

Summit Hotel OP, LP
Form 10-Q
May 06, 2013

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 March 31, 2013

OR

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

For the transition period from _____ to _____

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

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

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

Maryland (Summit Hotel Properties, Inc.)
Delaware (Summit Hotel OP, LP)
(State or other jurisdiction
of incorporation or organization)

27-2962512 (Summit Hotel Properties, Inc.)
27-0617340 (Summit Hotel OP, LP)
(I.R.S. Employer Identification No.)

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

(512) 538-2315
(Registrant's telephone number, including area code)

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

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Summit Hotel
Properties, Inc. Yes No

Summit Hotel OP, LP Yes No

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

Summit Hotel
Properties, Inc. Yes No

Summit Hotel OP, LP Yes No

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

Summit Hotel Properties, Inc.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Summit Hotel OP, LP

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

Summit Hotel
Properties, Inc.

Yes No

Summit Hotel OP, LP Yes No

As of May 1, 2013, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 65,931,900 and the number of outstanding units of partnership interest in Summit Hotel OP, LP designated as Common Units was 2,997,831, excluding 65,931,900 Common Units held by Summit Hotel Properties, Inc. and its wholly owned subsidiary which is the general partner of Summit Hotel OP, LP.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the period ended March 31, 2013 of Summit Hotel Properties, Inc., a Maryland corporation, and Summit Hotel OP, LP, a Delaware limited partnership.

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

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

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

“we,” “our,” “us,” “our company” or “the company” mean Summit REIT, Summit OP and their consolidated subsidiaries taken together as one company.

Summit REIT is the sole member of Summit Hotel GP, LLC, a Delaware limited liability company, which is the sole general partner (the “General Partner”) of Summit OP. As of March 31, 2013, Summit REIT owned approximately 95% of the issued and outstanding common units of partnership interest of Summit OP (“Common Units”), including the sole general partnership interest held by the General Partner. As of March 31, 2013, Summit REIT owned all of the issued and outstanding 9.25% Series A Cumulative Redeemable Preferred Units of Summit OP (“Series A Preferred Units”), all of the issued and outstanding 7.875% Series B Cumulative Redeemable Preferred Units of Summit OP (“Series B Preferred Units”), and all of the issued and outstanding 7.125% Series C Cumulative Redeemable Preferred Units of Summit OP (“Series C Preferred Units,” the Series C Preferred Units, Series B Preferred Units and Series A Preferred Units collectively referred to as “Preferred Units”). As the sole member of the General Partner, Summit REIT has exclusive control of Summit OP’s day-to-day management. The remaining Common Units of Summit OP are owned by third parties.

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

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

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

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

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

As of March 31, 2013, Summit REIT’s only material assets were its ownership of Common Units and Preferred Units of Summit OP and its ownership of the membership interests in the General Partner. As a result, Summit REIT does not conduct business itself, other than controlling, through the General Partner, Summit OP, raising capital through issuances of equity securities from time to time and guaranteeing certain debt of Summit OP and its subsidiaries. Summit OP and its subsidiaries hold all the assets of the consolidated company. Except for net proceeds from

securities issuances by Summit REIT, which are contributed to Summit OP in exchange for partnership units of Summit OP, Summit OP and its subsidiaries generate capital from the operation of our business and through borrowings and the issuance of partnership units of Summit OP.

Stockholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Summit REIT and those of Summit OP. As of March 31, 2013, Summit OP's capital interests include Common Units, representing general and limited partnership interests, and Preferred Units. The Common Units owned by limited partners other than Summit REIT and its subsidiaries are accounted for in partners' capital in Summit OP's consolidated financial statements and (within stockholders' equity) as noncontrolling interests in Summit REIT's consolidated financial statements.

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

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

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

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

“our TRS lessees” refer to the subsidiaries of our TRSs that lease our hotels from Summit OP or subsidiaries of Summit OP. All but one of our TRS lessees are wholly owned by our TRSs.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SUMMIT HOTEL PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS (in thousands, except share amounts)

MARCH 31, 2013 (UNAUDITED) AND DECEMBER 31, 2012

	March 31, 2013	December 31, 2012
ASSETS		
Investment in hotel properties, net	\$934,842	\$734,362
Investment in hotel properties under development	10,380	10,303
Land held for development	13,844	15,802
Assets held for sale	26,920	4,836
Cash and cash equivalents	20,790	13,980
Restricted cash	22,261	3,624
Trade receivables	12,677	5,478
Prepaid expenses and other	2,889	5,311
Deferred charges, net	9,324	8,895
Deferred tax asset	3,894	3,997
Other assets	4,169	4,201
TOTAL ASSETS	\$1,061,990	\$810,789
LIABILITIES AND EQUITY		
LIABILITIES		
Debt	\$325,673	\$312,613
Debt related to assets held for sale	6,715	-
Accounts payable	3,875	5,013
Accrued expenses	21,886	18,985
Derivative financial instruments	534	641
TOTAL LIABILITIES	358,683	337,252
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized:		
9.25% Series A - 2,000,000 shares issued and outstanding at March 31, 2013 and December 31, 2012 (liquidation preference of \$50,393 at March 31, 2013 and December 31, 2012)	20	20
7.875% Series B - 3,000,000 shares issued and outstanding at March 31, 2013 and December 31, 2012 (liquidation preference of \$75,502 and \$75,324 at March 31, 2013 and December 31, 2012, respectively)	30	30
7.125% Series C - 3,400,000 shares issued and outstanding at March 31, 2013		

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(liquidation preference of \$85,183 at March 31, 2013)	34	-
Common stock, \$.01 par value per share, 450,000,000 shares authorized, 65,678,025 and 46,159,652 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	657	462
Additional paid-in capital	705,683	468,820
Accumulated other comprehensive income (loss)	(426)	(528)
Accumulated deficit and distributions	(39,916)	(31,985)
Total stockholders' equity	666,082	436,819
Noncontrolling interests in Operating Partnership	29,762	36,718
Noncontrolling interests in joint venture	7,463	-
TOTAL EQUITY	703,307	473,537
TOTAL LIABILITIES AND EQUITY	\$1,061,990	\$810,789

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share amounts)
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	First Quarter	
	2013	2012
REVENUES		
Room revenue	\$60,089	\$35,727
Other hotel operations revenue	3,122	1,593
Total Revenues	63,211	37,320
EXPENSES		
Hotel operating expenses:		
Rooms	17,621	10,475
Other direct	8,244	4,954
Other indirect	16,242	10,146
Other	213	201
Total hotel operating expenses	42,320	25,776
Depreciation and amortization	11,156	7,555
Corporate general and administrative:		
Salaries and other compensation	2,421	938
Other	656	883
Hotel property acquisition costs	654	580
Total Expenses	57,207	35,732
INCOME (LOSS) FROM OPERATIONS	6,004	1,588
OTHER INCOME (EXPENSE)		
Interest income	18	1
Other income	160	-
Interest expense	(4,072)	(3,195)
Gain (loss) on disposal of assets	6	-
Total Other Income (Expense)	(3,888)	(3,194)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,116	(1,606)
INCOME TAX (EXPENSE) BENEFIT	(410)	147
INCOME (LOSS) FOR CONTINUING OPERATIONS	1,706	(1,459)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	177	(1,346)
NET INCOME (LOSS)	1,883	(2,805)
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Operating Partnership	(28)	(1,070)
Joint venture	(37)	-

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NET INCOME (LOSS) ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC.	1,948	(1,735)
PREFERRED DIVIDENDS	(2,452)	(1,156)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(504)	\$(2,891)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	62,684	27,278
Diluted	62,950	27,278
EARNINGS PER SHARE		
Basic and diluted net income (loss) per share from continuing operations	\$(0.01)	\$(0.07)
Basic and diluted net income (loss) per share from discontinued operations	0.00	(0.04)
Basic and diluted net income (loss) per share	\$(0.01)	\$(0.11)

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (in thousands)
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	First Quarter	
	2013	2012
NET INCOME (LOSS)	\$1,883	\$(2,805)
Other comprehensive income (loss), net of tax:		
Changes in unrealized loss on derivatives	107	-
Total other comprehensive income (loss)	107	-
COMPREHENSIVE INCOME (LOSS)	1,990	(2,805)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Operating Partnership	(23)	(1,070)
Joint venture	(37)	-
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO SUMMIT HOTEL PROPERTIES, INC.	2,050	(1,735)
PREFERRED DIVIDENDS	(2,452)	(1,156)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(402)	\$(2,891)

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in thousands, except share amounts)
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	Shares of Preferred Stock	Shares of Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit and Distributions	Total Stockholders' Equity	Noncontrolling Interests Operating Partnership	Joint Venture	Total Equity
BALANCES, DECEMBER 31, 2012	5,000,000	\$50	46,159,652	\$462	\$468,820	\$(528)	\$(31,985)	\$436,819	\$36,718	\$-	\$473,537
Net proceeds from sale of common stock	-	-	17,250,000	172	147,981	-	-	148,153	-	-	148,153
Net proceeds from sale of preferred stock	3,400,000	34	-	-	81,917	-	-	81,951	-	-	81,951
Common stock redemption of common units	-	-	1,974,669	20	6,547	-	-	6,567	(6,567)	-	-
Contribution by noncontrolling interests in joint venture	-	-	-	-	-	-	-	-	-	7,500	7,500
Dividends paid	-	-	-	-	-	-	(9,879)	(9,879)	(366)	-	(10,245)
Equity-based compensation	-	-	293,704	3	418	-	-	421	-	-	421
Other comprehensive income (loss)	-	-	-	-	-	102	-	102	5	-	107
Net income (loss)	-	-	-	-	-	-	1,948	1,948	(28)	(37)	1,883
BALANCES, MARCH 31, 2013	8,400,000	\$84	65,678,025	\$657	\$705,683	\$(426)	\$(39,916)	\$666,082	\$29,762	\$7,463	\$703,307
BALANCES, DECEMBER 31, 2011	2,000,000	\$20	27,278,000	\$273	\$288,902	\$-	\$(11,020)	\$278,175	\$41,274	\$-	\$319,449
	-	-	-	-	(323)	-	-	(323)	-	-	(323)

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RegISTRATION
and offering
costs

Dividends
paid

Equity-based
compensation

Net income
(loss)

BALANCES,
MARCH 31,

2012

-	-	-	-	-	-	-	(4,225)	(4,225)	(1,136)	-	(5,361)
-	-	-	-	126	-	-	-	126	-	-	126
-	-	-	-	-	-	-	(1,735)	(1,735)	(1,070)	-	(2,805)
2,000,000	\$20	27,278,000	\$273	\$288,705	\$-	\$(16,980)	\$272,018	\$39,068	\$-		\$311,080

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	First Quarter	
	2013	2012
OPERATING ACTIVITIES		
Net income (loss)	\$1,883	\$(2,805)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	11,490	8,480
Amortization of prepaid lease	12	12
Loss on impairment of assets	1,500	932
Equity-based compensation	421	126
Deferred tax asset	104	(463)
(Gain) loss on disposal of assets	(1,640)	-
Changes in operating assets and liabilities:		
Restricted cash released (funded)	871	258
Trade receivables	(7,199)	(2,544)
Prepaid expenses and other	2,423	549
Accounts payable and accrued expenses	1,220	(1,639)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	11,085	2,906
INVESTING ACTIVITIES		
Acquisitions of hotel properties	(213,135)	(29,738)
Investment in hotel properties under development	(77)	-
Improvements and additions to hotel properties	(8,520)	(6,833)
Purchases of office furniture and equipment	(224)	-
Proceeds from asset dispositions, net of closing costs	9,198	2
Restricted cash released (funded)	(14,030)	(337)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(226,788)	(36,906)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	74,000	111,550
Principal payments on debt	(77,649)	(70,550)
Financing fees on debt	(1,196)	(983)
Proceeds from equity offerings, net of offering costs	237,603	(323)
Dividends paid and distributions to members	(10,245)	(5,361)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	222,513	34,333
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,810	333

CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	13,980	10,537
END OF PERIOD	\$20,790	\$10,870
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$3,925	\$3,388
Capitalized interest	\$77	\$-
Cash payments for income taxes, net of refunds	\$81	\$120

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL OP, LP
CONSOLIDATED BALANCE SHEETS (in thousands, except unit amounts)
MARCH 31, 2013 (UNAUDITED) AND DECEMBER 31, 2012

	March 31, 2013	December 31, 2012
ASSETS		
Investment in hotel properties, net	\$934,842	\$734,362
Investment in hotel properties under development	10,380	10,303
Land held for development	13,844	15,802
Assets held for sale	26,920	4,836
Cash and cash equivalents	20,790	13,980
Restricted cash	22,261	3,624
Trade receivables	12,677	5,478
Prepaid expenses and other	2,889	5,311
Deferred charges, net	9,324	8,895
Deferred tax asset	3,894	3,997
Other assets	4,169	4,201
TOTAL ASSETS	\$1,061,990	\$810,789
LIABILITIES AND EQUITY		
LIABILITIES		
Debt	\$325,673	\$312,613
Debt related to assets held for sale	6,715	-
Accounts payable	3,875	5,013
Accrued expenses	21,886	18,985
Derivative financial instruments	534	641
TOTAL LIABILITIES	358,683	337,252
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Summit Hotel Properties, Inc., 65,678,025 and 46,159,652 common units outstanding at March 31, 2013 and December 31, 2012, respectively, and 8,400,000 and 5,000,000 preferred units outstanding at March 31, 2013 and December 31, 2012, respectively (preferred units liquidation preference of \$211,078 and \$125,717 at March 31, 2013 and December 31, 2012, respectively)	666,082	436,819
Unaffiliated limited partners, 3,251,706 and 5,226,375 common units outstanding at March 31, 2013 and December 31, 2012, respectively	29,762	36,718
Total partners' equity	695,844	473,537
Noncontrolling interests in joint venture	7,463	-
TOTAL EQUITY	703,307	473,537
TOTAL LIABILITIES AND EQUITY	\$1,061,990	\$810,789

See Notes to the Consolidated Financial Statements

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SUMMIT HOTEL OP, LP
CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per unit amounts)
FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	First Quarter	
	2013	2012
REVENUE		
Room revenue	\$60,089	\$35,727
Other hotel operations revenue	3,122	1,593
Total Revenue	63,211	37,320
EXPENSES		
Hotel operating expenses:		
Rooms	17,621	10,475
Other direct	8,244	4,954
Other indirect	16,242	10,146
Other	213	201
Total hotel operating expenses	42,320	25,776
Depreciation and amortization		
	11,156	7,555
Corporate general and administrative:		
Salaries and other compensation	2,421	938
Other	656	883
Hotel property acquisition costs	654	580
Total Expenses	57,207	35,732
INCOME (LOSS) FROM OPERATIONS	6,004	1,588
OTHER INCOME (EXPENSE)		
Interest income	18	1
Other income	160	-
Interest expense	(4,072)	(3,195)
Gain (loss) on disposal of assets	6	-
Total Other Income (Expense)	(3,888)	(3,194)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,116	(1,606)
INCOME TAX (EXPENSE) BENEFIT	(410)	147
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,706	(1,459)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	177	(1,346)
NET INCOME (LOSS)	1,883	(2,805)
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS IN JOINT VENTURE	(37)	-

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NET INCOME (LOSS) ATTRIBUTABLE TO SUMMIT HOTEL OP, LP	1,920	(2,805)
PREFERRED DIVIDENDS	(2,452)	(1,156)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON UNIT HOLDERS	\$(532)	\$(3,961)
WEIGHTED AVERAGE COMMON UNITS OUTSTANDING		
Basic	65,979	37,378
Diluted	66,245	37,378
EARNINGS PER UNIT		
Basic and diluted net income (loss) per unit from continuing operations	\$(0.01)	\$(0.07)
Basic and diluted net income (loss) per unit from discontinued operations	0.00	(0.04)
Basic and diluted net income (loss) per unit	\$(0.01)	\$(0.11)

See Notes to the Consolidated Financial Statements

SUMMIT HOTEL OP, LP
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (in thousands)
 FOR THE QUARTERS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	First Quarter	
	2013	2012
NET INCOME (LOSS)	\$1,883	\$(2,805)
Other comprehensive income (loss), net of tax:		
Changes in unrealized loss on derivatives	107	