Summit Hotel Properties, Inc.
Form 10-Q
August 01, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-35074

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

Maryland	27-2962512
(State or other jurisdiction of incorporation or organization)	(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)

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. ý Yes o 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). ý Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
(Do not check if a smaller reporting company)		Emerging growth company	o
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.			o

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

As of July 20, 2018, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 104,744,101.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
Summit Hotel Properties, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 2,014,587	$ 2,059,492
Investment in hotel properties under development	—	23,793
Land held for development	2,942	2,942
Assets held for sale, net	37,878	1,193
Investment in real estate loans, net	28,945	12,356
Cash and cash equivalents	48,885	36,545
Restricted cash	32,479	29,462
Trade receivables, net	20,916	16,985
Prepaid expenses and other	7,371	9,454
Deferred charges, net	4,782	5,221
Other assets	17,483	12,431
Total assets	$ 2,216,268	$ 2,209,874
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of debt issuance costs	$ 950,497	$ 868,236
Accounts payable	6,224	7,774
Accrued expenses and other	61,491	56,488
Total liabilities	1,018,212	932,498
Commitments and contingencies (Note 8)		
Equity:		
Preferred stock, $0.01 par value per share, 100,000,000 shares authorized:		
7.125% Series C - 3,400,000 shares issued and outstanding at December 31, 2017 (aggregate liquidation preference of $85,522 at December 31, 2017)	—	34
6.45% Series D - 3,000,000 shares issued and outstanding at June 30, 2018 and December 31, 2017 (aggregate liquidation preference of $75,403 and $75,417 at June 30, 2018 and December 31, 2017, respectively)	30	30
6.25% Series E - 6,400,000 shares issued and outstanding at June 30, 2018 and December 31, 2017 (aggregate liquidation preference of $160,833 and $160,861 at June 30, 2018 and December 31, 2017, respectively)	64	64
Common stock, $0.01 par value per share, 500,000,000 shares authorized, 104,744,101 and 104,287,128 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,047	1,043
Additional paid-in capital	1,182,398	1,262,679
Accumulated other comprehensive income	5,545	1,451
Retained earnings	6,310	9,201
Total stockholders’ equity	1,195,394	1,274,502
Non-controlling interests in operating partnership	2,662	2,874
Total equity	1,198,056	1,277,376
Total liabilities and equity	$ 2,216,268	$ 2,209,874

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Room	$140,650	$120,514	$270,222	$230,864
Food and beverage	6,517	5,294	12,846	10,253
Other	5,055	3,248	9,353	5,928
Total revenues	152,222	129,056	292,421	247,045
Expenses:				
Room	31,113	26,455	60,118	51,459
Food and beverage	5,107	3,909	10,106	7,833
Other hotel operating expenses	41,578	35,259	81,036	68,437
Property taxes, insurance and other	11,032	8,813	22,030	17,182
Management fees	5,388	5,063	10,740	9,792
Depreciation and amortization	24,954	19,732	50,200	38,458
Corporate general and administrative	5,620	5,310	12,227	10,448
Hotel property acquisition costs	—	—	—	354
Total expenses	124,792	104,541	246,457	203,963
Operating income	27,430	24,515	45,964	43,082
Other income (expense):				
Interest expense	(10,402)	(6,927)	(19,731)	(13,718)
Gain on disposal of assets, net	17,331	16,350	17,288	35,806
Other income, net	3,470	568	4,259	2,963
Total other income	10,399	9,991	1,816	25,051
Income from continuing operations before income taxes	37,829	34,506	47,780	68,133
Income tax expense (Note 10)	(152)	(423)	(412)	(844)
Net income	37,677	34,083	47,368	67,289
Non-controlling interest in Operating Partnership	(101)	(114)	(104)	(234)
Net income attributable to Summit Hotel Properties, Inc.	37,576	33,969	47,264	67,055
Preferred dividends	(3,709)	(4,200)	(9,252)	(8,400)
Premium on redemption of preferred stock	—	—	(3,277)	—
Net income attributable to common stockholders	$33,867	$29,769	$34,735	$58,655
Earnings per share:				
Basic	$0.33	$0.30	$0.33	$0.61
Diluted	$0.32	$0.30	$0.33	$0.61
Weighted average common shares outstanding:				
Basic	103,643	98,184	103,572	95,488
Diluted	103,883	98,706	103,892	95,983

See Notes to the Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$37,677	$34,083	$47,368	$67,289
Other comprehensive income, net of tax:				
Changes in fair value of derivative financial instruments	362	174	4,106	523
Comprehensive income	38,039	34,257	51,474	67,812
Comprehensive income attributable to non-controlling interests:				
Less - Comprehensive income attributable to non-controlling interest in Operating Partnership	(101)	(115)	(116)	(236)
Comprehensive income attributable to Summit Hotel Properties, Inc.	37,938	34,142	51,358	67,576
Preferred dividends	(3,709)	(4,200)	(9,252)	(8,400)
Premium on redemption of preferred stock	—	—	(3,277)	—
Comprehensive income attributable to common stockholders	$34,229	$29,942	$38,829	$59,176

See Notes to the Condensed Consolidated Financial Statements

Summit Hotel Properties, Inc.
Condensed Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2018 and 2017
(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 Income (Loss)	Retained Earnings (Deficit) and Distributions	Total Stockholders' Equity	Non-controlling Interests in Operating Partnership	Total Equity
Balance at December 31, 2017	12,800,000	$128	104,287,128	$1,043	$1,262,679	$1,451	$9,201	$1,274,502	$2,874	$1,277,37
Redemption of preferred stock	(3,400,000)	(34)	—	—	(81,689)	—	(3,277)	(85,000)	—	(85,000
Common stock redemption of common units	—	—	25,839	—	227	—	—	227	(227)	—
Dividends	—	—	—	—	—	—	(46,878)	(46,878)	(113)	(46,991
Equity-based compensation	—	—	618,984	6	4,030	—	—	4,036	12	4,048
Shares acquired for employee withholding requirements	—	—	(187,850)	(2)	(2,722)	—	—	(2,724)	—	(2,724
Other	—	—	—	—	(127)	—	—	(127)	—	(127
Other comprehensive income	—	—	—	—	—	4,094	—	4,094	12	4,106
Net income	—	—	—	—	—	—	47,264	47,264	104	47,368
Balance at June 30, 2018	9,400,000	$94	104,744,101	$1,047	$1,182,398	$5,545	$6,310	$1,195,394	$2,662	$1,198,05
Balance at December 31, 2016	9,400,000	$94	93,525,469	$935	$1,011,412	$(977)	$(1,422)	$1,010,042	$3,428	$1,013,47
Net proceeds from sale of common stock	—	—	10,350,000	104	163,566	—	—	163,670	—	163,670
Common stock redemption of common units	—	—	30,657	—	268	—	—	268	(268)	—
Dividends	—	—	—	—	—	—	(41,315)	(41,315)	(126)	(41,441
Equity-based compensation	—	—	391,792	4	2,978	—	—	2,982	12	2,994
Shares acquired for employee withholding requirements	—	—	(59,111)	(1)	(960)	—	—	(961)	—	(961
	—	—	—	—	—	521	—	521	2	523

Other comprehensive income										
Net income	—	—	—	—	—	—	67,055	67,055	234	67,289
Balance at June 30, 2017	9,400,000	$94	104,238,807	$1,042	$1,177,264	$(456)	$24,318	$1,202,262	$3,282	$1,205,5[illegible]

See Notes to the Condensed Consolidated Financial Statements

4

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

	For the Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net income	$47,368	$67,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,200	38,458
Amortization of deferred financing costs	998	1,014
Equity-based compensation	4,048	2,994
Realization of deferred gain	—	(15,000)
Gain on disposal of assets, net	(17,288)	(20,806)
Other	(408)	8
Changes in operating assets and liabilities:		
Trade receivables, net	(4,057)	(6,132)
Prepaid expenses and other	1,545	595
Accounts payable	(33)	(156)
Accrued expenses and other	2,041	1,829
NET CASH PROVIDED BY OPERATING ACTIVITIES	84,414	70,093
INVESTING ACTIVITIES		
Acquisitions of hotel properties	—	(367,135)
Investment in hotel properties under development	(10,828)	(9,865)
Improvements to hotel properties	(30,648)	(13,953)
Proceeds from asset dispositions, net of closing costs	41,735	93,272
Funding of real estate loans	(15,245)	—
Proceeds from collection of real estate loans	—	22,506
Increase in escrow deposits for acquisitions	—	(2,340)
NET CASH USED IN INVESTING ACTIVITIES	(14,986)	(277,515)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	420,000	260,000
Principal payments on debt	(337,297)	(178,178)
Proceeds from equity offerings, net of issuance costs	—	163,834
Redemption of preferred stock	(85,000)	—
Dividends paid	(47,265)	(41,270)
Financing fees on debt and other issuance costs	(1,785)	(199)
Repurchase of common shares for withholding requirements	(2,724)	(961)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(54,071)	203,226
Net change in cash, cash equivalents and restricted cash	15,357	(4,196)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of period	66,007	59,575
End of period	$81,364	$55,379
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$18,638	$12,743
Accrued acquisition costs and improvements to hotel properties	$5,765	$3,897
Capitalized interest	$446	$73
Cash payments for income taxes, net of refunds	$622	$463

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

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. On February 14, 2011, the Company closed on its initial public offering ("IPO") and completed certain formation transactions, including the merger of Summit Hotel Properties, LLC with and into the Operating Partnership. Unless the context otherwise requires, “we,” “us,” and “our” refer to the Company and its consolidated subsidiaries.

We focus on owning primarily premium-branded, select-service hotels. At June 30, 2018, our portfolio consisted of 80 hotels with a total of 11,978 guestrooms located in 26 states. We have elected to be taxed as a real estate investment trust (“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 subsidiaries (“TRS Lessees”) of our taxable REIT subsidiary (“TRS”). We indirectly own 100% of the outstanding equity interests in all of our TRS Lessees.

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of the Company consolidate the accounts of the Company and all entities that are controlled by the Company’s ownership of a majority voting interest in such entities, 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 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 of the Securities and Exchange Act of 1934 (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 six months ended June 30, 2018 may not be indicative of the results that may be expected for the full year of 2018. For further information, please read the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Segment Disclosure

Accounting Standards Codification (“ASC”) Topic 280, Segment Reporting, establishes standards for reporting financial and descriptive information about an enterprise’s reportable segments. We have determined that we have one reportable segment for activities related to investing in real estate. Our investments in real estate are geographically diversified and the chief operating decision makers evaluate operating performance on an individual asset level. As each of our assets has similar economic characteristics, the assets have been aggregated into one reportable segment.

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. Identifiable intangible assets or liabilities may also arise from assumed contractual arrangements as part of the acquisition of the hotel property, including terms that are above or below market compared to an estimated fair market value of the agreement on the acquisition date. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers, including using a discounted cash flow analysis that uses appropriate discount or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions.

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.

We generally depreciate our hotel properties and related assets using the straight-line method over their estimated useful lives as follows:

Classification	Estimated Useful Lives
Buildings and improvements	6 to 40 years
Furniture, fixtures and equipment	2 to 15 years

We periodically re-evaluate asset lives based on current assessments of remaining utilization, which may result in changes in estimated useful lives. Such changes are accounted for prospectively and will increase or decrease future depreciation expense.

When depreciable property and equipment is retired or disposed, the related costs and accumulated depreciation are removed from the balance sheet and any gain or loss is reflected in current operations.

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 an investment in hotel properties under development in our Condensed Consolidated Balance Sheets. If classified as hotel properties under development, no interest income is recognized on the loan and interest expense is capitalized as part of our investment in the hotel property during the construction period.

We monitor events and changes in circumstances for indicators that the carrying value of a hotel property or land held for development 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, and v) 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.

Assets Held for Sale

We periodically review our hotel properties and our land held for development based on established criteria such as age, type of franchise, adverse economic and competitive conditions, and strategic fit to identify properties that we believe are either non-strategic or no longer complement our business. Based on our review, we periodically market properties for sale that no longer meet our investment criteria.

We classify assets as Assets Held for Sale in the period in which certain criteria are met, including when the sale of the asset within one year is probable. Assets classified as Assets Held for Sale are no longer depreciated and are carried at the lower of carrying amount or fair value less selling costs.

Variable Interest Entities

We consolidate variable interest entities (each a “VIE”) if we determine that we are the primary beneficiary of the entity. When evaluating the accounting for a VIE, we consider the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity’s economic performance relative to other economic interest holders. We determine our rights, if any, to receive benefits or the obligation to absorb losses that could potentially be significant to the VIE by considering the economic interest in the entity, regardless of form, which may include debt, equity, management and servicing fees, or other contractual arrangements. We consider other relevant factors including each entity’s capital structure, contractual rights to earnings or obligations for losses, subordination of our interests relative to those of other investors, contingent payments, and other contractual arrangements that may be economically significant.

Additionally, we have in the past and may in the future enter into purchase and sale transactions in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (“IRC”), for the exchange of like-kind property to defer taxable gains on the sale of real estate properties (“1031 Exchange”). For reverse transactions under a 1031 Exchange in which we purchase a new property prior to selling the property to be matched in the like-kind exchange (we refer to a new property being acquired by us in the 1031 Exchange prior to the sale of the related property as a “Parked Asset”), legal title to the Parked Asset is held by a qualified intermediary engaged to execute the 1031 Exchange until the sale transaction and the 1031 Exchange is completed. We retain essentially all of the legal and economic benefits and obligations related to a Parked Asset prior to completion of a 1031 Exchange. As such, a Parked Asset is included in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations as a consolidated VIE until legal title is transferred to us upon completion of the 1031 Exchange.

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.

On January 1, 2018, we adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. As a result, we report changes in cash, cash equivalents and restricted cash on our Condensed Consolidated Statement of Cash Flows.

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.

Deferred Charges, net

Initial franchise application fees are capitalized and amortized over the term of the franchise agreement using the straight-line method.

Deferred Financing Fees

Debt issuance costs are presented as a direct deduction from the carrying value of the debt liability on the Condensed Consolidated Balance Sheets. Debt issuance costs are amortized as a component of interest expense over the term of the related debt using the straight-line method, which approximates the interest method.

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.

Revenue Recognition

On January 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers. In accordance with ASU No. 2014-09, we recognize revenue when guestrooms are occupied, services have been rendered or fees have been earned. Revenues are recorded net of any sales and other taxes collected from customers and discounts. Cash received prior to guest arrival is recorded as an advance from the customer and is recognized as revenue at the time of occupancy.

Sales and Other Taxes

We have operations in states and municipalities that impose sales or other taxes on certain sales. We collect these taxes from our customers and remit the entire amount to the various governmental units. The taxes collected and remitted are excluded from revenues and are included in accrued expenses until remitted.

Equity-Based Compensation

Our 2011 Equity Incentive Plan, which was amended and restated effective June 15, 2015 (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 the stock options granted upon completion of our IPO at fair value using the Black-Scholes option-pricing model and we account for all other awards of equity, including 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.

On January 1, 2018, we adopted ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. As such, we account for certain changes to share-based payment awards using modification accounting, which may result in incremental stock-based compensation expense based on the remeasurement of the award on the modification date.

Derivative Financial Instruments and Hedging

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

During 2017, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Accordingly, beginning in 2017, 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 IRC. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute annually to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, which does not necessarily equal net income as calculated in accordance with GAAP. As a REIT, we generally will not be subject to federal income tax (other than taxes paid by our TRS 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. 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 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 TRS is 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 TRS 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, including future reversals of taxable temporary differences, future projected taxable income and tax planning strategies.

We perform a review of any uncertain tax positions and if necessary will record expected future tax consequences of uncertain tax positions in the financial statements.

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.

On January 1, 2018, we adopted ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Accordingly, we have elected a measurement alternative for equity investments, such as our purchase options, that do not have readily determinable fair values. Under the alternative, our purchase options are 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.

Use of Estimates

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

Reclassifications

Certain amounts reported in the Condensed Consolidated Statements of Operations in previous periods have been disaggregated and reclassified to conform to the current period presentation. Revenues have been disaggregated into Rooms, Food and beverage, and Other. Direct and Indirect expense has been reclassified into Room, Food and beverage, and Other hotel operating expenses. Property taxes, insurance and other, and Management expenses are also separately reported.

We have also reclassified certain intangible assets related to our acquisitions of hotel properties from Other assets to Investment in hotel properties, net, on the Condensed Consolidated Balance Sheet. See "Note 3 - Investment in Hotel Properties, net" for further details.

These reclassifications, made at June 30, 2018 and for the three and six months then ended, had no net effect on the previously reported financial position or results of operations.

New Accounting Standards

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which enhances the reporting requirements for the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. We adopted ASU No. 2016-01 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-01 did not have a material effect on our consolidated financial position or our results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. ASU No. 2016-02 is effective for our fiscal year commencing on January 1, 2019, but early adoption is permitted. We anticipate that we will adopt ASU No. 2016-02 for our fiscal year commencing on January 1, 2019. We expect to apply the modified retrospective approach such that we will account for leases that commenced before the effective date of ASU No. 2016-02 in accordance with previous GAAP unless the lease is modified, except we will recognize right-of-use assets and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. We are currently in the process of analyzing our leases. As such, we do not expect the adoption of ASU No. 2016-02 to have a material impact on our consolidated financial statements except for recognition of the right-of-use assets and related lease liability accounts on the consolidated balance sheet.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses the Statement of Cash Flow classification and presentation of certain cash transactions. We adopted ASU No. 2016-15 for our fiscal year commencing on January 1, 2018. The effect of this amendment has been applied retrospectively. The adoption of ASU No. 2016-15 did not have a material effect on our consolidated financial position or our results of operations.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies how companies should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires companies to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. We retrospectively adopted ASU No. 2016-18 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-18 did not have a material effect on our consolidated financial position or our results of operations.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with ASC No. 718, Compensation - Stock Compensation. We adopted ASC No. 2017-09 for our fiscal year commencing on January 1, 2018. This guidance is to be applied prospectively to an award modified on or after the adoption date. We applied the requirements of ASU No. 2017-09 to the modification of certain stock awards as described in "Note 9 - Equity-Based Compensation".

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies how an entity should measure certain equity securities. ASU 2018-03 is effective for our fiscal year commencing on January 1, 2019, but we have early adopted ASU No. 2018-03 for our fiscal year commencing on January 1, 2018. The adoption of ASU No 2018-03 did not have a material effect on our consolidated financial position or results of operations.

12

NOTE 3 - INVESTMENT IN HOTEL PROPERTIES, NET

Investment in Hotel Properties, net

Investment in hotel properties, net at June 30, 2018 and December 31, 2017 is as follows (in thousands):

	June 30, 2018	December 31, 2017
Land	$265,699	$272,932
Hotel buildings and improvements	1,850,655	1,868,273
Intangible assets	22,764	22,764
Construction in progress	15,410	12,464
Furniture, fixtures and equipment	180,446	174,126
	2,334,974	2,350,559
Less - accumulated depreciation and amortization	(320,387)	(291,067)
	$2,014,587	$2,059,492

Recently Developed Properties

We completed the development and commenced operations of the new 168-guestroom Hyatt House Across From Orlando Universal Resort™ on June 27, 2018. The total construction cost for this hotel was $32.7 million, excluding land that we acquired in a prior-year transaction. The carrying amount for this hotel includes internal capitalized costs of $1.6 million. Total costs of $37.1 million, including the carrying amount of the land, were reclassified as Investment in Hotel Properties, net upon completion during the three months ended June 30, 2018.

Intangible Assets

Intangible assets included in Investment in hotel properties, net and intangible liabilities included in Accrued expenses and other in our Condensed Consolidated Balance Sheets include the following (in thousands):

	June 30, 2018	December 31, 2017
Intangible assets:		
Air rights [(1)]	$10,754	$ 10,754
Favorable leases [(2)]	10,569	10,569
In-place lease agreements	1,361	1,361
Other	80	80
	22,764	22,764
Less accumulated amortization	(1,411)	(1,001)
Intangible assets, net	$21,353	$ 21,763
Intangible liabilities:		
Unfavorable leases [(2)]	$5,002	$ 5,002
Less accumulated amortization	(333)	(285)
Intangible liabilities, net	$4,669	$ 4,717

(1) In conjunction with the acquisition of the Courtyard by Marriott - Charlotte, NC, the Company acquired certain air rights related to the hotel property.

(2) Intangible assets and liabilities are recorded on contracts assumed as part of the acquisition of certain hotels. Above-market and below-market contract values are based on the present value of the difference

between contractual amounts to be paid pursuant to the contracts assumed and our estimate of the fair market contract rates for corresponding contracts measured over a period equal to the remaining non-cancelable term of the contracts assumed. Intangible assets and liabilities are amortized over the remaining non-cancelable term of the related contracts.

Asset Sales

On June 29, 2018, we sold the Holiday Inn Express & Suites in Sandy, UT and the Hampton Inn in Provo, UT, for an aggregate selling price of $19.0 million. On June 29, 2018 we also sold the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA for an aggregate selling price of $24.9 million. The sales of these four properties resulted in the realization of an aggregate net gain of $17.4 million during the three and six months ended June 30, 2018. We provided seller financing of $3.6 million, on the sale of the Holiday Inn in Duluth, GA and the Hilton Garden Inn in Duluth, GA, under two three-and-a-half-year second mortgage notes with a blended interest rate of 7.38%.

On March 30, 2017, we completed the sale of the Hyatt Place in Atlanta, GA for $14.5 million and repaid a related mortgage loan totaling $6.5 million. The sale of this property resulted in the realization of a net gain of $4.8 million during the six months ended June 30, 2017.

On June 2, 2017, we completed the sale of the Courtyard by Marriott in El Paso, TX for $11.2 million. The sale of this property resulted in the realization of a net gain of $0.4 million during the three and six months ended June 30, 2017.

Dispositions to Affiliates of Hospitality Investors Trust, Inc. (formerly American Realty Capital Hospitality Trust, Inc.)

On June 8, 2015, we entered into multiple sales agreements with affiliates of Hospitality Investors Trust, Inc. (“HIT”) for the sale of a portfolio of hotels to HIT. The agreements were modified on various occasions between 2015 and 2017 such that we sold 23 hotels containing 2,448 guestrooms to HIT in three tranches over that time period for a combined price of approximately $325.1 million (collectively, the “HIT Sale”) as follows (dollars in thousands):

Tranche	Closing Date	Hotels Sold	Sales Price
1	October 2015	10	$ 150,000
2	February 2016	6	108,300
3	April 2017	7	66,800
		23	$ 325,100

In connection with the HIT Sale, the Operating Partnership entered into a loan agreement with HIT, as borrower, which provided for a loan by us to HIT in the amount of $27.5 million (the “Loan”). The proceeds of the Loan were required to be applied by HIT as follows: (i) $20.0 million was applied toward the payment of a portion of the $108.3 million purchase price for six hotels acquired in the second tranche; and (ii) the remaining $7.5 million was applied by HIT to fund the escrow deposit required for the purchase of hotels in the third tranche. We deferred $20.0 million of gain from the sale of the hotels in the second tranche as a result of the Loan structure. We recognized the deferred gain as principal payments on the Loan were received, and we recognized the final $15.0 million of gain when the Loan was paid in full on March 31, 2017.

Hotel Property Acquisitions

We did not acquire any hotel properties during the six months ended June 30, 2018. A summary of the hotel properties acquired during the six months ended June 30, 2017 is as follows (in thousands):

Date Acquired	Franchise/Brand	Location	Purchase Price
March 1, 2017	Homewood Suites	Aliso Viejo (Laguna Beach), CA	$ 38,000
March 30, 2017	Hyatt Place	Phoenix (Mesa), AZ	22,200
May 23, 2017	Courtyard by Marriott	Fort Lauderdale, FL	85,000
June 9, 2017	Courtyard by Marriott	Charlotte, NC	56,250

June 21, 2017	Courtyard by Marriott	Fort Worth, TX	40,000
June 21, 2017	Courtyard by Marriott	Kansas City, MO	24,500
June 21, 2017	Courtyard by Marriott	Pittsburgh, PA	42,000
June 21, 2017	Hampton Inn & Suites	Baltimore, MD	18,000
June 21, 2017	Residence Inn by Marriott	Baltimore, MD	38,500
			$364,450(1)

(1) The net assets acquired totaled $367.4 million due to the purchase at settlement of $0.8 million of net working capital assets and capitalized transaction costs of $2.1 million

The allocation of the aggregate purchase prices to the fair value of assets and liabilities acquired for the above acquisitions is as follows (in thousands):

	For the Six Months Ended June 30, 2017
Land	$61,616
Hotel buildings and improvements	274,961
Intangible assets	15,710
Furniture, fixtures and equipment	14,314
Other assets	1,775
Total assets acquired	368,376
Less - other liabilities assumed	(990)
Net assets acquired	$367,386

All hotel purchases completed in 2017 were deemed to be the acquisition of assets. Therefore, acquisition costs related to these transactions have been capitalized as part of the recorded amount of the acquired assets.

The results of operations of acquired hotel properties are included in the Condensed Consolidated Statements of Operations beginning on their respective acquisition dates. The following unaudited pro forma information includes operating results for 80 hotels owned as of June 30, 2018 as if all such hotels had been owned by us since January 1, 2017. For hotel properties acquired by us during the three and six months ended June 30, 2017, the pro forma information for the three and six months ended June 30, 2017 includes both the financial results from the prior owner from January 1, 2017 through the date of acquisition by us (the "Pre-acquisition Period") and the financial results generated by us from the date of acquisition through June 30, 2017. For properties acquired by us after June 30, 2017, the pro forma information for the three and six months ended June 30, 2017 reflects the financial results from the prior owner for the entire three and six month period. For all properties acquired by us during the year ended December 31, 2017, the pro forma information for the three and six months ended June 30, 2018 relate entirely to the financial results generated by us. The financial results for the Pre-acquisition Period were provided by the prior owner of such Acquired Hotel prior to purchase by us and such information has not been audited or reviewed by our auditors or adjusted by us. For hotels sold by us between January 1, 2017 and June 30, 2018 (the "Disposed Hotels"), the unaudited pro forma information excludes the financial results, including gains on disposal of assets, of each of the Disposed Hotels for the period of ownership by us from January 1, 2017 through the date that the Disposed Hotels were sold by us. The unaudited pro forma information is included to enable comparison of results for the current reporting period to results for the comparable period of the prior year and is not indicative of what actual results of operations would have been had the hotel acquisitions and dispositions taken place on or before January 1, 2017. The pro forma amounts exclude the gain or loss on the sale of hotel properties during the three and six months ended June 30, 2017 and 2018, respectively. This information does not purport to be indicative of or represent results of operations for future periods.

The unaudited condensed pro forma financial information for the 80 hotel properties owned at June 30, 2018 for the three and six months ended June 30, 2018 and 2017 is as follows (in thousands, except per share):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$148,501	$144,912	$285,145	$278,044
Income from hotel operations	$56,877	$56,769	$106,148	$106,232
Net income (1)	$19,640	$25,656	$28,971	$47,072
Net income attributable to common stockholders, net of amount allocated to participating securities (1) (2)	$15,765	$21,249	$16,256	$38,279
Basic and diluted net income per share attributable to common stockholders (1) (2)	$0.15	$0.22	$0.16	$0.40

(1) Pro forma amounts include depreciation expense, property tax expense, interest expense, income tax expense, and other corporate expenses totaling $49.0 million and $39.1 million for the three months ended June 30, 2018 and 2017, respectively, and $97.8 million and $76.0 million for the six months ended June 30, 2018 and 2017, respectively.

(2) Pro forma amounts for the three and six months ended June 30, 2018 include the effect of the premium on redemption of preferred stock of $3.3 million.

Assets Held for Sale

Assets held for sale at June 30, 2018 and December 31, 2017 include the following (in thousands):

	June 30, 2018	December 31, 2017
Land	$7,410	$ 1,193
Hotel buildings and improvements	28,558	—
Furniture, fixtures and equipment	1,745	—
Construction in progress	15	—
Franchise fees and other	150	—
	$37,878	$ 1,193

Assets Held for Sale at June 30, 2018 and December 31, 2017 included land parcels in Spokane, WA and Flagstaff, AZ. Assets Held for Sale at June 30, 2018 also include four hotels under contract for sale that are expected to close during the three months ended September 30, 2018 as follow:

Property	Guestrooms
Sale 1:	
Hilton Garden Inn - Smyrna, TN	112
Hampton Inn & Suites - Smyrna, TN	83
Hyatt Place Phoenix North - Phoenix, AZ	127
	322
Sale 2:	
Hyatt Place - Fort Myers, FL	148
	470

NOTE 4 - DEBT

At June 30, 2018, our indebtedness was comprised of borrowings under our $450.0 million senior unsecured revolving credit and term loan facility (described below), the 2017 Term Loan (as defined below), the 2018 Term Loan (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. At December 31, 2017, our indebtedness was comprised of borrowings under our $450.0 million senior unsecured credit and term loan facility, the 2015 Term Loan (as defined below), the 2017 Term Loan (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 4.20% at June 30, 2018 and 3.89% at December 31, 2017.

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

	June 30, 2018	December 31, 2017
Revolving debt	$45,000	$ 15,000
Term loans	600,000	515,000
Mortgage loans	310,813	343,109
	955,813	873,109
Unamortized debt issuance costs	(5,316)	(4,873)
Debt, net of debt issuance costs	$950,497	$ 868,236

We have entered into five interest rate swaps to partially fix the interest rate on a portion of our variable interest rate unsecured indebtedness and term loans. See "Note 5- 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):

	June 30, 2018	Percentage	December 31, 2017	Percentage
Fixed-rate debt	$554,461	58%	$ 386,313	44%
Variable-rate debt	401,352	42%	486,796	56%
	$955,813		$ 873,109	

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

	June 30, 2018	December 31, 2017

	Carrying Value	Fair Value	Carrying Value	Fair Value	Valuation Technique
Fixed-rate debt	$279,461	$276,635	$311,313	$310,535	Level 2 - Market approach

17

At June 30, 2018 and December 31, 2017, we had $275.0 million and $75.0 million, respectively, 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 5 — Derivative Financial Instruments and Hedging."

$450 Million Senior Unsecured Credit and Term Loan Facility

On January 15, 2016, the Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the loan documentation as a subsidiary guarantor, entered into a $450.0 million senior unsecured revolving credit and term loan facility (the “2016 Unsecured Credit Facility”). The 2016 Unsecured Credit Facility is comprised of a $300.0 million revolving credit facility (the “$300 Million Revolver”) and a $150.0 million term loan (the “$150 Million Term Loan”). At June 30, 2018, the maximum amount of borrowing provided by the 2016 Unsecured Credit Facility was $450.0 million, of which we had borrowed $150.0 million under the $150 Million Term Loan and $45.0 million under the $300 Million Revolver and we had $255.0 million available to borrow.

The 2016 Unsecured Credit Facility has an accordion feature which will allow the Company to increase the total commitments by an aggregate of up to $150.0 million. The $300 Million Revolver will mature on March 31, 2020 and can be extended to March 31, 2021 at the Company’s option, subject to certain conditions. The $150 Million Term Loan will mature on March 31, 2021.

The Company pays interest on revolving credit advances at varying rates based upon, at the Company’s option, either (i) 1-, 2-, 3- or 6-month LIBOR, plus a margin of between 1.50% and 2.25%, depending upon the Company’s leverage ratio (as defined in the 2016 Unsecured Credit Facility agreement), or (ii) the applicable base rate, which is the greatest of the administrative agent’s prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin of between 0.50% and 1.25%, depending upon the Company’s leverage ratio. The interest rate at June 30, 2018 was 3.89%.

Financial and Other Covenants. We are required to comply with a series of financial and other covenants to borrow under this credit facility. At June 30, 2018, we were in compliance with all required covenants.

Unencumbered Assets. The 2016 Unsecured Credit Facility is unsecured. However, borrowings under the 2016 Unsecured Credit Facility are limited by the value of hotel assets that qualify as unencumbered assets. At June 30, 2018, the Company had 51 unencumbered hotel properties (the "Unencumbered Properties") supporting the 2016 Unsecured Credit Facility.

An interest rate swap entered into on September 5, 2013 with a notional value of $75.0 million, an effective date of January 2, 2014 and a maturity date of October 1, 2018 remains outstanding. This interest rate swap was designated as a cash flow hedge and effectively fixes LIBOR at 2.04% which results in a fixed interest rate of 3.79% on $75.0 million of the $150 Million Term Loan.

Unsecured Term Loans

2015 Term Loan

On April 7, 2015, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into an unsecured term loan (the “2015 Term Loan”), with an original principal amount of $125.0 million, that was later increased to $140.0 million, upon exercise of an accordion feature.

On February 15, 2018, we repaid the $140.0 million outstanding balance with funds received from the 2018 Term Loan (as discussed below).

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 unsecured term loan (the "2017 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation.

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 2.20%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.45% and 1.20%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at June 30, 2018 was 3.84%.

Financial and Other Covenants. We are required to comply with a series of financial and other covenants in order to draw and maintain borrowings under the 2017 Term Loan. At June 30, 2018 we were in compliance with all financial covenants.

Unencumbered Assets. The 2017 Term Loan is unsecured. However, borrowings under the term loan are limited by the value of the assets that qualify as unencumbered assets. At June 30, 2018, the Unencumbered Properties also supported the 2017 Term Loan.

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 unsecured term loan (the "2018 Term Loan") with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation. 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. At closing, we drew $140.0 million of the $225.0 million available under the 2018 Term Loan and used the proceeds to pay off and replace the 2015 Term Loan. On May 16, 2018, we drew the remaining $85.0 million available under the 2018 Term Loan and used the proceeds to pay down the $300 Million Revolver.

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 1.80% and 2.55%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.80% and 1.55%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at June 30, 2018 was 4.14%.

Financial and Other Covenants. In addition, we are required to comply with a series of financial and other covenants in order to draw and maintain borrowings under the 2018 Term Loan. At June 30, 2018 we were in compliance with all financial covenants.

Unencumbered Assets. The 2018 Term Loan is unsecured. However, borrowings under the term loan are limited by the value of the assets that qualify as unencumbered assets. At June 30, 2018, the Unencumbered Properties also supported the 2018 Term Loan.

Metabank Loan

On June 30, 2017, we entered into a $47.6 million secured, non-recourse loan with MetaBank (the "MetaBank Loan"). As of December 31, 2017, we had drawn the entire $47.6 million balance available under the loan and used the proceeds to pay down the principal balance of our $300 Million Revolver. The MetaBank Loan provides for a fixed interest rate of 4.44% and interest-only payments for 18 months following the closing date. After this 18 month period, the loan is amortized on a 25-year amortization schedule through the maturity date of July 1, 2027. The MetaBank Loan is secured by the Residence Inn in Salt Lake City, UT, the Four Points by Sheraton Hotel & Suites in South San Francisco, CA, and the Hyatt Place in Mesa, AZ.

Mortgage and Term Loans

On April 2, 2018, we repaid four mortgage loans with Western Alliance Bank totaling $23.9 million that had a blended interest rate of 5.39%. There were no prepayment penalties associated with the repayment of these loans. The properties that secured the mortgage loans are now unencumbered and have been added to our unencumbered pool to support our 2016 Unsecured Credit Facility, 2017 Term Loan and 2018 Term Loan.

At June 30, 2018, we had $910.8 million in secured mortgage loans and unsecured term loans outstanding (including the $150 Million Term Loan, the 2017 Term Loan, the 2018 Term Loan and the Metabank Loan described above). Term loans totaling $310.8 million, including the Metabank Loan, are secured primarily by first mortgage liens on certain hotel properties.

NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Information about our derivative financial instruments at June 30, 2018 and December 31, 2017 is as follows (dollars in thousands):

			Notional Amount			Fair Value	
Contract date	Effective Date	Expiration Date	June 30, 2018		December 31, 2017	June 30, 2018	December 31, 2017
September 5, 2013	January 2, 2014	October 1, 2018	$75,000	(1)	$75,000	$14	$ (190)
October 2, 2017	January 29, 2018	January 31, 2023	100,000	(2)	100,000	3,231	722
October 2, 2017	January 29, 2018	January 31, 2023	100,000	(2)	100,000	3,299	787
June 11, 2018	September 28, 2018	September 30, 2024	75,000	(3)	—	(347)	—
June 11, 2018	December 31, 2018	December 31, 2025	125,000	(4)	—	(772)	—
			$475,000		$275,000	$5,425	$ 1,319

(1) Interest rate swap is related to a portion of our 2016 Unsecured Credit Facility and converts LIBOR from a floating rate to an average annual fixed rate of 2.04%.

(2) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 1.98%.

(3) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.87%.

(4) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.93%.

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 June 30, 2018, three of our interest rate swaps were in an asset position and two were in a liability position. At December 31, 2017, two of our interest rate swaps were in an asset position and one was in a liability position. We are not required to post any collateral related to these agreements and are not in breach of any financial provisions of the agreements.

During 2017, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Accordingly, beginning in 2017, changes in the fair value of the hedging instruments are recorded in Other comprehensive income. Amounts deferred in Other comprehensive income 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 $0.4 million will be reclassified from Other comprehensive income and recorded as a reduction 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 June 30,	For the Six Months Ended June 30,

	2018	2017	2018	2017
Gain(loss) recognized in Accumulated other comprehensive income on derivative financial instruments	$309	$(22)	$3,846	$90
Loss reclassified from Accumulated other comprehensive income to Interest expense	$(53)	$(196)	$(260)	$(433)

20

NOTE 6 - EQUITY

Common Stock

The Company is authorized to issue up to 500,000,000 shares of common stock, $0.01 par value per share. 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 9, 2017, the Company and the Operating Partnership entered into an underwriting agreement (the “Underwriting Agreement”) with Raymond James & Associates, Inc. and Deutsche Bank Securities Inc., as the representatives of the several underwriters named therein, relating to the issuance and sale of 9,000,000 shares of the Company’s common stock, $0.01 par value per share, at a public offering price of $16.50 per share, less an underwriting discount of $0.66 per share. Pursuant to the terms of the Underwriting Agreement, the Company granted the underwriters a 30-day option to purchase up to an additional 1,350,000 shares of common stock on the same terms, which the underwriters exercised in full on May 10, 2017. The closing of the offering occurred on May 15, 2017 for net proceeds of $163.8 million, after the underwriting discount and offering-related expenses of $7.0 million.

On May 25, 2017, the Company and the Operating Partnership entered into separate sales agreements (collectively, the “Sales Agreements”) with each of Robert W. Baird & Co. Incorporated, Raymond James & Associates, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities Inc., RBC Capital Markets, LLC, KeyBanc Capital Markets Inc., Canaccord Genuity Inc., Jefferies LLC, BB&T Capital Markets, a division of BB&T Securities, LLC, and BTIG, LLC (collectively, the “Sales Agents”), pursuant to which the Company may sell the Company’s shares of common stock, $0.01 par value per share, 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 or principal (the "2017 ATM Program"). At the same time, the Company terminated each of the sales agreements entered into in connection with its prior at-the-market offering program, which was established in August 2016 and under which 6,151,514 shares of the Company’s common stock were sold through May 25, 2017 for net proceeds of approximately $89.1 million. To date, we have not sold any shares of our common stock under the 2017 ATM Program. During the six months ended June 30, 2018, we incurred costs totaling $0.1 million related to the 2017 ATM Program.

Pursuant to the Sales Agreements, the Shares may be offered and sold through any Sales Agent in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange or, with the prior consent of the Company, in privately negotiated transactions. Each Sales Agent will be entitled to compensation of up to 2.0% of the gross proceeds of the Shares sold through such Sales Agent from time to time under the related Sales Agreement. The Company has no obligation to sell any of the Shares under the Sales Agreements and may at any time suspend solicitations and offers under, or terminate, any of the Sales Agreements.

Changes in common stock during the six months ended June 30, 2018 and 2017 were as follows:

	For the Six Months Ended June 30,	
	2018	2017
Beginning common shares outstanding	104,287,128	93,525,469
Stock Offering	—	10,350,000
Grants under the Equity Plan	583,373	366,679
Common Unit redemptions	25,839	30,657
Annual grants to independent directors	34,130	23,896

Common stock issued for director fees	2,299	2,454
Forfeitures	(818)	(1,237)
Shares retained for employee tax withholding requirements	(187,850)	(59,111)
Ending common shares outstanding	104,744,101	104,238,807

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 90,600,000 is currently undesignated, 3,000,000 shares have been designated as 6.45% Series D Cumulative Redeemable Preferred Stock (the "Series D preferred shares") and 6,400,000 shares have been designated as 6.25% Series E Cumulative Redeemable Preferred Stock (the "Series E preferred shares").

On March 20, 2018, the Company paid $85.3 million to redeem all 3,400,000 of its outstanding Series C preferred shares at a redemption price of $25 per share plus accrued and unpaid dividends.

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 D or Series E preferred shares prior to June 28, 2021 and November 13, 2022, 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 D preferred share is 3.9216 shares of common stock and each Series E preferred share is 3.1686 shares of common stock, all subject to certain adjustments.

The Company pays dividends at an annual rate of $1.6125 for each Series D preferred share and $1.5625 for each Series E 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, beginning on February 14, 2012, 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 June 30, 2018 and December 31, 2017, unaffiliated third parties owned 297,552 and 323,391 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 Statement of Operations as net income attributable to non-controlling interests of the Operating Partnership.

NOTE 7 - FAIR VALUE MEASUREMENT

The following table presents information about our financial instruments measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017. 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 June 30, 2018 using			
	Level 1	Level 2	Level 3	Total
Assets:				
Interest rate swaps	$ —	$ 6,544	$ —	$ 6,544
Purchase options related to real estate loans	—	—	6,120	6,120
Liabilities:				
Interest rate swaps	—	1,119	—	1,119

	Fair Value Measurements at December 31, 2017 using			
	Level 1	Level 2	Level 3	Total
Assets:				
Interest rate swaps	$ —	$ 1,509	$ —	$ 1,509
Purchase options related to real estate loans	—	—	6,078	6,078
Liabilities:				
Interest rate swaps	—	190	—	190

We are a mezzanine lender on three construction loans to fund up to an aggregate of $29.6 million for the development of three hotel properties. The three real estate loans closed in the fourth quarter of 2017 and each has a stated interest rate of 8% and an initial term of approximately three years. As of June 30, 2018, we have funded the full amount of $29.6 million. We have separate options related to each loan (each the "Initial Option") to purchase a 90% interest in each joint venture that owns the respective hotel upon completion of construction. We also have the right to purchase the remaining interests in each joint venture at future dates, generally five years after we exercise our Initial Option. We have recorded the aggregate estimated fair value of the Initial Options totaling $6.1 million in Other assets and as a discount to the related real estate loans. The discount will be amortized as a component of interest income over the term of the real estate loans using the straight-line method, which approximates the interest method. We recorded amortization of the discount of $0.5 million during the three months ended June 30, 2018 and $1.0 million during the six months ended June 30, 2018.

Our purchase options do not have readily determinable fair values. The fair value of each purchase option was estimated using a binomial lattice 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	$ 5,503
First option exercise date	12/31/2018	3/31/2019	5/31/2019

Last option exercise date	11/1/2020	12/5/2020	12/1/2020
Expected volatility	32.0 %	38.0 %	37.0 %
Risk free rate	1.7 %	1.8 %	1.9 %
Expected annualized equity dividend yield	6.8 %	9.9 %	6.5 %

NOTE 8 - 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 3% to 5% 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. At June 30, 2018 and December 31, 2017, approximately $32.5 million and $29.5 million, respectively, was available in restricted cash reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at our hotel properties.

Ground Leases

At June 30, 2018 and December 31, 2017, we had two prepaid ground leases for two hotel properties in Portland, OR which expire in June 2084. These ground leases had prepaid balances of approximately $3.2 million at both June 30, 2018 and December 31, 2017. We have one option to extend these leases for an additional 14 years. We lease land for one hotel property in Houston (Galleria Area), TX under the terms of an operating ground lease agreement with an initial termination date of April 20, 2053 and one option to extend for an additional 10 years. We lease land for one hotel property in Austin, TX with an initial lease termination date of May 31, 2050. We lease land for one hotel property in Baltimore (Hunt Valley), MD with a lease termination date of December 31, 2019 and twelve remaining options to extend for five additional years per extension. At December 31, 2017, we had an additional ground lease for one hotel property in Duluth, GA. The hotel property was sold on June 29, 2018 and the ground lease was transferred to the buyer. See "Note 3 - Investment in Hotel Properties, net" to the Condensed Consolidated Financial Statements for additional information.

Total rent expense for ground leases for each of the three months ended June 30, 2018 and 2017 was $0.4 million. Total rent expense for ground leases for each of the six months ended June 30, 2018 and 2017 was $0.9 million.

In addition, we lease land for one hotel property in Garden City, NY under a PILOT (payment in lieu of taxes) lease. We pay a reduced amount of property tax each year of the lease as rent. The lease expires on December 31, 2019. Upon expiration of the lease, we expect to exercise our right to acquire a fee simple interest in the hotel for nominal consideration.

Franchise Agreements

All of our hotel properties operate under franchise agreements with major hotel franchisors. The terms of our franchise agreements generally range from 10 to 20 years with various extension provisions. Each franchisor receives franchise fees ranging from 2% to 6% of each hotel property’s gross revenue, and some agreements require that we pay marketing fees of up to 4% of gross revenue. We also pay fees to our franchisors for services such as reservation and information systems. During the three months ended June 30, 2018 and 2017, we expensed fees related to our franchise agreements of $13.0 million and $10.2 million, respectively. During the six months ended June 30, 2018 and 2017, we expensed fees related to our franchise agreements of $24.4 million and $19.4 million, respectively.

Management Agreements

Our hotel properties operate pursuant to management agreements with various professional third-party management companies. The terms of our management agreements generally range from less than one to 25 years with various extension provisions. Each management company receives a base management fee, generally a percentage of total hotel property revenues. In some cases there are also monthly fees for certain services, such as accounting and revenue management. Generally there are also incentive fees based on attaining certain financial thresholds. Management fee expenses for the three months ended June 30, 2018 and 2017 were $5.4 million and $5.1 million, respectively. Management fee expenses for the six months ended June 30, 2018 and 2017 were $10.7 million and $9.8 million, respectively.

Litigation

We are involved from time to time in litigation arising in the ordinary course of business. We are not currently aware of any actions against us that we believe would have a material effect on our financial condition or results of operations.

NOTE 9 - 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