summary of our gross debt at September 30, 2021 is as follows (dollars in thousands):

Lender	Interest Rate	Amortization Period (Years)	Maturity Date	Number of Encumbered Properties	Principal Amount Outstanding
2018 Senior Credit Facility ⁽¹⁾					
Deutsche Bank AG New York Branch					
\$400 Million Revolver	2.65% Variable	n/a	March 31, 2023	n/a	\$ —
\$200 Million Term Loan	2.60% Variable	n/a	April 1, 2024	n/a	200,000
Total Senior Credit and Term Loan Facility					200,000
Joint Venture Credit Facility ⁽²⁾					
Bank of America, N.A.					
\$125 Million Revolver	2.55% Variable	n/a	October 8, 2023	n/a	68,500
\$75 Million Term Loan	2.50% Variable	n/a	October 8, 2023	n/a	75,000
Total Joint Venture Credit Facility					143,500
Term Loans ⁽¹⁾					
KeyBank National Association					
Term Loan	2.70% Variable	n/a	November 25, 2022	n/a	62,000
KeyBank National Association					
Term Loan	2.40% Variable	n/a	February 14, 2025	n/a	225,000
Convertible Notes	1.50% Fixed	n/a	February 15, 2026	n/a	287,500
Secured Mortgage Indebtedness					
MetaBank	4.44% Fixed	25	July 1, 2027	3	45,352
KeyBank National Association					
	4.46% Fixed	30	February 1, 2023	3	18,671
	4.52% Fixed	30	April 1, 2023	3	19,151
	4.30% Fixed	30	April 1, 2023	3	18,484
	4.95% Fixed	30	August 1, 2023	2	33,358
Bank of the Cascades					
	2.08% Variable	25	December 19, 2024	1 ⁽³⁾	8,024
	4.30% Fixed	25	December 19, 2024	— ⁽³⁾	8,024
Total Mortgage Loans					151,064
Total Debt					15
					\$ 1,069,064

(1) The 2018 Senior Credit Facility and Term Loans are supported by a borrowing base of 46 unencumbered hotel properties and a pledge of the equity securities of the entities that own and operate the 46 unencumbered hotels.

(2) The Joint Venture Credit Facility is secured by pledges of the equity in the entities (and affiliated entities) that own five of the hotels owned by the joint venture.

(3) The Bank of Cascades mortgage loan is comprised of two promissory notes that are secured by the same collateral and cross-defaulted.

We are exposed to interest rate risk through our variable-rate debt. We manage this risk primarily by managing the amount, sources, and duration of our debt funding and through the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage our exposure to known or expected cash payments related to our variable-rate debt. During the nine months ended September 30, 2021, the fair value of our interest rate swaps increased \$9.8 million due to an increase in interest rate expectations. Each interest rate swap fixes the interest rates on portions of our variable interest rate indebtedness and converts LIBOR from a floating rate to average fixed rates ranging from 1.98% to 2.93%.

Capital Expenditures

During the nine months ended September 30, 2021, we funded \$10.7 million in capital expenditures at our hotel properties. We anticipate spending an additional \$4.3 million to \$9.3 million on capital expenditures across our portfolio during the remainder of 2021 assuming a reasonable recovery in lodging demand occurs throughout the remainder of the year. We expect to fund these expenditures through a combination of cash on hand, working capital, borrowings under our \$400 Million Revolver, or other potential sources of capital, to the extent available to us.

Cash Flows

	For the Nine Months Ended September 30,		
	2021	2020	Change
	<i>(in thousands)</i>		
Net cash provided by (used in) operating activities	\$ 50,289	\$ (21,391)	\$ 71,680
Net cash used in investing activities	(51,880)	(27,355)	(24,525)
Net cash provided by financing activities	47,866	35,520	12,346
Net change in cash, cash equivalents and restricted cash	<u>\$ 46,275</u>	<u>\$ (13,226)</u>	<u>\$ 59,501</u>

Changes from the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 were due to the following:

- *Cash provided by (used in) operating activities.* This increase primarily resulted from an increase in net income of \$44.8 million after adjusting for non-cash items, such as depreciation and amortization and gains on the sale of assets, and net changes in working capital of \$26.9 million. The net changes in working capital were primarily due to decreases in accrued expenses during the nine months ended September 30, 2020 driven by reduced operating activity resulting from the negative effects of the COVID-19 pandemic. Accrued expenses increased during the nine months ended September 30, 2021 due to an increase in accruals at our hotel properties driven by an increase in operating activity as we recover from the COVID-19 pandemic. The overall increase is due to an improvement in our business that has been primarily driven by leisure travel in the first nine months of 2021 as COVID-19 cases began to decline following the administration of vaccines and government restrictions in many jurisdictions being eased or lifted.
- *Cash used in investing activities.* This increase in cash used in investing activities is primarily due to the acquisition of a hotel property during the nine months ended September 30, 2021 totaling \$33.2 million, partially offset by a reduction in capital expenditures of \$8.6 million. Capital expenditures were lower during the nine months ended September 30, 2021 compared with the same period for 2020 because much of the capital expenditures for the nine months ended September 30, 2020 were incurred early in the year prior to the COVID-19 pandemic, after which capital expenditures were reduced to preserve liquidity.
- *Cash provided by financing activities.* Cash provided by financing activities for the nine months ended September 30, 2021 was primarily the result of contributions from our joint venture partner of \$101.7 million and net proceeds from the issuance of preferred stock of \$96.6 million, partially offset by the redemption of preferred stock totaling \$75.0 million, net repayments of debt of \$32.4 million including the proceeds from the convertible debt offering which were used to partially repay the \$400 Million Revolver and 2017 Term Loan, the purchase of capped call options related to our convertible debt offering of \$21.1 million, debt financing fees of \$9.1 million and dividend payments of \$11.2 million. Cash provided by financing activities for the nine months ended September 30, 2020 was primarily the result of net borrowings of approximately \$68.7 million. The net borrowings were partially offset by dividend payments of approximately \$30.5 million and financing fees of \$2.8 million during the nine months ended September 30, 2020.

Contractual Obligations

The following table outlines the timing of required payments related to our long-term debt and other contractual obligations at September 30, 2021 (in thousands):

	Payments Due By Period				
	Total	Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Debt obligations ⁽¹⁾	\$ 1,069,064	\$ 4,030	\$ 496,454	\$ 429,703	\$ 138,877
Currently projected interest ⁽²⁾	103,659	36,647	53,900	12,100	1,012
Lease obligations ⁽³⁾	33,143	1,983	2,026	1,834	27,300
Purchase obligations ⁽⁴⁾	7,551	7,551	—	—	—
Total	\$ 1,213,417	\$ 50,211	\$ 552,380	\$ 443,637	\$ 167,189

(1) Amounts shown include amortization of principal and debt maturities.

(2) Interest payments on our variable rate debt have been estimated using the interest rates in effect at September 30, 2021, after giving effect to our interest rate swaps.

(3) Amounts consist primarily of non-cancelable ground lease and corporate office lease obligations.

(4) This amount represents purchase orders and executed contracts for development or renovation projects at our hotel properties.

Critical Accounting Policies

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

Cybersecurity

The hospitality industry and certain of the major brand and franchise companies have recently experienced cybersecurity breaches. We are not aware of any material cybersecurity losses at any of our properties. We manage cybersecurity risks with our franchisors and property management companies. An important part of our cybersecurity risk mitigation efforts includes maintaining cybersecurity insurance and indemnifications in certain of our property management agreements. Our Board of Directors provides on-going oversight of management's approach to managing cybersecurity risks.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Our interest rate derivatives are based on USD-LIBOR. In July 2017, the Financial Conduct Authority ("FCA") that regulates LIBOR announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. As a result, the Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee, which identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative to USD-LIBOR in derivatives and other financial contracts. The Company has contracts that are indexed to LIBOR and is monitoring and evaluating the related changes and risks. LIBOR will cease to be available after 2021. The transition from LIBOR to SOFR or another benchmark interest rate will result in a different calculation of our variable interest rates that are currently indexed to LIBOR. Our loan agreements contain provisions for our lenders and us to establish an alternative interest rate.

At September 30, 2021, we were party to four interest rate derivative agreements pursuant to which we receive variable-rate payments in exchange for making fixed-rate payments (dollars in thousands):

<u>Contract date</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Notional Amount</u>
October 2, 2017	January 29, 2018	January 31, 2023	\$ 100,000
October 2, 2017	January 29, 2018	January 31, 2023	100,000
June 11, 2018	September 28, 2018	September 30, 2024	75,000
June 11, 2018	December 31, 2018	December 31, 2025	125,000
			<u>\$ 400,000</u>

At September 30, 2021, after giving effect to our interest rate derivative agreements, \$830.5 million, or 78%, of our debt had fixed interest rates and \$238.5 million, or 22%, had variable interest rates. The percentage of debt with fixed rates increased during the first nine months of 2021 primarily as the result of the issuance of \$287.5 million of fixed rate Convertible Notes (See "Note 5 - Debt" to the Condensed Consolidated Financial Statements). At December 31, 2020, after giving effect to our interest rate derivative agreements, \$545.8 million, or 50%, of our debt had fixed interest rates and \$555.7 million, or 50%, had variable interest rates. Taking into consideration our existing interest rate swaps an increase or decrease in interest rates of 1.0% would decrease or increase, respectively, our cash flows by approximately \$2.4 million per year.

As our fixed-rate debts mature, they will become subject to interest rate risk. In addition, as our variable-rate debts mature, lenders may impose interest rate floors on new financing arrangements because of the low interest rates experienced during the past few years. At September 30, 2021, we have scheduled debt principal amortization payments during the next twelve months totaling \$4.0 million and no debt maturities.

Item 4. Controls and Procedures.

Controls and Procedures

Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2021. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2020.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed as part of this report:

Exhibit Number	Description of Exhibit
31.1†	Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document ⁽¹⁾
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document ⁽¹⁾
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document ⁽¹⁾
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document ⁽¹⁾
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document ⁽¹⁾

† - Filed herewith

†† - Furnished herewith

(1) - Submitted electronically herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT HOTEL PROPERTIES, INC. (registrant)

Date: November 3, 2021

By: /s/ Jonathan P. Stanner

Jonathan P. Stanner
President, Chief Executive Officer and Director
(principal executive officer)