

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **SUMMIT HOTEL PROPERTIES LLC**

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SIC: **7000** Hotels, rooming houses, camps & other lodging places

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

**FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(D) of The Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2008**

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: 000-51955**

**SUMMIT HOTEL PROPERTIES, LLC**

(Exact name of registrant as specified in its charter)

**South Dakota**  
(State or other jurisdiction  
of incorporation or organization)

**20-0617340**  
(I.R.S. Employer Identification No.)

**2701 South Minnesota Avenue, Suite 6  
Sioux Falls, SD 57105**  
(Address of principal executive offices, including zip code)

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

**Securities registered pursuant to Section 12(b) of the Act:**  
None

**Securities registered pursuant to section 12(g) of the Act:**  
Class A Membership Interests, no par value ("Class A Interests") of Summit Hotel Properties, LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. There is no established trading market for the registrant's membership interests.

The number of Class A Membership Units outstanding as of March 27, 2009, was 1,166.62 and the number of Class A-1 Membership Units outstanding as of March 27, 2009, was 244.48.

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## TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<a href="#">Item 1. Business</a>	3
<a href="#">Item 1A. Risk Factors</a>	17
<a href="#">Item 1B. Unresolved Staff Comments</a>	27
<a href="#">Item 2. Properties</a>	28
<a href="#">Item 3. Legal Proceedings</a>	31
<a href="#">Item 4. Submission of Matters to a Vote of Security Holders</a>	31
<u>PART II</u>	
<a href="#">Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	31
<a href="#">Item 6. Selected Financial Data</a>	34
<a href="#">Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	35
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	51
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	52
<a href="#">Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	52
<a href="#">Item 9A. Controls and Procedures</a>	53
<a href="#">Item 9B. Other Information</a>	54
<u>PART III</u>	
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	54
<a href="#">Item 11. Executive Compensation</a>	58
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	60
<a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>	63
<a href="#">Item 14. Principal Accountant Fees and Services</a>	66
<u>PART IV</u>	
<a href="#">Item 15. Exhibits and Financial Statement Schedules</a>	67
<a href="#">EX-10.32</a>	
<a href="#">EX-10.34</a>	
<a href="#">EX-10.38</a>	
<a href="#">EX-21.1</a>	
<a href="#">EX-31.1</a>	
<a href="#">EX-31.2</a>	
<a href="#">EX-32.1</a>	
<a href="#">EX-32.2</a>	
<a href="#">EX-99.1</a>	



## PART I

### ITEM 1. BUSINESS

#### General

We are a leading developer, owner and manager of limited-service and select-service hotels located throughout the United States. As of December 31, 2008, we owned 62 hotels in 19 states. With two exceptions, each hotel is franchised with a nationally-recognized hotel brand. Our hotels are typically located in mid-sized markets with a variety of hotel demand generators, such as tourist attractions, business headquarters, and convention centers. We anticipate building and acquiring additional hotels in the future, as well as selling hotels which no longer meet our strategic goals. Limited-service hotels are those which do not offer a restaurant or bar. Select-service hotels have a small lounge, offer a cooked-to-order breakfast or breakfast buffet, and may offer a light lunch or dinner menu.

Our revenues and earnings are derived from hotel operations of our owned hotels. Our hotels are geographically diversified throughout the United States to prevent concentration of revenues and earnings in any one hotel market, and to smooth seasonal fluctuations in revenues experienced in many hotel markets.

An affiliate, The Summit Group, Inc. (“The Summit Group”), currently provides a number of services for our hotels, including: hotel operations management, location of acquisition targets and construction sites, development of construction sites, and construction supervision. It is possible that in the future the Board may consider hiring an unaffiliated hotel management company to manage any or all of our hotels. However, this is not currently expected by the Board.

Our principal executive offices are located at 2701 South Minnesota Avenue, Suite 6, Sioux Falls, South Dakota, 57105, and our telephone number is (605) 361-9566.

#### General Development of Business

Summit Hotel Properties, LLC, a South Dakota limited liability company, was formed on January 8, 2004. On February 13, 2004, we acquired from a third party 7 hotels located in the southeastern United States. On March 31, 2004, we acquired 41 hotels from 27 affiliated companies (the “Acquisition”). Our predecessors had been building, buying, operating and selling hotels since 1991.

All of the hotels acquired in the Acquisition were managed by The Summit Group. In addition, each entity acquired was directly or indirectly owned in part, and controlled by, The Summit Group or its principals. Upon the consummation of the Acquisition, The Summit Group’s ownership in these affiliated companies was exchanged for Class C membership interests in the Company.

## [Table of Contents](#)

In addition to The Summit Group or its principals, each of the acquired entities was owned by unaffiliated investors. These investors typically held limited partnership or non-controlling membership interests in the acquired entities. These non-controlling ownership interests were exchanged for Class A membership interests in the Company.

Prior to the Acquisition, several employees and other parties were granted non-voting ownership interests in several of the acquired entities. At the time of Acquisition, these non-voting interests were exchanged for Class B membership interests in the Company.

### *Class A and Class A-1 Membership Interests*

Except for the issuance of Class B and Class C membership interests discussed above, from the inception of the Company through October 2005, the Company offered only Class A membership interests to equity investors. The Company first offered Class A-1 membership interests to equity investors pursuant to a private offering that began in October 2005 and ended in July 2006. The Company is currently offering a total of 2,000 Class A-1 units for an aggregate offering price of \$100,000,000 pursuant to a private offering. The Company Manager retains the right, in its sole discretion and without prior notice to investors, to increase the number of Class A-1 units offered to 4,000, for an aggregate offering of \$200,000,000.

### *Wholly-Owned Subsidiaries*

Several of our lenders require that the borrowing entity be a bankruptcy-remote, special purpose entity. To fulfill this requirement, as of December 31, 2008, Summit Hotel Properties had two wholly-owned limited liability companies, each of which owned between eight and twenty-seven of the Company's hotels. These include Summit Hospitality I, LLC, which is formed under the laws of Delaware. Summit Hospitality I, LLC, is wholly-owned by the Company and is managed by a board of managers comprised of Kerry W. Boekelheide, our CEO and Manager, Daniel P. Hansen, our CFO and Manager, and two independent managers. The independent managers are entitled to vote only upon the Company's decision to file bankruptcy or initiate other insolvency proceedings. The two independent managers have no voting authority or managerial control except in these limited circumstances. In addition, Summit Hospitality V, LLC, is a wholly-owned subsidiary. It is formed under the laws of the State of South Dakota and is managed by the Company. All assets, liabilities, expenses and revenues of these wholly-owned subsidiaries are reflected on our financial statements.

### *Summit Group of Scottsdale, Arizona*

We own a 49% Class A membership interest in Summit Group of Scottsdale, Arizona, LLC, which owns two hotels located in Scottsdale, Arizona ("Summit of Scottsdale"). All assets, liabilities, expenses and revenues of Summit of Scottsdale have been included in our financial statements. For additional information, please see Item 8. Financial Statements and Supplementary Data – Note 1 to Consolidated Financial Statements.



## [Table of Contents](#)

### *Material Acquisitions and Dispositions*

From January 1, 2008 through December 31, 2008, the Company acquired 1 hotel with 114 guestrooms, at a cost of \$10.75 million. The new hotel is located in Arizona. From January 1, 2008, through December 31, 2008, we completed the construction of 2 hotels, adding 253 guestrooms to our portfolio. These hotels were constructed for a total cost of approximately \$31.7 million and are located in Texas and Louisiana. During this period we sold 5 hotels with a total of 357 guestrooms, located in Idaho, Kansas, Mississippi, and Washington (2), for a total price of \$28.6 million. In addition, in one hotel renovation, we eliminated 2 guestrooms. The acquisition, sale, construction, and renovation of hotels resulted in a net decrease of 2 hotels and a decrease of 9 guestrooms in our portfolio.

The Company acquired 4 parcels of land from January 1, 2008 through December 31, 2008, on which we intend to construct 5 hotels. The planned hotels will be located in Idaho (2), Montana, and Washington (2). The Company started construction of 7 hotels during 2008, and anticipates opening 6 of these in 2009, for a total of 800 new guest rooms. Although the Company continues to strategically acquire land for future development, we are not starting new hotel construction unless construction financing and equity are in place.

### **Financial Information About Segments**

100% of our revenues are derived from rental of guestrooms at our hotels and related services. Related services include: telephone usage fees to guests, hotel meeting room rentals, restaurant and lounge receipts, hotel laundry and valet services, concessions, and other sources directly associated with the renting of guestrooms. The rental of guest rooms generated \$101.3 million, or 98.4%, of our consolidated gross revenues in 2006. Related services generated \$1.7 million, or 1.6%, of our consolidated gross revenues in 2006. The rental of guest rooms generated \$114.4 million, or 98.4%, of our consolidated gross revenues in 2007. Related services generated \$1.9 million, or 1.6%, of our consolidated gross revenues in 2007. The rental of guest rooms generated \$135.1 million, or 98.3%, of our consolidated gross revenues in 2008. Related services generated \$2.3 million, or 1.7%, of our consolidated gross revenues in 2008. The above revenue information is based on revenue from continuing operations. For additional financial information, see Item 8. Financial Statements and Supplementary Data.

### **Narrative Description of Business**

As of December 31, 2008, we owned and operated 44 limited-service hotels and 18 select-service hotels, all located throughout the continental United States. We strive to own, build and purchase hotels in markets that have several sources of hotel users, including corporate and business, leisure, and government travelers. Corporate, business, and government travelers typically occupy hotels Sunday through Thursday nights. Leisure travelers generally occupy hotels Friday and Saturday nights. Therefore, we desire to have a mix of travelers at our hotels.

## [Table of Contents](#)

### *Franchises*

With two exceptions, each of our hotels is operated pursuant to a franchise agreement with a nationally-recognized hotel franchisor. The franchisors include:

- Marriott International (Courtyard by Marriott, Residence Inn, Fairfield Inn, Fairfield Inn & Suites, TownePlace Suites, Springhill Suites)
- Hilton Hotels (Hampton Inn, Hampton Inn & Suites, Hilton Garden Inn)
- Starwood Hotels (aloft)
- InterContinental Hotels Group (Holiday Inn Express, Holiday Inn Express & Suites, Staybridge Suites)
- Choice Hotels (Comfort Inn, Comfort Suites, Comfort Inn & Suites, Cambria Suites)
- Carlson Companies (Country Inn & Suites)
- Hyatt Global Hotels (Hyatt Place)

Each franchisor sets strict standards concerning the exterior and interior appearance of the hotel, amenities offered to guests, and service quality. Each franchisor monitors guest complaints, and periodically inspects its franchised hotels. Upon receipt of notice from a franchisor that a hotel is not in compliance with the franchise standards, the hotel implements a plan to remedy the deficiency. As of March 23, 2009, two of our hotels have been cited by Marriott International for less than satisfactory scores on certain portions of guest satisfaction reviews. We have developed remediation plans and anticipate that the hotels will be upgraded to satisfactory ratings by the end of 2009. All of our hotels are in compliance with franchisor remodeling requirements.

Typically, franchise agreements are effective for 10 to 20 years, depending on the agreement. We had no franchise agreements expire in 2008. Two of our hotel franchise agreements are set to expire during 2009: the Twin Falls, Idaho, Holiday Inn Express and the Boise, Idaho, Holiday Inn Express. In early 2009, our Twin Falls, Idaho Holiday Inn Express combined with our existing Comfort Inn in Twin Falls, and converted to a Comfort Inn & Suites. Our Boise, Idaho Holiday Inn Express franchise agreement expires in June 2009, but we anticipate receiving an extension to our current franchise agreement as we have been approved to build a new Holiday Inn Express & Suites in Boise in the future.

### *Hotel Management*

Pursuant to a Hotel Management Agreement (the "Agreement"), each of our hotels is managed by The Summit Group, the Class C Member and Company Manager. Included among its duties as the hotel manager, The Summit Group hires and supervises hotel managers; organizes and supervises advertising and promotional programs; oversees the selection and purchase of all necessary hotel supplies, as well as replacement furniture, fixtures, and equipment; implements office and bookkeeping systems and procedures; monitors and adjusts room rates; directs the maintenance activities; and supervises the engagement or selection of all vendors, suppliers, and independent contractors. The Summit Group is also responsible for performing all bookkeeping and administrative duties in connection with the hotels.

## [Table of Contents](#)

The Summit Group, as our hotel manager, is entitled to reimbursement of its expenses for the management of our hotels, including salaries and benefits of The Summit Group employees, provided such reimbursement, together with reimbursements in its capacity as Company Manager, but not including development expenses, do not exceed 4.5% of the gross revenues of the hotels in any given year. Expenses that are not related to hotel management and would normally be paid directly by a hotel, such as bookkeeping, accounting, and legal expenses, are not included in the 4.5% cap. During 2008, The Summit Group's reimbursement for hotel management services plus its responsibilities as Company Manager totaled 3.0% of hotel revenues from continuing and discontinued operations. See "Corporate Operations" below for a description of The Summit Group's responsibilities as Company Manager.

The Agreement provides that we will indemnify The Summit Group against liabilities and losses arising out of the management of our hotels, subject to the limitation that it will not be indemnified for any losses which are caused by its fraud or misconduct. The Summit Group cannot be removed, or the Agreement terminated, except for cause as specified in the Agreement.

For its services as hotel manager, The Summit Group does not receive independent consideration in addition to the reimbursement of expenses discussed above. Due to its position as Company Manager, The Summit Group owns all Class C Interests as well as a portion of the Class B Interests in the Company and receives distributions related to such ownership. In 2008, distributions from The Summit Group's Class B and Class C Interests totaled \$7,412,326.

### *Competitive Strengths*

#### Management Structure.

We believe the key ingredient of a successful operation is an effective management structure. The Summit Group's management structure is designed to maximize the profit potential of acquired or developed hotels. There are two Directors of Operations who oversee all operational activities at the hotels and supervise the regional managers. The regional managers assist the general managers in their regions to maximize sales and profits while operating the hotels with a high degree of quality and guest satisfaction. The Summit Group's regional managers are responsible for ten or fewer hotels, which allows them to dedicate the time necessary to direct and guide the hotel general managers. The Summit Group's regional managers' essential functions consist of the following:

- overseeing hotel sales efforts and strategies, including revenue management
- overseeing hotel general managers to ensure properties perform in a cost-effective manner while providing quality guest service
- ensuring the physical condition of properties meets The Summit Group's high standards and initiating necessary improvements
- developing and managing budgets of assigned properties, controlling expenses effectively

## Table of Contents

### Direct Sales.

The Summit Group considers itself one of the leading direct sales organizations in the lodging industry. Its regional managers, general managers, and sales managers are charged with a mission of generating new business through proactive sales efforts. Many hotels do not employ a direct sales effort and instead expect franchise reservations systems and signage to produce high occupancy rates. The Summit Group feels that it outperforms the limited-service lodging industry largely due to its direct sales approach. We also employ two revenue managers who work full time assisting hotel general managers to structure room rate plans to achieve optimum revenues.

The tables below illustrate the performance of our hotels as compared to the averages for the limited-service lodging industry.

	Year Ended December 31, 2008	Increase/ (Decrease)	Year Ended December 31, 2007	Increase/ (Decrease)	Year Ended December 31, 2006
<b>All Company Hotels</b>					
RevPAR <sup>1</sup>	\$ 66.78	\$ 2.40	\$ 64.38	\$ 2.61	\$ 61.77
Average Daily Rate	\$ 100.95	\$ 4.75	\$ 96.20	\$ 7.62	\$ 88.58
Occupancy Rate	66.15 %	(0.77%)	66.92%	(2.82%)	69.74%
<b>Industry<sup>2</sup></b>					
RevPAR <sup>1</sup>	\$ 56.16	\$ (0.86)	\$ 57.02	\$ 3.02	\$ 54.00
Average Daily Rate	\$ 90.19	\$ 2.99	\$ 87.20	\$ 5.68	\$ 81.52
Occupancy Rate	62.3 %	(3.14%)	65.40%	(0.80%)	66.20%

- (1) RevPAR means "Revenue Per Available Room" and is a common indicator used by the hotel industry to track and compare financial performance of hotels. It is calculated by multiplying a hotel's occupancy rate by its average daily rate.

Source: Smith Travel Research Lodging Review, for years 2006, 2007, and 2008. The industry data shown is for the Mid-scale Without

- (2) Food and Beverage category of hotels. These generally include mid-level, franchised hotels, which serve continental breakfasts but do not have lounges or restaurants. These are of the same class as the majority of the Company's hotels.

### Capital Structure.

We have historically used equity to fund 35% – 40% of each hotel project. This strategy has helped our predecessors to survive prior industry downturns while continuing to make distributions to investors. Highly leveraged and inefficient operators are often forced to sell during a downturn if hotel cash flow becomes insufficient to service debt. Management believes that our hotels will survive the current downturn in the economy based upon our efficient operations which we believe will continue to generate sufficient cash flow to pay operating expenses, debt payments, capital expenditures, and distributions to investors. Further, our management does not believe that we will be forced to sell any of our hotels due to insufficient cash flow.

In March 2007, we entered into a loan agreement with Fortress Credit Corp. in the amount of \$99.7 million which is used for the purpose of financing, in the short-term, a portion of the equity funding hotel acquisitions and construction. The Company started the construction

## [Table of Contents](#)

of a large number of hotels during 2008. We believe that if investor equity was used to fund a portion of this construction, it would significantly depress the returns to all of our investors. Consequently, we financed a portion of the equity of these new construction projects for a period of up to 5 years. This financing has caused leverage to increase. We are attempting to reduce our leverage during 2009 by replacing debt with equity; however, capital markets are currently constrained, and it is uncertain whether we will be able to raise a significant amount of equity.

### *Policy on Sale of Hotels*

We review our hotels approximately twice per year to determine if any significant changes to area markets have occurred or are anticipated to occur that would warrant the sale of a particular hotel. The factors we use in evaluating whether to sell a hotel include: new hotel supply to an area, major road expansion, changes to major area employers, or changes to hotel demand generators. In addition, we anticipate selling older hotels in markets where we own a single hotel, or where we own only one hotel franchised with a particular franchisor. A majority vote of the Board is required to approve a sale, provided the sale price is sufficient to cover the costs of the sale, satisfaction of all debt associated with the hotel, and return all capital contributions allocated to the hotel. If the sale proceeds are not likely to produce this result, a supermajority vote of the Board of Managers is required. A supermajority vote is defined in our Operating Agreement as an affirmative vote of eighty percent (80%) of the Managers present at a meeting of the Managers or, if a written consent is obtained, an affirmative vote of eighty percent (80%) of all Managers.

Management has identified two hotels, the St. Joseph, MO Comfort Suites and the Ellensburg, WA Comfort Inn, that the Company will prepare for sale. There is not a specific time frame in which such hotels will be sold, and contracts for sale will be entered into only if the sale terms are reasonable and provide appropriate investment returns. As of March 23, 2009, the Company has received indications of interest concerning the sale of the St. Joseph, MO Comfort Suites, and potential buyers are currently performing due diligence on the property.

### *Policy on Purchase and Construction of Additional Hotels*

Due to the unprecedented economic upheaval in the United States during 2008, we scaled back both our new construction and acquisition activities. Although we previously capitalized on our strategy of buying or building hotels during bearish periods in the national hotel business cycle, because we are uncertain where the bottom in the hotel market may be, we have decided to wait for appropriate opportunities before continuing with new construction and acquisition activities. At such time as we become comfortable that the economy has reached or neared the bottom of its business cycle, we will refocus our efforts on developing and acquiring hotels at prices which will maximize investor value over the long run. Buying or building hotels during the low point in the business cycle will permit us to take advantage of low purchase prices and stabilize the acquired properties prior to the next up-swing in the national hotel market so that the hotels are able to realize their full financial potential.

We may strategically acquire land for the development of new hotels, but will only begin construction if construction financing and equity are in place. We target markets exhibiting the following characteristics for the acquisition of land and construction of new hotels:

## Table of Contents

- insufficient high-quality hotel supply in the market or for limited- or select-service hotels
- barriers to entry of additional new hotels
- availability of high-quality franchise appropriate for the market
- no suitable and appropriately priced existing hotel in market

Due to the significant instability in the United States economy and real estate markets our hotel acquisition plans are on hold until such time as appropriate opportunities arise. At such time as we resume acquiring hotels, our ideal acquisition targets are expected to include the following:

- hotels that are performing below the market in their revenue
- hotels that are performing at or near the market in their revenue, but are not as profitable as they could be because they are poorly managed
- hotels in need of renovation to maintain franchise standards
- hotels that need to be renovated and converted to a more popular or upscale franchise

### *Corporate Operations*

We are governed by a seven-member Board of Managers (“Board”). There is currently one vacant position on the Board. In addition to the Board, we have a Company Manager, The Summit Group, responsible for substantially all of our executive, supervisory and administrative services, not otherwise specifically granted to the Board. These executive, supervisory and administrative services include, but are not limited to: administration, negotiation and pursuit of financing vehicles; determining the time and amount of distributions; and providing our record keeping. Furthermore, the Company Manager is responsible for the internal accounting of the Company, and coordination with accountants, including distribution of income tax information and forms to each of the Members. The Company Manager is reimbursed for its reasonable out-of-pocket expenses incurred as a result of its administration of the Company, provided all reimbursements of management expenses to The Summit Group, together with reimbursements in its capacity as Hotel Manager, but not including development expenses, do not exceed 4.5% of the gross revenue of the hotels in any given year. The Company Manager cannot be removed from its position, or its authority lessened, except upon amendment of our Operating Agreement or for cause. “Cause” is defined in the Operating Agreement as a material violation or breach of the authority, duty or obligations of the Company Manager, a breach of the duties of loyalty and good faith, or knowingly and intentionally failing to discharge such duties, willfully and wantonly disregarding the interest of the Company, intentionally and deliberately disregarding standards of behavior or conduct for such position which the Company and others have a right to expect of such party, or any other acts or omissions of carelessness or negligence of such degree or recurrence as to manifest culpability or wrongful intent. Mere failure to perform as the result of a good faith error in judgment or discretion does not constitute “cause.”

The Company Manager has the authority to approve any act unless such authority is restricted to the Board or Members. Consent of a majority of the Managers present at a meeting of the Board is necessary to approve any act, unless a greater percentage is required by the Operating

## [Table of Contents](#)

Agreement. The following actions require the affirmative vote of the Board with the required vote set forth in parentheses:

- acquisitions of real property or construction of hotels meeting our investment parameters (majority vote)
- acquisitions of real property or construction of hotels not meeting our investment parameters (supermajority vote)
- acquiring additional hotel entities if within our investment parameters (majority vote)
- acquiring additional hotel entities if outside our investment parameters (supermajority vote)
- the sale of hotels constituting greater than 50% of all the hotels as measured by the number of rooms of the hotels (supermajority vote)
- financing or refinancing exceeding our financing parameters (supermajority vote)
- additional private offerings not meeting our offering parameters (supermajority vote)
- use of refinancing and sale proceeds (majority vote)
- sale of a hotel (majority vote)
- sale of a hotel in which the sales price is not sufficient to cover the costs of the sale, satisfaction of all debt associated with the hotel, and all capital contributions associated with the hotel (supermajority vote)
- amendments to the Operating Agreement or Articles of Organization of the Company (majority vote)
- financing not in the course of ordinary business or otherwise within our financing parameters (supermajority vote)

A supermajority vote of the Board is defined in the Operating Agreement as the affirmative vote of eighty percent (80%) of the Managers present at a duly constituted meeting of the Managers or, if a written consent is obtained, an affirmative vote of eighty percent (80%) of all Managers.

### *Pre-Set Parameters*

Our Operating Agreement sets forth certain parameters to be used as guidelines in decision-making. These parameters may only be amended by unanimous consent of the Board. The Company Manager may take any action falling within the pre-set parameters, unless otherwise restricted in the Operating Agreement.

“Financing parameters” means debt or refinancing which does not (i) result in debt exceeding 75% of the value of the hotel(s) securing such debt, or (ii) exceed a 1.15 debt coverage ratio of the hotel(s) securing such debt. All debt which falls outside of the financing parameters has been approved by a supermajority vote of the Board.

“Investment parameters” means a hotel that meets the following requirements:

## Table of Contents

- limited service or select service hotel
- franchised with a current franchisor with which The Summit Group already has a business relationship
- 60-160 rooms
- located in markets with a population base of at least 50,000 persons
- located in the contiguous 48 States of the United States

In addition to the above, if an entity is to be acquired, it:

- must be currently paying a 10% priority return to its investors, and is projected to continue to make such payment
- must consist entirely of accredited investors

There is an exception to this requirement in that no further consent of the Board is required if the remaining 51% interest in Summit of Scottsdale is to be acquired by the Company. All acquisitions which fall outside of these parameters have been approved by a supermajority vote of the Board.

We are also subject to limitations on our ability to sell additional interests in the Company, which we refer to as “offering parameters.”

“Offering parameters” means a private offering that meets the following:

- no greater than \$50,000,000 to be raised
- no new class of membership interests to be offered
- to be offered only to accredited investors
- cannot provide The Summit Group with greater rights than currently existing

The October 2008 private offering, which exceeds the \$50 million threshold, was approved by a supermajority vote of the Board.

### *Board of Managers Committees*

We have an Audit Committee and a Compensation Committee of the Board of Managers. These committees have the authority, granted by the Company’s Operating Agreement, to set certain policies and take certain actions for the Company. For additional information, see Item 10. Directors, Executive Officers and Corporate Governance.

### *Liquidation Strategy*

In the event we have not entered into a contract for our purchase, redemption or merger with a third party by December 31, 2014, dependent on market and other conditions, the Board will explore liquidating strategies, including, but not limited to, adopting a plan of liquidation pursuant to which we, or our hotels, would be liquidated or sold. Any such plan of sale or liquidation will be effected as determined by the Board to be in the best interests of the Members. The plan of



## [Table of Contents](#)

liquidation will provide that we are under no obligation to liquidate within a specific time period as the precise timing will depend on real estate and financial markets, industry trends, economic conditions of the areas in which the hotels are located and the projected federal income tax effects on Members which may exist in the future. We cannot guarantee that we will be able to liquidate our hotels or the Company, in part or in whole, or if at all, and we will continue in existence until all hotels or our interests are sold. If we continue in existence, we may continue to acquire additional hotels. If the Company is liquidated, proceeds will be distributed in accordance with the provisions of the Operating Agreement.

### *Seasonality*

Certain segments of the hotel industry are very seasonal. Leisure travelers tend to travel more during the summer. Business travelers occupy hotels relatively consistently throughout the year, but decreases in business travel occur during summer and the winter holidays.

The hotel industry is also seasonal based upon geography. Hotels in the south tend to have high occupancy rates during the winter months. Hotels in the north have higher occupancy rates during the summer months. On balance, the hotel industry experiences its highest occupancies during summer, and its lowest occupancy rates from December through February. To provide for more stable revenues throughout the year, we strive to maintain geographic diversity of our hotels.

### *Diversity of Customers*

We serve a wide variety of customers, and no one customer generates more than 10% of our revenues. Our customers can be grouped into several categories, including business/commercial travelers, leisure travelers, and government travelers.

### *Government Contracts*

The United States government sets, for each hotel market, a maximum hotel room rate that it allows its employees to pay. If the government rate is not competitive in a particular market and our hotels can receive a higher rate from other customers, we will not offer the government employee rate at that hotel. We periodically contract with the United States government or other governmental entities to rent a set number of guestrooms at a set price. However, such contracts are not a material portion of our revenues.

### *Future Reservations*

Most of our customers do not reserve rooms far in advance of the date they arrive at the hotel. Furthermore, with limited exceptions, our guests are able to cancel reservations prior to arrival at the hotel. Therefore, it is difficult to predict the occupancy rates of our hotels through the end of 2009. Based upon the current state of the United States economy, current trends in industry occupancy rates, and our new hotel construction pipeline, we anticipate that same-hotel 2009 revenues will decline compared to 2008. See Item 1.A. Risk Factors.

*Hotel Industry*

The hotel industry is subject to business cycles, affected primarily by general economic conditions and by construction of new hotels. During periods when the hotel industry is experiencing higher revenues and the economy is stable, hotel developers often react by building new hotels. As the new hotels open in a market, the market destabilizes causing existing hotels to experience decreasing RevPAR and profitability. ("RevPAR" means revenue per available room, and is the product of the occupancy rate and the average daily rate charged by a hotel, referred to as ADR.) As this over-building occurs and profitability declines, new hotel construction slows. The demand for new hotel rooms grows gradually until the new hotel supply is absorbed into the market, and occupancy rates and ADRs increase. As profitability increases, the new construction begins again, and the industry cycle starts over.

During 2007 and 2008, the supply of new hotels increased faster than the demand for hotel rooms. Thus, across the nation the hotel industry became out of balance due to the increasing supply in hotels. Due to the decline in the economy, there are very few new hotels in development across the country and developers are focused on finishing existing hotel construction projects. Industry observers anticipate that the supply of new hotels will increase in the short term as existing hotel projects are completed, but the increase in supply will decrease once these projects are opened because few new projects are being started in late 2008 and 2009.

As a result of the significant decline in general economic conditions, many individuals and families have cancelled or postponed leisure travel plans. Furthermore, corporations and businesses throughout the United States have eliminated or significantly restricted travel budgets. For example, our hotel located in Bellevue, Washington, has experienced decreased occupancy rates as a result of travel restrictions at Microsoft. Due to the decline in leisure and corporate travel, the hotel industry is experiencing large decreases in occupancy rates and ADR. Industry analysts anticipate that occupancy rates and ADRs will continue to fall through 2009 and 2010, and the industry will not see a rebound in sales until the first quarter of 2011.

We may continue to acquire land for future construction of new hotels. Construction will not begin on any hotel, however, until both construction financing and equity are in place. In addition, we have temporarily ceased plans to acquire hotels. At such time as management believes that the United States economy has reached or neared the bottom of the current recession, we will re-focus our efforts on developing and acquiring hotels when strategically appropriate. We believe that the current tight credit markets and lowered profitability of the hotel industry will create numerous opportunities to acquire existing hotels at reduced prices.

At such time as the general economy stabilizes, we expect the hotel industry to experience increasing occupancy rates and ADRs for a period of up to five years. As a result, we plan to look for opportunities to acquire strategically appropriate hotel assets so that we can take advantage of the expected up-swing in the industry.

*Competition*

We operate in a highly competitive industry. Each geographic hotel market has unique competitive conditions. The size of each hotel market varies greatly and is determined by factors such as geographic features creating a natural division, proximity to a particular event site, and the number of hotels in the area. In each market where our hotels are located, there are a number of hotels of varying size, service quality, amenity level, and price range. Our biggest competitors are those hotels that are franchised by nationally-recognized hotel companies, offering a similar level of amenities at similar prices. In the hotel markets we compete in, there are anywhere from 3 to 15 direct competitors. Indirect competitors include those hotels that offer similar amenities but without a nationally-recognized franchise affiliation, hotels with greater amenity levels, and hotels with lower prices.

In the current economy, we are encountering significant competition from high-end and luxury hotels. These competitors have made drastic reductions in their room rates, depressing room rates in many markets. As a result, we have lowered our room rates in order to remain competitive. This phenomenon has occurred primarily in larger markets, and has not had a significant impact in the smaller markets in which our hotels operate.

When choosing a hotel, customers may consider several factors, including: quality customer service, amenities offered, price level, location, and franchise affiliation. There are several markets in which we own multiple hotels. Often, these hotels are located very near, or adjacent to each other. Thus, our hotels often compete against each other. We believe this provides us with competitive advantages because it allows us to limit our most significant potential competitors by binding the most desirable franchises, offering similar yet distinct amenities and services, and by referring customers between hotels.

At times when capital and credit markets are stable, our structure provides us with many opportunities to acquire existing hotels and sites for development that are not available to other hotel owners. Generally, we are large enough and have the financial resources to purchase several hotels at one time, and in a short time frame. As a result, under normal conditions, we have an advantage over smaller companies competing for the same real estate. In the current environment, smaller developers and hotel owners have extremely limited access to capital and credit. We continue to be able to locate capital and credit, although in limited amounts and under more restrictive conditions than normal.

We are operationally competitive in the markets we serve for a number of reasons. We maintain strict quality standards concerning the physical appearance of our hotels. We provide on-going training to our staff to provide the highest levels of customer service in the limited-service segment. We focus on providing guests with the amenities they want and need, such as expanded continental breakfast menus, flat panel televisions, in-room high speed Internet access, premium cable and movie channels, and a variety of high-quality exercise equipment. Even in markets where our competitors maintain high property condition, customer service and amenity levels, we are able to survive difficult market conditions better than most hotel owners because of our corporate financial strength and diverse revenue base.

*Environmental Matters*

We are subject to certain requirements and potential liabilities under various federal, state and local environmental laws, ordinances and regulations (“Environmental Laws”). For example, a current or previous owner or operator of real property may become liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of hazardous or toxic substances may adversely affect our ability to sell or rent such real property or to borrow using such real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic wastes may be liable for the costs of removal or remediation of such wastes at the treatment, storage or disposal facility, regardless of whether such facility is owned or operated by such person. We use certain substances and generate certain wastes that may be deemed hazardous or toxic under applicable Environmental Laws. From time to time we have incurred, and in the future may incur, costs related to cleaning up contamination resulting from prior owners’ uses of our properties. To date, remediation costs relating to prior owners’ uses of our properties have been immaterial to our operations. Other Environmental Laws require abatement or removal of certain asbestos-containing materials (“ACMs”) (limited quantities of which are present in various building materials such as spray-on insulation, floor coverings, ceiling coverings, tiles, decorative treatments and piping located at certain of our hotels) in the event of damage or demolition, or certain renovations or remodeling. We currently own no hotels that were constructed at the time when asbestos-containing materials were commonly used in construction, but may purchase additional such properties in the future. Environmental Laws also govern emissions of and exposure to asbestos fibers in the air and also regulate polychlorinated biphenyls (“PCBs”), which may be present in electrical equipment. We believe that few, if any of our hotels have underground storage tanks (“USTs”) or equipment containing chlorofluorocarbons (“CFCs”). In connection with our ownership, operation and management of our properties, we could be held liable for costs of remedial or other action with respect to PCBs, USTs or CFCs. Prior to purchasing land for new hotel construction or existing hotels, we hire third-party engineers to assess the property and advise us concerning potential environmental hazards or concerns.

Environmental Laws are not the only source of environmental liability. Under the common law, owners and operators of real property may face liability for personal injury or property damage because of various environmental conditions such as alleged exposure to hazardous or toxic substances (including, but not limited to, mold, ACMs, PCBs and CFCs), poor indoor air quality, radon or poor drinking water quality.

We own two hotels in Bloomington, Minnesota which incurred environmental contamination prior to our ownership. We have remediated the contamination in accordance with our engineers’ plans and instructions which were approved by the State of Minnesota. We have received final confirmation from the State of Minnesota that they have approved the remediation and closed their file.

## [Table of Contents](#)

Although we have incurred and expect to incur remediation and various environmental-related costs during the ordinary course of operations, we anticipate that such costs will not have a material adverse effect on our operations or financial condition.

### *Employees*

As of December 31, 2008, we employed approximately 1,366 employees at our hotels. None of our employees are covered by a collective bargaining agreement.

### **Financial Information About Geographic Areas**

Due to the nature of our business, we do not track the domicile of our customers. However, we believe that a large majority of our customers are domiciled in the United States. All of our assets are located in the United States. We do not intend to own or operate hotels located in a foreign country.

### **ITEM 1.A. RISK FACTORS**

The following risk factors and other information included in this annual report should be carefully considered. In addition to the risks described below, we are subject to a number of other risks and uncertainties which we may not be aware of or which we currently deem to be immaterial to our business operations. If any of the following or other risks occurs, our business, financial condition, operating results and cash flows could be adversely affected.

In addition, certain statements in this annual report refer to anticipated or expected future events, developments or actions. The risks set forth below, as well as others set forth in this document, if they were to occur, could cause actual results or outcomes to differ materially from those anticipated or expected.

#### **The current slowdown in the lodging industry and economy generally will continue to impact our financial results and growth.**

The present economic slowdown and the uncertainty over its breadth, depth and duration has had a negative impact on the hotel industry. Many economists have reported that the United States is in a severe recession. Substantial increases in travel costs and decreases in airline capacity have reduced demand for hotel rooms across the nation. Moreover, many businesses have self-imposed restrictions on their employees' ability to travel and hold conferences or events at hotels. Accordingly, our financial results have been impacted by the economic slowdown and both our future financial results and growth could be further harmed if the economic slowdown continues for a significant period or becomes worse.

#### **Events beyond our control which cause regional or nationwide decreases in travel or that otherwise cause the interruption of our operations or a decline in our business will negatively affect our operations.**

## [Table of Contents](#)

We are at risk of any event which will cause decreases in regional or nationwide travel. Such events can include a decline in general economic conditions, terrorist acts or threats of terrorism, rising fuel prices, inflation, military actions, public health emergencies such as the avian flu or SARS, or natural disasters. These types of events could cause a significant decline in travel and tourism, which is likely to cause a decrease in our revenues, financial condition, results of operations, and ability to make distributions to our members.

In addition, it is possible that any of our hotels could be subject to significant damage or destruction as a result of fire, wind, flood, or other casualty. Such event could cause a negative effect on the operations of our hotels. Further, as a result of future development of hotels in the markets in which our hotels are operating, the lodging supply may exceed demand, resulting in decreases in prevailing occupancy rates and average daily room rental rates. In such event, the results of operation of the hotels may be adversely affected.

We have acquired and intend to maintain comprehensive insurance on each of our hotels, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained by hotel owners. We cannot give assurance that such coverage will be available at reasonable rates or with reasonable deductibles. We do not currently carry terrorism insurance. Certain catastrophic losses, such as earthquakes, floods, or losses from foreign or domestic terrorist activities may be only partially insurable or not insurable due to the restrictions of insurers or economic infeasibility.

Regardless of a decline in revenue, many of our most significant expenditures (including mortgage note payments, real estate taxes, and maintenance costs) will not decrease. There can be no assurance that our projected occupancy levels or average room rates will be attained and it is possible that the hotels will fail in the event of lower occupancy levels or room rates. If operating costs increase as a result of inflation or any other cause and we are unable to increase room rates for any reason, the hotels may not be able to generate sufficient revenues to cover operating expenses. In the event we are unable to make scheduled payments on our debt obligations, the hotels could be foreclosed upon by our lenders.

### **Hotel revenues are volatile, which reduces our ability to make accurate predictions and provide consistent distributions.**

Hotels are unlike other real estate investments which typically provide a long-term source of income, such as office leases. Instead, hotel revenues can be volatile because our guestrooms are rented by day. Therefore, changes in the economy, consumer preferences, terrorist events or any of the other events mentioned in this Item 1A can be immediately reflected in our revenues as a result of guests canceling reservations or travel plans with little or no notice. The occurrence of any of the foregoing factors could have an immediate material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our members.

The hotel industry is seasonal in nature. Generally, our earnings are higher in the second and third quarters. If we incorrectly estimate the level of reserves we need to maintain in order to fund operating expenses during the first and fourth quarters, debt service payments or member

## [Table of Contents](#)

distributions, member distributions may be negatively affected or we may need to incur unexpected short-term borrowings to cover the shortfall.

### **Our success depends on senior executive officers whose continued service is not guaranteed.**

We depend on the efforts and expertise of the senior executive officers of the Company and The Summit Group to manage our day-to-day operations and strategic business direction. The loss of any of their services could have a material adverse effect on our business, financial condition, results of operations and our resulting ability to make distributions to our members. See Item 10. Directors, Executive Officers and Corporate Governance.

### **Our hotels are subject to significant competition in the markets where we are located and such competition may cause our hotels to not meet our financial expectations.**

The hotel industry is highly competitive, particularly in the mid-market, limited-service sector in which we operate. There are several nationally-recognized franchises that offer franchise brands in this segment. Historically, the hotel industry is subject to business cycles, largely caused by over-building new hotels. A material increase in the supply of new hotel rooms to a market can quickly destabilize that market causing existing hotels to experience decreasing RevPAR and profitability. (“RevPAR” means revenue per available room, and is the product of the occupancy rate and the average daily rate charged by a hotel, referred to as ADR.) During 2007 and 2008, the supply of new hotels increased faster than the demand for hotel rooms. Thus, across the nation the hotel industry has become slightly out of balance due to the increasing supply in hotels. This, combined with a decline in general economic conditions, has caused hotel occupancy rates and ADRs to decline in many markets. If significant new hotel construction occurs in one or more of our major markets, or if the market is particularly negatively affected by general economic conditions, we may experience a worsening adverse effect on our business, financial condition, results of operations and our ability to make distributions to our members.

### **If the hotel market declines, it may cause declines in revenues, financial condition, and negatively affect our ability to make distributions to our members.**

Events outside our control, such as over-building, general economic conditions, natural disasters, terrorist activities and other risks discussed in this Item 1A have adversely affected the hotel industry in the past, and the decline in the United States economy is currently causing a significant decline in the revenues and profitability of the industry. Similar events occurring in the future, or further declines in the general economy, may affect the hotel industry and cause a further decline in overall hotel industry fundamentals. Such events may cause us to not be able to acquire capital or financing necessary to acquire or build new properties. In addition, such events may cause a decline in the financial performance of our existing hotels. These results would negatively affect our hotel operations, financial condition, results of operations and our ability to make distributions to our members.

**There is significant competition for the acquisition of land and existing hotels which may cause us difficulties in increasing the size of our hotel portfolio.**

In the long term, we intend to continue to build and acquire hotel properties to add to the geographic diversity of our hotel portfolio. If we are unable to locate, successfully negotiate for, or finalize the purchase of land or existing hotels, we will not be able to attain this component of our business strategy. There is significant competition for the acquisition of land from other hoteliers, retail business owners, developers and service businesses such as restaurants. In addition, we compete for hotel acquisitions with individual hoteliers, regional or national hotel ownership or management companies, REITs, institutional investors or others who are engaged in real estate acquisition. These competitors may purchase the properties we wish to acquire thus preventing our continued growth. If we choose to pay higher prices for the properties in order to be more competitive, our returns to our members may decline.

**Our newly constructed or acquired hotels have no or limited operating history and may not achieve the operating performance we anticipate, and as a result, our overall returns may decline.**

We intend to construct and acquire additional hotel properties as we deem prudent to maintain our conservative financial position. Our newly constructed hotels have no operating history. In addition, from the time of acquisition of land for construction of a hotel to the completion of the construction of the hotel, the hotel market could experience significant changes in hotel room supply and demand. Significant increases in anticipated hotel room supply or decreases in hotel room demand in the markets where any one or more of our newly constructed hotels are located could cause the operating performance of the hotels to be below our projected results. Furthermore, hotels that are acquired may not produce revenues as expected, may cause greater operating expenses than projected, or may have hidden or concealed physical defects or operational defects that cause the operating performance of the hotel to be below our projected results.

**The acquisition, development, construction and renovation of hotels contains a number of risks which may result in significant liability to the Company.**

Hotels that are acquired may have hidden or concealed physical defects or operational defects that expose us to liability or significant expenditures to remedy the defects.

In addition, any renovation, development or construction of hotels carries all risks inherent in such activities such as costs greatly exceeding original estimates, regulatory hurdles which cause increased expenditures or significant delays to cure, financing may not be available on favorable terms for renovation or development of a property, permanent financing may not be available or a project may not be completed on schedule resulting in increased debt service, and most development projects, regardless of whether they are ultimately successful, typically require a substantial portion of management' s time and attention. Renovation, construction, and development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations.



**The hotel industry is capital intensive and we are subject to risks associated with our on-going need to obtain capital and financing to fund property improvements and maintenance.**

In order to remain competitive and to remain in compliance with our franchise agreements, our hotels must be renovated regularly. Such renovations include on-going repairs and maintenance, replacement of equipment, furniture and fixtures, and property upgrades. Such renovations are subject to risks inherent in construction activities such as cost overruns and delays, unavailability of financing to fund such improvements, and regulatory and governmental concerns. Furthermore, such activities may interrupt our hotel operations, causing a decline in revenues and increases in operating expenses. As a result, such renovations could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our members.

**The conditions of our existing indebtedness include provisions limiting certain aspects of our operations and ability to make distributions to our members.**

The documents evidencing our existing indebtedness under certain loans contain financial and operating covenants, such as debt service coverage ratios, leverage ratios, liquidity requirements and other limitations which may restrict our ability to make distributions or other payments to our members. In addition, such covenants may restrict our ability to sell any individual hotel or groups of hotels, sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions. In addition, certain of our loans require that reserves be established and restricted only for funding future renovations. Failure to meet or comply with the covenants could cause one or more of our lenders to declare the indebtedness in default, accelerate the payments and engage in foreclosure proceedings. For additional information concerning certain terms and conditions of our indebtedness, see Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations – Additional Information Concerning Sources and Uses of Cash.

**We may not be able to refinance our loans as they become due which may cause the hotels secured by such loans to be foreclosed upon.**

Our mortgage notes generally mature in advance of their full amortization, resulting in balloon payments. Given the current economy, many lenders have significantly reduced lending for commercial projects. These adverse conditions in the United States credit markets have caused financing opportunities to be limited or available only on terms that are unfavorable. In the event we are unable to refinance the amount of the balloon payment, we will be forced to use our cash reserves to pay off the remaining principal. If we do not have sufficient funds available, we will be unable to pay off the loan and may be subject to foreclosure of our hotels. Alternatively, we may be required to sell certain hotels at prices and upon terms that are unfavorable, which would negatively affect our financial performance and ability to make distributions to our members. In addition, in the event we are successful in refinancing our indebtedness, prevailing interest rates may be significantly higher than on our existing debt. As a result, our debt service payments could be significantly increased, which would decrease our

## [Table of Contents](#)

cash available for distribution to the members. As of December 31, 2008, we have loans with anticipated balloon payments of \$13.5 million maturing in 2009 (which, as of the date of this annual report, have been refinanced), loans with anticipated balloon payments of \$122.5 million maturing in 2010, and loans with anticipated balloon payments of \$1.9 million maturing in 2011.

As of December 31, 2008, 54.8% of our debt carried fixed interest rates, and 45.2% carried variable interest rates. As of December 31, 2008, our fixed interest rate debt totaled \$213.9 million. Our variable interest rate debt totaled \$176.2 million as of December 31, 2008, which included amounts outstanding under our lines of credit, and not the total available under the lines of credit. Increases in prevailing interest rates could increase our debt service payments significantly. This would adversely affect our financial condition, results of operations and ability to make distributions to our members. Additional information concerning our fixed- and variable-rate debt is included in Item 8. Financial Statements and Supplementary Data – Note 10 to Consolidated Financial Statements.

### **If we default on our secured debt in the future, the lenders may foreclose on our hotels.**

Our loans are generally secured by first mortgages on our hotels. If we default on any of our loans, the respective lender may declare a default and accelerate all payments due under that loan. We may also be subject to foreclosure of our hotels pledged under the respective mortgages. In addition to losing one or more hotels in the event of foreclosure, our members may suffer negative tax consequences as a result of the Company recognizing taxable income if the outstanding note balance exceeds our tax basis in the property. A default or foreclosure may adversely affect our financial condition, cash flow, ability to satisfy our other debt obligations, and the ability to make distributions to members.

### **If we default on our loan with Fortress Credit Corp. we may forfeit ownership of 49% of our wholly-owned subsidiaries.**

Our \$99.7 million loan with Fortress Credit Corp. is secured by a pledge of 49% of the membership interests of our wholly-owned subsidiaries. These entities currently own 36 of our 62 hotels. All new hotels acquired or developed by us will be required to be owned by a wholly-owned subsidiary subject to this pledge. If we default on our loan with Fortress, it could accelerate all amounts due under the note, and foreclose on the pledge of the membership interests. A default or foreclosure may adversely affect our ability to make distributions to members.

### **Our real estate investments are illiquid and this can restrict our ability to react to market changes because we may be unable to sell one or more hotels upon favorable prices or terms.**

As with most real estate investments, hotel assets are generally illiquid. This may restrict our ability to react quickly to changing market, economic or financial conditions by selling one or more properties. Along with nearly all real estate markets in the United States, the national hotel real estate market has declined significantly during 2008. Economists predict that there will be no significant rebound in commercial real estate markets in the United States during

2009. The occurrence of terrorist acts, a continuing or deepening recession in the global economy or United States economy, increasing interest rates, military actions, natural disasters and other events beyond our control may cause the hotel real estate market to decline further.

We may decide to sell one or more of our hotel properties in the future. The decision to sell may be because a hotel no longer fits within our strategic plan, because our investment could be better utilized in another hotel, or because we need to raise cash to fund operations or make distributions to our members. We cannot predict whether we will be able to sell any one or more of our hotels at a price, in a time frame, and upon terms that are acceptable to us.

In order to make a hotel more attractive for sale, we may need to make substantial upgrades and renovations. We cannot be certain that we will have funds available to finance such upgrades and renovations, thus restricting our ability to sell the hotel at a price and on terms that are acceptable to us. In addition, we have certain covenants in our loans which prevent us from prepaying or only allowing prepayment with a significant penalty. If we are unable to pay off a loan and have the mortgage released, we will not be able to find a buyer for the property. These conditions may adversely affect our financial condition, results of operations and our ability to make distributions to members.

**Changes in our debt service requirements may subject us to increasing interest expense which may reduce our ability to make distributions to our Members.**

Our debt-to-equity ratio was 4.55:1.0 as of December 31, 2008, and 3.6:1.0 as of December 31, 2007. We may choose to further leverage our existing hotel portfolio or finance higher percentages of newly acquired or constructed hotels. Increased leverage subjects our hotels to increased debt service payment requirements which will impede our cash flow and restrict our ability to make distributions to members. Further, increased leverage makes it more likely that we will be unable to survive the current or a future downturn in the hotel industry because we would be unable to support the increased payment requirements. In some situations, we finance 100% of the initial acquisition or construction of a hotel for a period of several months. Financing 100% of a hotel subjects us to risks that such highly leveraged hotels will not generate sufficient revenues to pay operating expenses and debt service requirements. This could result in the foreclosure of the loans on such hotels. As of December 31, 2008, two of our hotels were 100% financed.

If interest rates increase, our debt service requirements will increase on our variable interest rate loans. We do not use any form of interest rate protection, such as swap agreements or interest rate cap contracts. We may in the future enter into contracts to provide interest rate protection on our mortgage notes. Furthermore, at the time that our fixed interest rate loans mature, we will pay higher debt service payments on refinanced loans that carry higher interest rates. These higher debt service requirements could adversely affect our financial condition, results of operations and ability to make distributions to our members. If we are unable to make scheduled debt service payments, we may be required to sell one or more hotels at a price and on terms that are disadvantageous to us. Further, if we are unable to make scheduled debt service payments, our properties may be subject to foreclosure.

**Governmental regulations and noncompliance therewith could adversely affect our operations and financial condition.**

*Construction regulation.*

Renovation, development and construction of hotels requires certain municipal and state approvals. Therefore, we are subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations. Further, such regulations may cause construction cost overruns due to unexpected construction requirements. If these events occur, our hotels may be more expensive to build than originally estimated, thus reducing the investment return on those projects.

*Environmental matters.*

Our hotels are subject to various federal, state and local environmental laws. In the event one of our properties is discovered to be contaminated by a regulated hazardous material, we may be required to clean-up the contamination, even if the contamination occurred prior to our ownership. Further, environmental contamination will likely cause a decrease in the value of the property. Such contamination may even result from the migration of hazardous materials from a neighboring property. We may also be subject to lawsuit and liability resulting from harm caused to other property or persons as a result of the contamination of our hotel. The costs resulting from clean-up of hazardous material contamination, or liability for harm caused to another could be significant and materially adversely affect our financial condition.

We are unable to provide assurance that our properties are not contaminated by hazardous materials and that we will not be subject to the significant costs that can accompany such contamination. Our mortgage lenders require that we indemnify them for any environmental liability at our hotels.

*Americans with Disabilities Act and other changes in governmental rules and regulations.*

Under the Americans with Disabilities Act of 1990 (“ADA”), all public accommodations must meet various federal requirements related to access and use by disabled persons. Prior to obtaining occupancy permits, our newly-constructed hotels are subject to municipal scrutiny of our compliance with the ADA. There is a certain amount of discrepancy between experts and municipal construction officials concerning what is required in order to be in compliance. Therefore, we may be subject to increased costs of construction or delays in construction due to the requirements of local building officials. If a property is not in compliance with the ADA we may be required to remove barriers to access. Further, we could be subject to fines imposed by the United States government, or damages resulting from civil lawsuits. Substantial expenditures in efforts to be in compliance with the ADA may adversely affect our financial condition and ability to make distributions to members.

**Our hotels may contain or develop harmful molds, which could lead to liability for adverse health effects and remediation costs.**

## [Table of Contents](#)

Molds exist in all climates and in the air we breathe. However, when mold levels get too high, it can endanger the health of persons breathing the mold particles, particularly with certain strains of mold. Southern and humid climates are particularly subject to the growth and proliferation of molds due to high humidity. The presence of mold in our hotels could negatively affect the health of our employees and guests. Thus, the presence of mold in our hotels, beyond acceptable levels, may require us to remediate the mold problem. The existence or remediation of mold may require us to close all or a portion of the subject hotel, thus reducing our revenues. In addition, we may be subject to liability and civil lawsuits resulting from employees or guests who were exposed to the mold and suffered resulting health effects. Mold remediation can be expensive, and the unexpected costs could adversely affect the result of our operations, financial condition and ability to make distributions to our members.

### **Our mortgage agreements and ground leases may restrict our ability to sell our hotels.**

We have covenants in some of our loans which prevent us from paying off certain loans, or only allowing prepayment of such loans with a significant penalty. If we are unable to pay off a loan and have the mortgage released, we will not be able to find a buyer for the property. These conditions may adversely affect our financial condition, results of operations and our ability to make distributions to members.

In addition, several of our loan agreements contain restrictions or prohibitions on our ability to assign the loans to third parties. If such assignments are prohibited, our ability to sell the hotel subject to that loan is greatly restricted. If such assignments are permitted, they generally require consent of the lender, and payment of a significant transfer fee and all costs associated with the assignment.

Prepayment penalties and restrictions on assignment may reduce the price received for our hotels. This may adversely affect our financial condition and ability to make distributions to members.

*Our ground leases contain certain provisions that may limit our ability to sell our hotels.*

We own three hotel properties subject to a ground lease and are currently constructing two hotels on leased ground in Portland, Oregon. The lease covering our Ellensburg, Washington Comfort Inn requires the consent of the lessor in order to transfer the hotel and assign the ground lease. If the lessor refuses to allow transfer, we may be unable to sell a hotel that we otherwise want or need to sell. This may negatively affect our results of operations, financial condition and ability to make distributions to members.

### **Members may be required to report taxable income in periods where no cash distributions are made, thus requiring members to pay taxes from personal funds.**

Because all our taxable income will flow through to our members without regard to the amount of any cash distributions, our members' tax liability on their distributive share of our taxable income could exceed any cash distributions received. If members do not receive

distributions sufficient to pay the tax liability with respect to their distributive share of income or gain, they will be forced to pay tax liabilities out of personal funds. Members will be required to report their distributive share of our income, gains, losses, deductions and credits without regard to whether corresponding cash distributions are received. Because members will report their annual share of our taxable income or loss without regard to the amount of any cash distributions received, they may incur a tax liability with respect to their distributive share of income or gains for a taxable year in excess of any cash distribution. We are not aware of any prior instances in which cash distributions to our members were insufficient to cover the members' tax liabilities in any particular years, however, we can provide no assurance that this will continue in the future.

**Members have limited voting rights and ability to control the Board of Managers or our operations.**

We have a Board of Managers; however, six of our seven Managers are appointed by the Class C Member, The Summit Group. Furthermore, The Summit Group is the Company Manager and has significant control over the operations and actions of the Company. The Summit Group may be removed as Company Manager only for cause. In addition, The Summit Group is hired by us as the hotel manager pursuant to a Hotel Management Agreement. The Hotel Management Agreement provides that we may terminate The Summit Group as hotel manager only for cause. The Operating Agreement may not be amended to change these provisions without the consent of the Class C Member. Class A, Class A-1 and Class B Members have no right to participate in the management of the Company and their voting rights are limited to: (i) the creation of a new class of membership interest if such new class has rights, powers and duties that are superior to those of their class of membership interests; (ii) amendments to the Articles of Organization or Operating Agreement of the Company, except as otherwise set forth in the Operating Agreement; and (iii) dissolution of the Company. Thus, the Members' ability to influence Company decisions is substantially limited.

**There are inherent conflicts of interest in our organizational and management structure.**

The Company is subject to various conflicts of interest arising out of its relationship with certain members, investors, Managers, and their affiliates. The Summit Group, the Company Manager and hotel manager, also manages one hotel not owned by the Company. Furthermore, The Summit Group may develop and manage additional hotels which may not be owned by the Company. Potentially, these hotels could compete with the Company' s hotels for guests, and may compete for managers, employees and other resources, including the time and efforts of The Summit Group.

As The Summit Group appoints seats on the Board of Managers and is also a member in the Company, the interests of The Summit Group may be adverse to other members. As a result of these conflicts of interest, certain actions or decisions by The Summit Group may have an adverse effect on the interests of the members. Because The Summit Group' s Class C membership interests are not subject to dilution in the event of a private offering or other issuance of additional membership interests, it is possible that issuing additional membership interests may be advantageous to The Summit Group, but is not in the best interests of the Company or other members.

## [Table of Contents](#)

Because reimbursable expenses are payable pursuant to the hotel management agreement without regard to whether the Company's hotels are generating net cash from operations or otherwise benefiting the Company, an additional conflict of interest could arise in that it might be to the advantage of a Manager or The Summit Group to retain certain hotels even though its continued retention might not be in the members' best interests.

The Company's two executive officers are both executive officers of The Summit Group, the Company Manager and hotel manager. The executive officers may make decisions and take actions on behalf of the Company which are beneficial to The Summit Group, but not in the best interest of the Company.

Kerry W. Boekelheide, the sole owner of The Summit Group and a Company Manager, is also an owner of Summit Capital Partners, LLC fka Summit Real Estate Investments, LLC ("SCP"), the affiliated broker-dealer which the Company uses for its securities offerings and he therefore has an interest in raising additional capital and offering securities of the Company. It is possible that offering securities of the Company may be in the best interests of SCP or its agents, but may not be in the best interests of the Company.

### **The issuance of additional membership interests will dilute the members' ownership.**

As hotel acquisition and construction opportunities arise from time to time, we may issue additional membership interests to raise the capital necessary to finance the hotel acquisitions and construction, subject to our offering parameters. Future issuances of membership interests will dilute the Class A, Class A-1 and Class B members' ownership interest in the Company.

### **Members will have virtually no ability to sell or transfer their membership interests and thus are required to bear the risks of this investment for a significant period of time.**

We do not intend to apply for listing of our membership interests on any stock exchange or on the NASDAQ stock market or any Alternative Trading System. In addition, our Operating Agreement contains extensive restrictions on the transfer of membership interests. The transferability of membership interests is also restricted by federal and state law. The membership interests may not be offered, sold, transferred, pledged, or hypothecated to any person without the consent of the Company Manager. Due to tax and other requirements, the Company Manager does not intend to grant consent except for those transfers made pursuant to a safe harbor from the publicly traded partnership rules. It may be difficult or impossible for members to liquidate their investment when desired. Therefore, members may be required to bear the economic risks of the investment for an indefinite period of time.

## **ITEM 1.B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We are headquartered in Sioux Falls, South Dakota and, as of December 31, 2008, owned and managed 62 hotel properties throughout the United States. We lease our headquarters office location. We own in fee all of our hotel properties, except for three operating hotels and two parcels under construction that are subject to a land lease. We believe that, for our respective class of hotels, all of our hotel properties are in good physical condition, are the appropriate size and offer appropriate amenities, and are located in markets that, when the economy stabilizes, will be good to excellent. As of December 31, 2008, we owned 62 hotel properties with a total of 5,854 guestrooms. 44 of our hotels are categorized as mid-market, limited-service hotels, 18 of our hotels are categorized as select-service hotels. A list of our hotel properties owned as of December 31, 2008 and operating information for those hotels is included as Exhibit 99.1.

The Company's hotels are located throughout the continental United States with concentrations in Arkansas (4 hotels), Colorado (7 hotels), Idaho (7 hotels and 1 new construction hotel planned), Kansas (4 hotels), Louisiana (4 hotels), Tennessee (5 hotels), and Texas (7 hotels and 1 new construction hotel planned).

From January 1, 2008 through December 31, 2008, we purchased 1 hotel, completed the construction of 2 hotels, and sold 5 hotels. During the same period, we purchased land for the planned construction of 5 additional hotels. The acquisitions and dispositions of the Company's hotels and real estate are set forth below:

Location	# Rooms	Franchise	Property Purchased	Status	Closing Date
Spokane, WA(1)	105	Courtyard by Marriott	Land	Purchased	7/31/2008
Spokane, WA(1)	108	Springhill Suites	Land	Purchased	7/31/2008
Twin Falls, ID(1)	116	Courtyard by Marriott	Land	Purchased	12/09/2008
Twin Falls, ID	93	Holiday Express & Suites	Land	Purchased	2/29/2008
Missoula, MT(1)	100	Fairfield Inn & Suites	Land	Purchased	7/17/2008
Flagstaff, AZ(2)	114	Flagstaff Suites	Hotel	Purchased	10/30/2008
Kennewick, WA	56	Comfort Inn	Hotel	Sold	7/31/2008
Overland Park, KS	92	Homewood Suites	Hotel	Sold	7/01/2008
Lewiston, ID	52	Comfort Inn	Hotel	Sold	7/31/2008
Jackson, MS	111	Hampton Inn	Hotel	Sold	7/01/2008
Kennewick, WA	63	Fairfield Inn	Hotel	Sold	6/06/2008

(1) Number of units and franchise indicate our plans as of December 31, 2008, which are subject to change.

The hotel in Flagstaff, AZ was purchased as a 116-unit AmeriSuites. The franchise has been terminated and the hotel is operating as a

(2) Flagstaff Suites. It is currently being renovated. We anticipate that renovations will be complete in June 2009, at which time it will be converted to a 114-unit Springhill Suites.

The hotel and land purchases listed above were financed with the Fortress Credit Corp loan; and the First National Bank of Omaha Acquisition Line, as further described in Item 8. Financial Statements and Supplementary Data – Notes 10 and 11 to Consolidated Financial Statements.



## Table of Contents

The aggregate purchase price and anticipated construction cost of the properties described in the above table is approximately \$99.0 million. The aggregate sale price of the 5 hotels sold is \$28.6 million. The purchase price of the hotel purchased was \$10.75 million.

### *Franchises*

The following table reflects, as of December 31, 2008, our hotel properties, by franchise brand:

	<u>Properties</u>	<u>Rooms</u>
Hampton Inn	11	1,212
Fairfield Inn by Marriott	10	867
Springhill Suites by Marriott	6	559
Holiday Inn Express	6	515
Comfort Inn	5	305
Courtyard by Marriott	5	551
Comfort Suites	4	264
Cambria Suites	4	485
Residence Inn	3	287
Hyatt Place	2	272
Country Inn & Suites by Carlson	1	64
TownePlace Suites by Marriott	1	90
Hilton Garden Inn	1	120
Staybridge Suites	1	92
Unfranchised(1)	<u>2</u>	<u>171</u>
Total	62	5,854

Our unfranchised hotels include an Aspen Hotel & Suites located in Fort Smith, AR, and a Flagstaff Suites located in Flagstaff, AZ. We (1) acquired the Flagstaff Suites in October 2008, and are currently renovating the hotel. We anticipate that renovations will be complete in June 2009, at which time we anticipate converting the hotel to a Springhill Suites.

Fairfield Inn by Marriott, Comfort Inn, Hampton Inn, Hampton Inn & Suites, Comfort Suites, Holiday Inn Express, Holiday Inn Express Hotel & Suites, and Country Inn & Suites by Carlson, are each considered franchise brands in the mid-market, limited-service segment. Each of these hotels offers amenities generally present for hotels of this class, including a swimming pool and whirlpool, free continental breakfast, and in-room high speed Internet access. A significant number of the rooms at each Hampton Inn & Suites, Comfort Suites, Holiday Inn Express Hotel & Suites, and Country Inn & Suites are mini-suites, and include a small microwave and refrigerator.

Courtyard by Marriott, Cambria Suites, Hyatt Place, Hilton Garden Inn, and Springhill Suites are considered select-service hotel franchises. Springhill Suites was previously considered a limited-service hotel franchise, but the franchisor required the addition of several amenities and the hotels are now considered select-service. The hotel and room décor is generally of higher quality than other hotels in this segment. In addition, these hotels offer a hot, made-to-order breakfast or breakfast buffet, and lounge which is open for limited hours each evening. These hotels may also offer a light lunch or dinner menu.

## Table of Contents

Residence Inn, Staybridge Suites, and TownePlace Suites are considered mid-market, limited-service, extended-stay hotels. Each guestroom at the hotels in this segment offers a separate bedroom area, large living area, and full kitchen. These properties cater to guests who stay over 7 nights.

Affiliation with a nationally-recognized franchise offers name recognition, national marketing and advertising campaigns, centralized reservations systems, and certain other centralized functions and quality control.

### *Ground Leases*

Three of our hotel properties are located on leased land. The hotels located on leased land, lease termination dates, and extension options are as follows:

- Fort Smith, Arkansas Comfort Inn. Total lease payments are anticipated to be \$44,088 in 2009. Lease termination date is August 31, 2022. One option to extend for 30 years.
- Ellensburg, Washington Comfort Inn. Total lease payments are anticipated to be \$26,400 in 2009. Lease termination date is August 15, 2024. Two options to extend the term of the lease, with each option being a 10-year term.
- Fort Smith, Arkansas Hampton Inn. Total lease payments are anticipated to be \$170,013 in 2009. Lease termination date is May 31, 2030. Eleven options to extend the term of the lease, with each option being a 5-year term.

During 2007, we entered into land leases for two hotels to be built in Portland, Oregon. Construction has started on these two hotels, and we anticipate that construction will be complete in late 2009. For both parcels, all rental payments have been prepaid through the initial term of the lease. Lease termination dates are June 30, 2084. Both leases have one option to extend for 15 years.

### *Financing and Mortgages*

As of December 31, 2008, we had approximately \$370.3 million of outstanding long-term mortgage debt. Two of our hotels owned as of December 31, 2008 are debt free, the remainder are encumbered by a mortgage or deed of trust. Mortgage debt is obtained from a variety of commercial and institutional lenders. For additional information concerning our debt and lenders, please see Item 7. Management's Discussion and Analysis of Financial Information and Results of Operations – Additional Information Concerning Sources and Uses of Cash, and Item 8. Financial Statements and Supplementary Data – Note 10 to Consolidated Financial Statements.

*Maintenance*

Obsolescence and wear and tear can negatively affect the value and the revenue-generating ability of our hotels. We are committed to maintaining the highest standards of physical condition of our hotels compared to other limited-service, mid-market and select-service hotels. Furthermore, all but two of our hotels are subject to a franchise agreement. Each franchisor requires strict adherence to a regular maintenance, repair, remodeling and refurbishment schedule. We are in compliance with such schedules at each of our hotels. In 2008 we expended approximately \$10.6 million to renovate our existing hotels to keep them in good and competitive condition, and to bring newly acquired hotels to a good and competitive physical condition.

**ITEM 3. LEGAL PROCEEDINGS**

We are involved from time to time in litigation arising in the ordinary course of business, however, we are not currently aware of any actions against us that we believe would materially adversely affect our business, financial conditions or results of operations. We may be subject to future claims which could cause us to incur significant expenses or damages. We have assumed liability for past events at the hotels and for entities previously acquired by the Company, including lawsuits that are in process as well as lawsuits that have not yet materialized. If we acquire or consolidate additional entities in the future, we may assume obligations and liabilities of such entities. We operate in an industry susceptible to personal injury claims and significant personal injury claims could be asserted against us in the future arising out of events not known to us at this time.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our members during the fourth quarter of 2008.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT' S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

There is no established public trading market for any class of the Company' s securities.

As of March 27, 2009, there were approximately 653 record holders of the Company' s Class A membership interests, and 172 record holders of the Company' s Class A-1 membership interests. There are no outstanding warrants or options to purchase any class of Company security, pursuant to compensation plans or otherwise, and there is no class of security convertible into common equity of the Company.

Each month from April 2004 through December 2008, the Company has paid each Class' s Priority Return. The Priority Return for members is a cumulative but not compounded 10% return on each Class A Member' s Adjusted Capital Contribution and a cumulative but not compounded 8% return on each Class A-1 Member' s Adjusted Capital Contribution. In addition,

## Table of Contents

the Company made additional distributions to the Class A and Class A-1 Members, as set forth in the following table.

	Class A		Class A-1	
	Priority Return	Additional	Priority Return	Additional
<b>2007</b>				
First Quarter	\$ 2,402,346	\$0	\$ 262,849	\$0
Second Quarter	\$ 2,429,038	\$1,163,808	\$ 265,770	\$78,700
Third Quarter	\$ 2,455,731	\$2,296,748	\$ 268,690	\$155,312
Fourth Quarter	\$ 2,455,730	\$3,371,737	\$ 268,690	\$228,005
Total	\$ 9,742,845	\$6,832,293	\$ 1,065,999	\$462,017
<b>2008</b>				
First Quarter	\$ 2,402,346	\$0	\$ 262,849	\$0
Second Quarter	\$ 2,429,038	\$1,451,618	\$ 265,770	\$98,162
Third Quarter	\$ 2,455,731	\$2,756,096	\$ 268,690	\$186,374
Fourth Quarter	\$ 2,455,730	\$3,215,448	\$ 268,690	\$217,437
Total	\$ 9,742,845	\$7,423,162	\$ 1,065,999	\$501,973

Based upon current conditions in the hotel industry, we anticipate that we will continue to pay Priority Returns, but it is uncertain whether additional distributions will continue to be made at similar levels and with similar frequency. As we continue to acquire and build hotels, we anticipate that the aggregate dollars of distributions will increase; however, this is not anticipated to result in a larger distribution per unit because we anticipate using additional equity in order to fund such growth. No assurance can be given that the foregoing anticipated level of distributions will be attained.

### *October 2008 Offering*

We began a private offering of our Class A-1 membership interests pursuant to a Confidential Private Placement Memorandum dated October 21, 2008. The Class A-1 membership interests are offered privately, pursuant to an exemption under Rule 506 of the Securities Act of 1933. No interests are offered to unaccredited investors, and no sales are made to unaccredited investors. A total of 2,000 units of Class A-1 membership, for an aggregate offering price of \$100,000,000, are offered at \$50,000 per unit. In the sole discretion of the Board of Managers, we may increase the total number of units offered to 4,000 for an aggregate offering price of \$200,000,000. As of February 28, 2009 we have received and accepted subscriptions from 89 holders for 285.35 units with gross proceeds of \$14,267,500. Commissions on the sales totaled \$1,347,185, for net proceeds of \$12,919,715. There is no particular class of offerees for the Class A-1 Units, and the Units are sold to individuals, entities, and institutional buyers. The offering will close on August 31, 2009, unless extended to October 20, 2009 in the discretion of the Company Manager.

## [Table of Contents](#)

### *October 2005 Offering*

We began a private offering of our Class A-1 membership interests pursuant to a Confidential Private Placement Memorandum dated October 21, 2005. The Class A-1 membership interests were offered privately, pursuant to an exemption under Rule 506 of the Securities Act of 1933. No interests were offered to unaccredited investors, and no sales were made to unaccredited investors. A total of 750 units of Class A-1 membership, for an aggregate offering price of \$75,000,000, were offered at \$100,000 per unit. We received and accepted subscriptions from 124 holders for 133.25 units with gross proceeds of \$13,325,000. Commissions on the sales totaled \$867,500, for net proceeds of \$12,457,500. There was no particular class of offerees for the Class A-1 Units, and the Units were sold to individuals, entities, and institutional buyers. The offering was closed on July 31, 2006.

**ITEM 6. SELECTED FINANCIAL DATA**

**Selected Financial Data**

The following financial and operating information should be read in conjunction with the information set forth under “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” and our consolidated financial statements and related notes thereto appearing elsewhere in this annual report and incorporated herein by reference.

*Income Statement Data* (in millions)

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	Period From February 13, 2004 to December 31, 2004
Operating Revenues	\$ 137.4	\$ 116.3	\$ 102.9	\$ 74.5	\$ 39.2
Income From Continuing Operations	\$ 4.1	\$ 3.5	\$ 7.5	\$ 7.3	\$ 2.1
Net Income	\$ 13.1	\$ 14.0	\$ 9.4	\$ 3.7	\$ 1.6

*Earning Data*

Income From Continuing Operations Per Unit(1)	\$ 2,611.26	\$ 2,232.42	\$ 4,844.92	\$ 5,710.61	\$ 2,098.25
Net Earnings Per Unit (1)	\$ 8,411.67	\$ 9,012.19	\$ 6,116.61	\$ 2,860.82	\$ 1,590.94

Aggregate Cash Distributions Paid(1)	\$ 26,702,848	\$ 24,839,848	\$ 25,148,544	\$ 21,618,861	\$ 10,719,466
To Class C	\$ 6,683,725	\$ 5,612,615	\$ 5,780,665	\$ 5,319,822	\$ 2,298,112
Per Class C Unit(1)	\$ 38,501	\$ 32,331	\$ 33,299	\$ 30,644	\$ 13,238
To Class B	\$ 1,285,144	\$ 1,124,079	\$ 1,160,779	\$ 1,234,396	\$ 768,469
Per Class B Unit(1)	\$ 15,796	\$ 13,816	\$ 14,267	\$ 15,172	\$ 9,445
To Class A	\$ 17,166,006	\$ 16,575,137	\$ 16,784,874	\$ 15,064,643	\$ 7,652,885
Per Class A Unit(1)	\$ 14,714	\$ 14,208	\$ 14,388	\$ 14,633	\$ 10,360
To Class A-1	\$ 1,567,973	\$ 1,528,017	\$ 1,422,226	\$ 0	\$ 0
Per Class A-1 Unit(1)	\$ 11,767	\$ 11,467	\$ 11,654	\$ 0	\$ 0

Weighted Average Number of Units Outstanding					
Class C	173.60	173.60	173.60	173.60	173.60
Class B	81.36	81.36	81.36	81.36	81.36
Class A	1,166.62	1,166.62	1,166.62	1,029.49	738.71
Class A-1	133.25	133.25	122.04	0	0
Total	1,554.83	1,554.83	1,543.62	1,284.45	993.67

- (1) For purposes of determining the number of units outstanding, we assumed that a member acquires a Unit of membership by making a capital contribution of \$100,000. As described in the Company's Registration Statement filed on Form 10, the Company is periodically re-valued by a third party, and the valuation at the time of purchase determines the respective member's Sharing Ratio in the Company. Thus, each member's Units may carry different Sharing Ratios. A member's distributions are

## Table of Contents

determined, in part, by their Sharing Ratio. Therefore, the above Cash Distributions per Unit are averages.

### *Balance Sheet Data (in millions)*

	December 31, 2008	December 31, 2007	For the Periods Ended December 31, 2006	December 31, 2005	December 31, 2004
Total Assets	\$ 494.8	\$ 448.0	\$ 356.0	\$ 317.3	\$ 241.1
Long Term Obligations	\$ 350.8	\$ 261.5	\$ 210.1	\$ 180.7	\$ 125.7

### *Calculation of Sharing Ratios*

Sharing Ratios are the rights to distributions and allocations granted to a Member. Sharing Ratios are determined at the time of purchasing a membership interest and are based upon the capital contributions received pursuant to an offering divided by a recent third-party valuation of the Company. Each respective investor in an offering receives its proportionate share of the Sharing Ratios issued pursuant to such offering based upon the investor's capital contribution, multiplied by 50%. The Class C Member is allocated a Sharing Ratio equivalent to each Sharing Ratio allocated to an investor. Issuance of new Sharing Ratios results in an adjustment to the existing Sharing Ratios of all classes of members. Aggregate Sharing Ratios as of December 31, 2008 for each membership class were:

Class A	44.99%
Class A-1	4.07 %
Class B	7.95 %
Class C	42.99%

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial conditions and results of operations ("MD&A") discusses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and costs and expenses during the reporting periods. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, bad debts, investments, plant, property and equipment and intangible assets, income taxes, financing operations, self-insurance claims payable, contingencies, and litigation.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of the assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.



## [Table of Contents](#)

### *Forward-Looking Statements*

This report includes “forward-looking” statements, as that term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases. Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “expects,” “should,” “believes,” “plans,” “anticipates,” “estimates,” “predicts,” “potential,” “continue,” or other words of similar meaning. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, general economic conditions, our financial and business prospects, our capital requirements, our financing prospects, changes in same hotel revenues, and those risks described in Item 1.A. of this annual report. We caution readers that any such statements are based on currently available operational, financial and competitive information, and they should not place undue reliance on these forward-looking statements, which reflect management’s opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

### *Critical Accounting Policies*

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We periodically review the carrying value of property and equipment and other long-lived assets for indications that the carrying value of such assets may not be recoverable. This review consists of a comparison of the carrying value of the assets with the expected future undiscounted cash flows. If the respective carrying values exceed the expected future undiscounted cash flows, the impairment is measured using fair value measures to the extent available or discounted cash flows.

#### Capitalized Development and Interest Costs

The Company capitalizes all hotel development costs and other direct overhead costs related to the purchase and construction of hotels. Additionally, the Company capitalizes the interest costs associated with constructing new hotels. Capitalized development, direct overhead and interest are depreciated over the estimated lives of the respective assets. Organization and start-up costs are expensed as incurred. For the years ended December 31, 2008, 2007, and 2006, the Company capitalized interest of \$3,829,267, \$4,489,724, and \$572,938, respectively.

#### Impairment of Long-Lived Assets

We consider each individual hotel to be an identifiable component of our business. In accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,”

## [Table of Contents](#)

we do not consider a hotel as “held for sale” until the potential transaction has been approved by our Board, as may be required, and it is probable that the sale will be completed within one year. We do not consider a sale to be probable until a buyer’s due diligence review is completed and all substantive conditions to the buyer’s performance have been satisfied. Once a hotel is “held for sale,” the operations related to the hotel will be included in discontinued operations.

We do not depreciate hotel assets while they are classified as “held for sale.” Upon designation of a hotel as being “held for sale,” and quarterly thereafter, we review the carrying value of the hotel and, as appropriate, adjust its carrying value to the lesser of depreciated cost or fair value less cost to sell, in accordance with SFAS 144. Any such adjustment in the carrying value of a hotel classified as “held for sale” will be reflected in discontinued operations. We will include in discontinued operations the operating results of hotels classified as “held for sale” or that have been sold.

We periodically review the carrying value of certain long-lived assets in relation to historical results, current business conditions and trends to identify potential situations in which the carrying value of assets may not be recoverable. If such reviews indicate that the carrying value of such assets may not be recoverable, we estimate the undiscounted sum of the expected cash flows of such assets to determine if such sum is less than the carrying value of such assets to ascertain if an impairment exists. If an impairment exists, we determine the fair value by using quoted market prices, if available for such assets, or if quoted market prices are not available, we would discount the expected future cash flows of such assets.

### Consolidation Policy

The consolidated financial statements include the accounts of the Company and its variable interest entity, Summit Group of Scottsdale, Arizona, LLC. All significant intercompany accounts and transactions have been eliminated.

The Company adopted FIN 46R “Consolidation of Variable Interest Entities” beginning October 1, 2004. This Interpretation requires that we present any variable interest entities in which we have a majority variable interest on a consolidated basis in our financial statements.

### Revenue Recognition

The revenue from the operation of a hotel is recognized as part of the hotel operations segment when earned. Typically, cash is collected from the guest at the time of check-in or checkout or the guest pays by credit card which is typically reimbursed within 2-3 days; however, we also extend credit to selected corporate customers.

### *Results of Operations*

The following discussion presents an analysis of results of our operations for the years ended December 31, 2008, 2007, and 2006.

## [Table of Contents](#)

Our Net Income declined for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily because of a decrease in income from discontinued operations and a higher depreciation expense. The decrease in income from discontinued operations was due to lower gains on the sales of hotels in 2008 compared to hotels sold in 2007. The increase in depreciation is due to newly constructed and remodeled hotels.

All of our revenues are derived from guestroom rentals at our hotels, and revenues from services related to guestroom rentals. In addition to guestroom rental revenue, our hotels derived revenues from fees to guests for telephone usage, hotel meeting room rentals, restaurant and lounge receipts, hotel laundry and valet services, revenues from concessions and other fees charged to hotel users for similar services. All revenues were generated from hotels located in the United States.

Management utilizes a variety of indicators to compare the financial and operating performance of the hotels between periods, as well as the performance of individual hotels or groups of hotels. The key indicators we use include: occupancy percentage rate which is the percentage computed as the number of hotel guestrooms occupied divided by the number of guestrooms available for occupancy; average daily rate (ADR) which is the average rental rate charged to guests; revenue per available room (RevPAR) which is the product of the occupancy rate and ADR. Each of these indicators is also commonly used throughout the hotel industry. Because the number of hotels we own each year is variable, we believe these indicators give a better indication of our performance.

### *Year Ended December 31, 2008 Compared with Year Ended December 31, 2007*

#### Revenues

We generated \$137.4 million of revenues from continuing operations during the year ended December 31, 2008, compared to \$116.3 million during the year ended December 31, 2007, an increase in total year-to-year revenues of 18.2%. There are two primary reasons for the increase in revenues from 2007 to 2008. First, we experienced a significant increase in RevPAR, resulting from a strong increase in ADR despite a decline in occupancy rates. Second, we acquired 3 hotels, completed construction of 7 hotels, and disposed of 6 hotels during 2007, for an increase of 4 hotels in our portfolio, and an increase of 464 guestrooms. This is an increase of 8.6% in the number of guestrooms in our portfolio. The revenues of the hotels acquired and constructed during 2007 have continued to stabilize during 2008 as we had the opportunity to improve management at the new hotels.

## Table of Contents

The key indicators for the Company's hotel performance for the years ended December 31, 2008 and 2007 are set forth in the following table (includes hotels with continuing and discontinued operations).

	Year Ended December 31, 2008	Year Ended December 31, 2007	Increase/(Decrease)
All Company Hotels			
RevPAR	\$ 66.78	\$ 64.38	\$ 2.40
Average Daily Rate	\$ 100.95	\$ 96.20	\$ 4.75
Occupancy Rate	66.15 %	66.92%	(0.77%)
Number of Hotels Owned	62	64	(2 )
Number of Guestrooms	5,854	5,863	(9 )

Management attributes the success in increasing ADR and RevPAR at our hotels to several factors. First, hotel management continued to emphasize direct-sales efforts to improve occupancy rates at our hotels. Second, the hotels we sold during 2007 and 2008 tended to be hotels with sub-par ADR and occupancy rates, compared to the remainder of our portfolio. The hotels acquired and constructed tend to command higher room rates, even though the occupancy rates continue to stabilize at these hotels. Third, we have made focused efforts on revenue management to ensure that each of our hotels maximizes its revenues each day by attaining the optimum balance between ADR and occupancy rate. Our RevPAR increased due to the significant increase in ADR, despite the decrease in portfolio occupancy rates. The decline in occupancy rates was primarily due to increasing supply in the number of hotel rooms in our markets, because our new properties have not yet stabilized and due to decreases in travel nationwide in the third and fourth quarters of 2008. We anticipate that during 2009, occupancy rates will continue to decline and ADRs will decline at our hotels. For additional information, see Cash Provided by/Used in Operating Activities below.

### Hotel Operating Expenses

Our hotel operating expenses totaled \$115.6 million for the year ended December 31, 2008, which was 84.1% of our revenues from continuing operations, and \$97.4 million for the year ended December 31, 2007, which was 83.8% of our total revenues. Hotel operating expenses consist primarily of expenses incurred in the day-to-day operation of our hotels such as hotel staff salaries and wages, hotel utility expenses, hotel real estate taxes, and royalty and other fees charged by our franchisors. The primary reason for the increase in the percentage of operating expenses to revenues was because of depreciation expense related to newly constructed hotels and due to renovations that have occurred at several of our hotels during the past three years.

### *Depreciation and Amortization*

Our depreciation and amortization expense totaled \$22.5 million for the year ended December 31, 2008, and \$16.4 million for the year ended December 31, 2007. Our buildings and major improvements are recorded at cost and depreciated using the straight-line method over 27 to 40 years, the estimated useful lives of the assets. Hotel equipment, furniture and fixtures are recorded at cost and depreciated using the straight-line method over the estimated useful lives

## [Table of Contents](#)

of the related assets of 2 to 15 years. Periodically, we adjust the estimated useful life of an asset based upon our current assessment of the remaining utility of such asset.

### *Management Expense*

We reimburse The Summit Group, Inc. for the expenses it incurs in the management of our hotels and as Company Manager. During the year ended December 31, 2008, we reimbursed The Summit Group \$4.2 million related to total revenues, and \$4.2 million related to revenues from continuing operations in hotel management and Company Manager expenses, which was 3.0% of total revenues and 3.0% of revenues from continuing operations. During the year ended December 31, 2007, we reimbursed The Summit Group \$4.1 million of total revenues, and \$3.6 million related to revenues from continuing operations in hotel management and Company Manager expenses, which was 3.1% of total revenues and 3.1% of revenues from continuing operations. Additional information concerning reimbursements and payments to The Summit Group is discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

### *Repairs and Maintenance*

We incurred \$8.1 million in repair and maintenance expenses for the year ended December 31, 2008, and \$10.5 million in repair and maintenance expenses for the year ended December 31, 2007. The decrease in repair and maintenance expenses during 2008 is due to the large number of properties remodeled during 2007 compared to 2008, and because several hotels underwent their regular improvements as requested by the franchisors during 2007. During the twelve months ended December 31, 2008, we renovated 1 hotel which renovation cost less than \$500,000, and we renovated 3 hotels with each renovation costing in excess of \$500,000. Of these renovations, 1 was due to conversion from one franchise system to another, 2 were related to the renovation of acquired properties and 1 was due to franchisor requirements. During the twelve months ended December 31, 2007, we renovated 2 hotels with each renovation costing less than \$500,000, and we renovated 9 hotels with each renovation costing in excess of \$500,000. Of these renovations, 2 were due to conversion from one franchise system to another, 1 was due to renovations of acquired properties and 8 were due to franchisor requirements. Management anticipates that repair and maintenance expense will decrease during 2009 as there are only 4 hotel renovations scheduled as of March 17, 2009.

Normal maintenance and repair costs are expensed as they are incurred. Hotel development costs and other direct overhead costs related to the purchase and construction of hotels are capitalized. Expenses related to remodeling hotels are expensed to the extent permitted by generally accepted accounting principles.

### *Year Ended December 31, 2007 Compared with Year Ended December 31, 2006*

#### Revenues

We generated \$116.3 million of revenues from continuing operations during the year ended December 31, 2007, compared to \$102.9 million during the year ended December 31, 2006, an

## [Table of Contents](#)

increase in total year-to-year revenues of 12.9%. There are two primary reasons for the increase in revenues from 2006 to 2007. First, we experienced a significant increase in RevPAR, resulting from a strong increase in ADR despite a decline in occupancy rates. Second, we acquired 3 hotels, completed construction of 7 hotels, and disposed of 6 hotels during 2007, for an increase of 4 hotels in our portfolio, and an increase of 464 guestrooms. This is an increase of 8.6% in the number of guestrooms in our portfolio.

The key indicators for the Company's hotel performance for the years ended December 31, 2007 and 2006 are set forth in the following table (includes hotels with continuing and discontinued operations).

	Year Ended December 31, 2007	Year Ended December 31, 2006	Increase/(Decrease)
<b>All Company Hotels</b>			
RevPAR	\$ 64.38	\$ 61.77	\$ 2.61
Average Daily Rate	\$ 96.20	\$ 88.58	\$ 7.62
Occupancy Rate	66.92%	69.74%	(2.82%)
Number of Hotels Owned	64	60	4
Number of Guestrooms	5,863	5,399	464

Management attributes the success in increasing ADR and RevPAR at our hotels to several factors. First, hotel management continued to emphasize direct-sales efforts to improve occupancy rates at our hotels. Second, the hotels we sold tended to be hotels with sub-par ADR and occupancy rates, compared to the remainder of our portfolio. The hotels acquired and constructed tend to command higher room rates, even though the occupancy rates have not yet stabilized at these hotels. Third, we have made focused efforts on revenue management to ensure that each of our hotels maximizes its revenues each day by attaining the optimum balance between ADR and occupancy rate. Our RevPAR increased due to the significant increase in ADR, despite the decrease in portfolio occupancy rates. The decline in occupancy rates was primarily due to increasing supply in the number of hotel rooms in our markets and because our new properties have not yet stabilized.

### Hotel Operating Expenses

Our hotel operating expenses totaled \$97.4 million for the year ended December 31, 2007, which was 83.8% of our revenues from continuing operations, and \$83.4 million for the year ended December 31, 2006, which was 81.0% of our revenues from continuing operations. Hotel operating expenses consist primarily of expenses incurred in the day-to-day operation of our hotels such as hotel staff salaries and wages, hotel utility expenses, hotel real estate taxes, and royalty and other fees charged by our franchisors. The primary reason for the increase in the percentage of operating expenses to revenues was because of increased repairs and maintenance expense, start up costs related to opening 7 new hotels in 2007, and depreciation expense due to renovations at several of our hotels during 2007 and 2006.

*Depreciation and Amortization*

Our depreciation and amortization expense totaled \$16.4 million for the year ended December 31, 2007, and \$13.9 million for the year ended December 31, 2006. Our buildings and major improvements are recorded at cost and depreciated using the straight-line method over 27 to 40 years, the estimated useful lives of the assets. Hotel equipment, furniture and fixtures are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets of 2 to 15 years. Periodically, we adjust the estimated useful life of an asset based upon our current assessment of the remaining utility of such asset.

*Management Expense*

We reimburse The Summit Group, Inc. for the expenses it incurs in the management of our hotels and as Company Manager. During the year ended December 31, 2007, we reimbursed The Summit Group \$4.1 million related to total revenues, and \$3.6 million related to continuing operations in hotel management and Company Manager expenses, which was 3.1% of total revenues and 3.1% of revenues from continuing operations. During the year ended December 31, 2006, we reimbursed The Summit Group \$4.0 million related to total revenues, and \$3.3 million related to continuing operations in hotel management and Company Manager expenses, which was 3.2% of total revenues and 3.2% of revenues from continuing operations. Additional information concerning reimbursements and payments to The Summit Group is discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

*Repairs and Maintenance*

We incurred \$10.5 million in repair and maintenance expenses for the year ended December 31, 2007, and \$8.4 million in repair and maintenance expenses for the year ended December 31, 2006. The increase in repair and maintenance expenses during 2007 is due to the large number of properties remodeled during 2007, and because several hotels underwent their regular improvements as requested by the franchisors. During the twelve months ended December 31, 2007, we renovated 2 hotels with each renovation costing less than \$500,000, and we renovated 9 hotels with each renovation costing in excess of \$500,000. Of these renovations, 2 were due to conversion from one franchise system to another, 1 was related to the renovation of an acquired property and 8 were due to franchisor requirements. During the twelve months ended December 31, 2006, we renovated 3 hotels with each renovation costing less than \$500,000, and we renovated 12 hotels with each renovation costing in excess of \$500,000. Of these renovations, 5 were due to renovations of acquired properties and 10 were due to franchisor requirements.

Normal maintenance and repair costs are expensed as they are incurred. Hotel development costs and other direct overhead costs related to the purchase and construction of hotels are capitalized. Expenses related to remodeling hotels are expensed to the extent permitted by generally accepted accounting principles.

Impairment

As a result of the Company's review of the carrying value of our long-term assets in relation to historical results from operations, management deemed that our hotel located in Detroit, Michigan was impaired. Thus, the value was written down to its deemed fair market value determined by reference to the present value of the estimated future cash flow of the property. An impairment loss of \$5.3 million was charged to operations in 2005. This property was sold in 2007, so the impairment loss from 2005 and the subsequent gain on the sale of the property are reflected in discontinued operations in the 2007 financial statement presentation. There was no impairment charge taken in fiscal year 2006.

*Liquidity and Capital Resources*

Cash Provided by/Used in Operating Activities

Cash generated from hotel operations is the primary source of funding for operational expenses, debt service and distributions to members. We anticipate that cash flow from operations will be sufficient to fund these operational expenses, debt service, Priority Return payments, and perhaps additional distributions. We maintain a cash reserve to fund anticipated and unanticipated shortfalls in liquidity. The cash reserve balance is reviewed and adjusted on a monthly basis to reflect anticipated decreases in revenues resulting from seasonal fluctuations, declines in revenues resulting from significant events affecting the projected industry revenues, and planned major capital expenditures. We also maintain a \$40 million line of credit which may be used to fund acquisition, construction or working capital needs.

We generated \$26.8 million, \$25.9 million and \$24.2 million in cash from operating activities during the years ended December 31, 2008, December 31, 2007, and December 31, 2006, respectively. This cash generated from operations was used primarily to provide distributions to the members of \$26.7 million, \$24.8 million and \$25.1 million during the years ended December 31, 2008, 2007, and 2006, respectively.

We have historically made monthly Priority Return distributions to Class A and Class A-1 members. In addition, generally during April, July and October, we have distributed excess cash resulting from hotel operations to Class A, Class A-1, Class B and Class C members. During the years ended December 31, 2008, 2007 and 2006, the Company's average monthly Priority Return distribution was \$900,737, \$900,737, and \$893,128, respectively. During the years ended December 31, 2008, 2007 and 2006, the Company's average monthly distribution of excess cash was \$1,324,500, \$1,169,250, and \$1,202,584, respectively. There can be no assurance that we will be able to make the monthly Priority Return or additional distributions in the future. As of the date of this annual report, management believes that we will continue to make the monthly Priority Return distributions for the foreseeable future, however, we are uncertain whether additional distributions will be made, and the timing of such distributions.

Many economists have reported that the United States is in a severe recession. During the third and fourth quarters of 2008, many individuals and families cancelled or postponed leisure travel plans. Furthermore, corporations and businesses throughout the United States eliminated



## Table of Contents

or significantly restricted travel budgets. As a result, occupancy rates fell in hotels across the country. In addition, luxury hotels have drastically reduced their room rates, thus competing with mid-scale hotels. These trends appear to have intensified in the first quarter of 2009. Hotels in large metropolitan areas appear to have suffered the most significant effects of the financial crisis. Hotels in mid-sized and smaller markets have also experienced declining revenues, but to a lesser degree than in major metropolitan areas.

The Company experienced declining occupancy rates in 2008 due to over-building of hotels in many markets. The decline in occupancy rates intensified during the third and fourth quarters as the nationwide recession worsened. Furthermore, we have been forced to reduce room rates at many of our hotels in order to remain competitive. Our hotels located in major metropolitan areas (including Bellevue, Washington, Dallas, Texas, Phoenix, Arizona) have experienced the most significant declines in occupancy rates and ADR. Our hotels located in mid-sized and smaller markets have experienced smaller declines in occupancy rates and ADR. Thus, our diversity across various markets has helped to lessen the impact of the recession on our portfolio.

In order to combat the effects of the recession and over-building in many markets, we continue to focus on remaining highly competitive within our markets, and engaging in the direct sales process. Furthermore, our hotels have intensified efforts to provide a quality guest-experience, but with reduced expenses. Hotel staffs have been reduced, primarily through attrition. Expenses are very closely monitored and controlled, but with a focus on not reducing guest satisfaction. As a result of these efforts, management expects that our hotels will remain profitable in 2009. Therefore, for the foreseeable future, management anticipates that we will have sufficient resources to fund hotel operating expenses, make all debt service payments, make capital improvements, and continue to make Priority Return distributions to our investors.

### Cash Provided by/Used in Investing Activities

Management periodically reviews our hotel investments to determine whether any assets no longer meet our investment standards, are located in markets in which we no longer desire to own hotels, or no longer complement our core business. In such cases we take steps to dispose of such hotels at commercially reasonable prices and terms. We can provide no assurance that we will be able to complete such dispositions in reasonable time frames or upon reasonable terms.

Proceeds received from the disposition of hotels are generally reinvested and used to finance additional hotel property purchases or construction of new hotels. During the year ended December 31, 2008, we received \$23.6 million of cash from the disposition of hotels and related assets which was used primarily to pay down debt and was reinvested into purchases of land, construction costs, and new furniture or equipment. During the year ended December 31, 2007, we received \$35.6 million of cash from the disposition of hotels and related assets which was used primarily to pay down debt and was reinvested into purchases of land and new furniture or equipment. During the year ended December 31, 2006, we received \$8.5 million of cash from the disposition of hotels and related assets which was used primarily to pay down debt and was reinvested into purchases of land and new furniture or equipment.

## [Table of Contents](#)

Certain of our borrowing arrangements require that we maintain cash reserves for payment of property taxes, insurance and maintenance expenses of our hotels. These restricted funds are for use only at the hotels financed by the respective lender requiring the reserve. As of December 31, 2008, \$4.2 million of cash reflected on our balance sheet was classified as restricted, and was not available for other operating purposes. As of December 31, 2007, \$3.7 million of cash reflected on our balance sheet was classified as restricted, and was not available for other operating purposes. As of December 31, 2006, \$3.8 million of cash reflected on our balance sheet was classified as restricted, and was not available for other operating purposes.

For additional information, see Construction and Development Requirements below.

### Cash Provided by/Used in Financing Activities

Purchases of hotels and new hotel construction have historically been funded with a mix of 35%-40% equity, and 60%-65% debt financing. During 2007 and 2008, we leveraged many of our newly acquired and constructed hotels with up to 100% financing, causing the leverage on our entire portfolio to increase.

Proceeds from the issuance of long-term debt generated \$4.8 million in 2008, \$8.8 million in 2007, and \$13.6 million in 2006. In 2007 and 2008, these funds were used primarily to pay down short-term notes payable. The funds were used to purchase furniture and equipment in 2006.

For additional information, see Construction and Development Requirements below.

### *Additional Information Concerning Sources and Uses of Cash*

Major capital improvements on existing hotels and the acquisition or construction of new hotels is funded primarily through financing of hotels with commercial lenders and equity contributions.

In October 2008, we began a private equity offering. As of February 28, 2009, we have received and accepted subscriptions from 89 holders for 285.35 \$50,000 Units with gross proceeds of \$14.3 million (net proceeds of \$12.9 million). These proceeds were used to finance new hotel construction and pay down debt related to land and hotel acquisitions.

In October 2005, we began a private equity offering. We received and accepted subscriptions from 124 holders for 133.25 \$100,000 Units with gross proceeds of \$13.3 million (net proceeds of \$12.5 million). All proceeds from the offering were received during 2006. These proceeds were used to acquire hotel properties and land and pay down debt related to land and hotel acquisitions.

Additional information concerning these offerings is discussed in Item 5. Market for Registrant' s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## [Table of Contents](#)

We have acquired a considerable number of land and hotel properties during the past three years. The total cost of land and hotel properties acquired that have been financed directly through issuance of debt was \$16.4 million in 2008, \$42.3 million in 2007, and \$30.4 million in 2006. We have also continued to construct new hotels on the land that we have purchased. The total cost of construction in progress that has been financed directly through issuance of debt was \$38.8 million in 2008, \$78.8 million in 2007, and \$12.2 million in 2006. These projects have been funded through several bank loans, including:

On March 5, 2007 we entered into agreements with Fortress Credit Corp. for the purpose of financing our equity requirements for the acquisition, development and construction of real estate and hotel properties. The loan is in the amount of \$99.7 million. Up to \$75.0 million of the loan may be advanced to fund a portion of real estate acquisition and construction costs. The remaining \$24.7 million may be advanced to fund interest payments under the loan, which accrue monthly. As of December 31, 2008, the outstanding principal balance of the loan was \$74.9 million. The loan carries a variable interest rate of 30-day LIBOR plus 575 basis points, and matures March 2010 with two one-year maturity date extensions available. No principal payments are scheduled. The loan is secured by a pledge of 49% of the membership interests of our wholly-owned subsidiaries.

We entered into agreements securing a \$40 million line of credit with First National Bank of Omaha for the purpose of temporarily funding acquisitions and construction of new hotels ("Acquisition Line of Credit"). The Acquisition Line of Credit carries an interest rate at the prime rate less  $\frac{1}{2}\%$  for non-real estate secured advances, and at the prime rate less  $\frac{3}{4}\%$  for real estate secured advances. The borrowings under the Acquisition Line of Credit are repaid as permanent financing and equity sources for such acquisitions are secured. The outstanding balance on the Acquisition Line of Credit as of December 31, 2008 was \$12.3 million and \$21.6 million on December 31, 2007. We are required to maintain a minimum aggregate debt service coverage ratio of 1.50 to 1.00. The Acquisition Line of Credit matures on June 24, 2009. We anticipate extending the maturity date prior to June 24, 2009.

In addition, we entered into agreements securing a \$50 million credit pool with First National Bank of Omaha for the permanent financing of hotels. Each loan from the credit pool is classified as either a Pool One loan or a Pool Two loan. Loans from Pool One pay interest only for a maximum of two years, and carry an interest rate of LIBOR plus 2.15%. Loans from Pool Two are for a term of five years, and principal and interest payments are based upon a twenty-year amortization schedule. The Pool Two loans carry an interest rate ranging from LIBOR plus 1.75% to LIBOR plus 2.25%, depending upon the Company's most recent financial performance. Under this arrangement, our hotels can be financed in Pool One for up to two years and then be financed in Pool Two for up to five years. The outstanding balance on the Credit Pool as of December 31, 2008 was \$44.3 million and \$26.5 million on December 31, 2007. We are required to maintain a minimum aggregate debt service coverage ratio of 1.50 to 1.00.

On February 29, 2008, the Company entered into a loan with General Electric Capital Corporation in the amount of \$11.4 million to fund the land acquisition and hotel construction located in San Antonio, TX. The loan carries a variable

interest rate of LIBOR plus 255 basis points, and matures in May 2014. The outstanding balance as of December 31, 2008 was \$9.9 million.

On October 3, 2008, the Company entered into a loan with Bank of the Cascades in the amount of \$13.27 million to fund the land acquisition and construction of the Residence Inn hotel located in Portland, OR. The loan carries a variable interest rate of the Bank of the Cascades prime rate, with a floor of 6%, and matures in September 2011, with a one-year extension available. The outstanding balance as of December 31, 2008 was \$1.9 million.

On September 17, 2008, the Company entered into a loan with Compass Bank in the amount of \$19.3 million to fund the construction of a hotel located in Flagstaff, Arizona. The loan carried a variable rate of the prime rate minus 25 basis points, and matures in May 2018. The outstanding principal balance as of December 31, 2008 was \$3.0 million.

In 2005, we obtained a note payable with MetaBank providing the Company with short-term construction financing up to \$8.45 million which expires on April 29, 2009. Interest on unpaid principal is payable monthly at a rate equal to one quarter of one percent below the National Base Rate. The amount outstanding on this note payable was \$8.45 million on December 31, 2008. Management anticipates that this note will be renewed at maturity.

On August 15, 2007, the Company entered into a loan with General Electric Capital Corporation in the amount of \$11.3 million to fund the land acquisition and hotel construction located in Baton Rouge, LA. The loan carries a variable interest rate of LIBOR plus 185 basis points, and matures in May 2017. The outstanding balance as of December 31, 2008 was \$9.6 million.

On April 30, 2007, the Company entered into a loan with General Electric Capital Corporation in the amount of \$9.5 million to fund the land acquisition on hotel construction located in Denver, CO. The loan carries a variable interest rate of LIBOR plus 185 basis points, and matures in May 2017. The outstanding balance as of December 31, 2008 was \$9.4 million.

On December 22, 2006, the Company entered into another two construction loans with ING Investment Management. The loans are for the purpose of refinancing the purchase of real estate and financing the future construction of a hotel located in Ft. Collins, CO. The loan for \$2.6 million was paid in full during 2009. The loan for \$8.32 million has a fixed rate of 6.34% and a maturity date of July 1, 2012. The amount outstanding on these notes payable was \$8.3 million and \$10.9 million at December 31, 2008 and 2007, respectively.

On November 1, 2006, the Company entered into two construction loans with ING Investment Management. The loans are for the purpose of refinancing the purchase of real estate and financing the future construction of a hotel located in Jackson, MS. The loan for \$2.1 million was paid in full during 2008. The loan for \$6.6 million has a fixed rate of 6.61% and a maturity date of November 1, 2028. The amount outstanding on these notes payable was \$6.6 million and \$7.4 million at December 31, 2008 and 2007, respectively.

On July 25, 2006, we secured two construction/semi-permanent loans from M&I Marshall & Ilsley Bank to finance the construction of two hotels in Bloomington, Minnesota. The outstanding balance as of December 31, 2008 and 2007 was \$21.4

## [Table of Contents](#)

million and \$22.1 million, respectively. The interest rate is variable, at LIBOR plus 3.90%. Both notes were refinanced in January 2009, and now carry a maturity date of December 31, 2010.

In 2006, we also obtained two notes payable with BNC National Bank for short-term construction financing up to \$8,245,000. The note for \$7,120,000 was refinanced on October 1, 2008. It carries a variable interest rate of the prime rate minus 25 basis points and matures April 1, 2016. The amount outstanding on this note was \$6.1 million at December 31, 2008. The note for \$1,125,000 was paid in full during 2008.

We have also obtained financing with regional banks, or in connection with a hotel acquisition have assumed the financing, for several of our hotels. As of December 31, 2008, 57.8% of our long-term debt on the hotels carried a fixed interest rate. Certain of these loans may contain provisions requiring maintenance of specific leverage ratios or replacement reserves.

In the quarterly report filed on November 13, 2008 on Form 10-Q, we reported that we obtained a loan in the amount of \$10.85 million from General Electric Capital Corporation in order to fund the acquisition and construction of a hotel located in Houston, Texas. We decided to not begin construction of this hotel, and thus the loan has been terminated.

In the quarterly report filed on November 13, 2008 on Form 10-Q, we reported the we obtained a loan in the amount of \$13.1 million from Haven Trust Bank in order to fund the acquisition and construction of an Aloft hotel located in Jacksonville, Florida. Prior to any significant disbursements being made on the loan, Haven Trust Bank was placed into receivership, and consequently the loan was terminated. The construction of the hotel is currently being funded with equity.

Due to our significant reliance on financing for the acquisition and construction of hotels, changes in interest rates and underwriting parameters may affect our ability to acquire or build hotels which meet our investment objectives. Due to the current conditions in the banking industry and general economy, many lenders have limited offers for new commercial loans. We have experienced increasing difficulties obtaining financing for our hotels, particularly construction financing, on reasonable terms and conditions. Furthermore, upon the scheduled maturity of existing indebtedness we may be unable to obtain financing at terms similar to those on credit facilities currently financing our hotels. In addition, as of December 31, 2008, approximately 42.2% of our long-term indebtedness carried variable interest rates which increase or decrease with general interest rates changes.

## [Table of Contents](#)

### Construction and Development Requirements

We have several properties that are under construction and land that is held for future development and construction. The properties under construction and held for development as of December 31, 2008 are described in the table below:

Location	# Rooms	Franchise	Status	Acquisition Date	Opening Date (1)
Baton Rouge, LA (2)	127	Cambria Suites	Construction Completed	7/11/06	12/08
San Antonio, TX (2)	126	Cambria Suites	Construction Completed	1/22/07	12/08
Houston, TX (2)	118	Springhill Suites	Future Construction	2/15/07	TBD
Jacksonville, FL(2)	136	Aloft	Under Construction	11/29/06	08/09
Jacksonville, FL(2)	119	TBA	Future Construction	11/29/06	TBD
Flagstaff, AZ (2)	164	Courtyard by Marriott	Under Construction	4/5/06	09/09
Portland, OR (2)(3)	124	Residence Inn	Under Construction	6/13/07	09/09
Portland, OR (2)(3)	136	Hyatt Place	Under Construction	6/13/07	11/09
El Paso, TX (2)	101	Hampton Inn & Suites	Future Construction	7/16/07	TBD
El Paso, TX (2)	121	Courtyard by Marriott	Future Construction	7/16/07	TBD
Ft. Myers, FL (2)	149	Hyatt Place	Under Construction	8/30/07	10/09
Boise, ID(2)	120	Holiday Inn Express & Suites	Future Construction	10/1/04	TBD
Twin Falls, ID	91	Holiday Inn Express & Suites	Construction Completed	2/1/08	03/09
Twin Falls, ID(2)	116	Courtyard by Marriott	Future Construction	12/9/08	TBD
San Antonio, TX	TBD	Hilton Garden Inn	Future Construction	1/22/07	TBD
San Antonio, TX	TBD	TBD	Future Construction	1/22/07	TBD
Spokane, WA	105	Courtyard by Marriott	Future Construction	7/31/08	TBD
Spokane, WA	108	Springhill Suites	Future Construction	7/31/08	TBD
Missoula, MT	100	Fairfield Inn & Suites	Future Construction	7/17/08	TBD

- (1) The opening date is estimated and is subject to change.
- (2) Number of units and franchise indicate our plans as of March 19, 2009, which are subject to change.
- (3) The real estate is subject to a ground lease.

The table above does not include renovation or remodeling of hotels, and includes only construction of new hotels. Construction of the Baton Rouge, LA and San Antonio, TX Cambria Suites was financed through General Electric Capital Corporation loans. Construction of the Portland, OR Residence Inn is financed through the Bank of the Cascades loan. Construction of the Flagstaff, AZ Courtyard by Marriott is financed through the Compass Bank loan. The construction of the Jacksonville, FL Aloft, Portland, OR Hyatt Place, and Ft. Myers, FL Hyatt Place hotels are currently being funded with equity, however, a portion of the equity will be replaced with commercial debt at such time as the company locates debt for these projects upon reasonable terms and conditions. The other hotels to be constructed are expected to be financed through the Acquisition Line of Credit, future loans from other lenders, proceeds received from the sale of a hotel, or equity contributions.

Due to the rapid pace of construction and acquisition of new hotels during 2007 and 2008, the total amount of our debt increased quickly. Because many of the hotels being financed are under construction, however, they are not generating cash from operations. Most of the loans obtained for the construction of new hotels do not require interest payments, and instead interest is financed through advances on the respective construction loans. Hence, in the short-term, we

## Table of Contents

do not anticipate an increased short-term use of cash to fund financing costs as financing costs will be funded by additional debt. At such time as the construction loans begin amortizing, the respective hotels will be operating and are expected to generate cash from operations to fund debt service.

We have \$13.5 million in outstanding debt maturing during 2009 which has been refinanced, and have \$6.0 million in scheduled principal payments during 2009. Based upon our current level of operations, funds available on our credit pool, and other financing opportunities believed to be available to the Company, management believes that we have sufficient financing sources to meet scheduled maturities, equity distributions, working capital requirements, anticipated capital expenditures, anticipated operational expenses including advertising and marketing, and scheduled interest and principal debt payments for the foreseeable future. However, financing is increasingly difficult to obtain and there is no assurance that we will be able to refinance our indebtedness as it becomes due, and if we are able to secure financing, that it will be on favorable terms. Furthermore, we have three hotels that are under construction and we have been unable to locate debt to finance such projects on terms and conditions that are reasonable. For these three hotels we continue to seek financing, but in the meantime are funding construction costs with equity and our line of credit.

We cannot provide assurance that our business will continue to generate cash flow sufficient to service our debt payments. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our debt or obtain additional financing. Our ability to make scheduled principal payments, and to pay interest on or to refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions affecting the hotel industry and to general economic, financial, competitive, and other factors beyond our control.

### *Recent Developments*

The Company completed construction and opened a Holiday Inn Express Hotel in Twin Falls, Idaho on March 9, 2009. At such time, the Company's existing Holiday Inn Express Hotel and adjacent Comfort Inn in Twin Falls were converted to a single hotel and franchised as a Comfort Inn and Suites.

### Acquisitions and Dispositions

Since December 31, 2008, we have entered into a contract to acquire to sell the Comfort Suites located in St. Joseph, MO. The estimated closing date is April 30, 2009. The sale price is \$4.0 million.

## [Table of Contents](#)

### *Contractual Obligations*

We had the following contractual obligations outstanding as of December 31, 2008 (in millions):

	Total	Due In Less Than 1 Year	Due In 1-3 Years	Due In 4-5 Years	Due After 5 Years
Long-term debt	\$370.3	\$19.5	\$137.5	\$199.1	\$14.2
Operating lease obligations	\$6.1	\$0.2	\$0.5	\$0.6	\$4.8
Other (1)	\$19.8	\$19.8	\$0	\$0	\$0
Total	\$396.2	\$39.5	\$138.0	\$199.7	\$19.0

The line of credit at First National Bank of Omaha had an outstanding balance of \$12.3 million as of December 31, 2008. The Company (1) had construction loans with aggregate outstanding balances of \$7.5 million as of December 31, 2008. See Item 8. Financial Statements and Supplementary Data – Notes 10 and 11 to Consolidated Financial Statements.

As of December 31, 2008, including those properties where construction has already started, the Company has entered into construction contracts to develop and build 10 hotels for a total cost of \$100.8 million, with a remaining commitment of approximately \$66.0 million. Construction will not begin on any property on which construction has not already started until such time as construction financing and equity are in place.

As of March 19, 2009, the Company is under contract to purchase two parcels of land in Charlotte, North Carolina, for an aggregate purchase price of \$6.2 million. The Company anticipates building three hotels on the sites. The aggregate purchase price of the Charlotte properties is \$6.2 million, and the estimated construction cost of the hotels to be located on such properties is \$44 million. The land acquisition cost will be financed through the Acquisition Line of Credit and equity. Construction on any of the hotels will not begin until construction financing and equity are in place for such hotel.

### *Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements that are likely to have a material impact on our assets, liabilities, revenues or operating expenses.

## **ITEM 7.A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business strategies, the primary market risk to which we are currently exposed, and to which we expect to be exposed in the future, is interest rate risk. Our primary interest rate exposure is to the 30-day LIBOR rate. We use fixed interest rate financing to manage our exposure to fluctuations in interest rates. We do not use any hedge or other instruments to manage interest rate risk.



## [Table of Contents](#)

As of December 31, 2008, 54.8% of our debt carried fixed interest rates, and 45.2% carried variable interest rates. As of December 31, 2008, our fixed interest rate debt totaled \$213.9 million. Our variable interest rate debt totaled \$176.2 million as of December 31, 2008, which included amounts outstanding under our lines of credit, and not the total available under the lines of credit. Assuming no increase in the amount of our variable rate debt, if the interest rates on our variable rate long-term debt were to increase by 1.0%, our cash flow would decrease by approximately \$1,762,000 per year. This further assumes that interest payments are regularly due on all of our variable rate debt when, in fact, much of our variable rate debt is for construction of hotels or under the Fortress Credit Corp. line of credit, in which cases interest payments are deferred or capitalized into the cost of the construction project.

As of December 31, 2007, a total of \$179.1 million of our debt, or 53.2%, carried fixed interest rates. As of December 31, 2007, a total of \$157.5 million of our debt, or 46.8%, carried variable interest rates, which included amounts outstanding under our lines of credit, and not the total available under the lines of credit.

As the hotels that are recently acquired or constructed mature, we anticipate refinancing these hotels with permanent loans. To the extent the Company is able to obtain fixed-rate financing with reasonable terms, the permanent financing will be fixed-rate loans. As the Company continues to acquire and build hotels, however, it anticipates that the debt required will be variable-rate debt until such properties are stabilized, and can be refinanced with appropriate fixed-rate instruments, if available.

As our debts mature, the financing arrangements which carry fixed interest rates will become subject to interest rate risk. Approximately \$13.5 million of the Company's long-term debt was due as of December 31, 2008. This debt was refinanced in March 2009 with a variable-rate loan. None of our fixed interest rate debt matures during 2009. Additional information concerning our fixed- and variable-rate debt is included in Item 8. Financial Statements and Supplementary Data – Note 10 to Consolidated Financial Statements.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to the Financial Statements on page F-1.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On November 1, 2008, Gordon, Hughes & Banks, LLP (“GH&B”) resigned as the Company's independent registered public accounting firm. No report on the Company's financial statements prepared by GH&B during the prior two fiscal years contained an adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles. Further, during the prior two fiscal years, and the interim period through the date of resignation, there were no disagreements between the Company and GH&B on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction

of GH&B, would have caused it to make reference to the subject matter of the disagreement in connection with a report.

During 2008, GH&B entered into an agreement with Eide Bailly, LLP (“Eide Bailly”), pursuant to which Eide Bailly acquired the operations of GH & B and certain of the professional staff and shareholders of GH&B joined Eide Bailly either as employees or partners of Eide Bailly and will continue to practice as members of Eide Bailly.

Concurrent with the resignation of GH&B, the Company, through and with the approval of its Audit Committee, engaged Eide Bailly as its independent registered public accounting firm.

#### **ITEM 9.A. CONTROLS AND PROCEDURES**

Our management conducted an evaluation, under the supervision and with the participation of our principal executive and principal financial officers of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in enabling us to record, process, summarize and report in a timely manner the information required to be disclosed in reports we file under the Exchange Act.

There was no change in the Company’s internal control over financial reporting during the Company’s most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

#### **Management’s Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with United States generally accepted accounting principles.

As of December 31, 2008, management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2008, is effective.

The Company’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect

## [Table of Contents](#)

transactions and acquisitions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Company assets that could have a material effect on the Company's financial statements.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

### **ITEM 9.B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

We are managed by a Board of Managers and a Company Manager. The Company Manager is The Summit Group, Inc., an affiliate of the Company and the Class C Member. Day-to-day operations are managed by the Company Manager, through its executive officers.

The Board of Managers generally consists of seven Managers appointed as follows: four are appointed by the Class C Member; one member with a significant membership interest in the Company is appointed annually by the Class C Member ("Investor Representative"); one independent Manager ("Independent Manager") is appointed by the remaining Managers; either one additional Investor Representative is appointed annually by the Class C Member or one additional Independent Manager is appointed by the Class C Member. For these purposes, an Independent Manager may be a member of the Company, but shall not be an employee or officer. Furthermore, an Independent Manager is not necessarily "independent" as defined by securities rules and regulations. Upon a majority vote of the Board of Managers the number of Managers on the Board may be increased to nine seats. In the event the number of seats on the Board of Managers is increased to nine, the additional seats shall consist of one additional person who shall be either an Investor Representative or Independent Manager appointed annually by the Class C Member and one nominee of the Class C Member. Each Manager shall hold office for the term for which he is elected and thereafter until his successor shall have been elected and qualified, or until his earlier death, resignation or removal. Managers are not required to be members of the Company.

As of March 19, 2009, there is one vacant position on the Board of Managers. This position will be filled by The Summit Group, Inc., the Class C Member, in accordance with the provisions of the Third Amended and Restated Operating Agreement.

## Table of Contents

The following sets forth certain information concerning each of our Managers and Executive Officers.

### Kerry W. Boekelheide.

Kerry W. Boekelheide, age 54, has been a Manager of the Company since January 2004 and is an appointee of the Class C Member. He has been the Chief Executive Officer of the Company since April 24, 2006. Mr. Boekelheide is the sole owner of The Summit Group, Inc., and is currently its sole director. The Summit Group, Inc. was formed by Mr. Boekelheide and a partner in 1991. Mr. Boekelheide bought out his partner in 2001. The Summit Group, Inc. is an affiliate of the Company, and prior to the formation of the Company, developed and managed numerous hotels. From 1980 through 1991, Mr. Boekelheide served in management and executive officer positions with several hotel development and management companies.

### Daniel P. Hansen.

Daniel Hansen, age 39, has been a Manager of the Company since October 2005 and is an appointee of the Class C Member. Mr. Hansen was appointed as the Chief Financial Officer of the Company on March 4, 2008. He joined The Summit Group, Inc., in 2003 as Vice President of Investor Relations, and became the Executive Vice President and Chief Development Officer for The Summit Group, Inc., in 2007. In these positions, his primary responsibilities included oversight of investor relations, oversight and coordination of site acquisition, development and construction activities, and general officer oversight responsibilities such as strategic planning for the Company and development and maintenance of franchisor relationship. From 1992 to 2003, Mr. Hansen was a Vice-President and Regional Sales Manager for Merrill Lynch in the Texas Mid South Region which included Texas, Louisiana, Arkansas and Oklahoma. His responsibilities included marketing, training, and client acquisition.

### Craig J. Aniszewski.

Craig Aniszewski, age 46, has been a Manager of the Company since January 2004 and is an appointee of the Class C Member. Mr. Aniszewski joined The Summit Group, Inc., in 1997, as the Vice President of Operations and Development. He became the Executive Vice President and Chief Operating Officer of The Summit Group, Inc. in 2007. His primary responsibility is overseeing the operations of the Company's hotels. Prior to joining The Summit Group, Mr. Aniszewski worked for Marriott International for thirteen years in several hotel operations management positions.

### Robert G. Pulver.

Robert G. Pulver, age 59, has been a Manager of the Company since July 2004 and is an Independent Manager appointed by the Managers. He has been the President and Chief Executive Officer of All-State Industries, Inc. since 1974. All-State Industries manufactures rubber products. Mr. Pulver is a Director of West Bancorporation, Inc. [WTBA], a public bank holding company and West Des Moines State Bank. He is a member of the Board of Directors of Blank Children's Hospital.

## [Table of Contents](#)

### Paul A. Schock

Paul Schock, age 51, has been a Manager of the Company since July 2004 and is the Investor Representative appointed by the Class C Member. Mr. Schock has been a Director of VeraSun Energy Corporation since 2005. He served from 2005 through 2006 as the Vice President of Corporate Development of VeraSun Energy. VeraSun Energy, a public company, is a developer, owner and manager of ethanol manufacturing plants. VeraSun filed for Chapter 11 bankruptcy protection on October 31, 2008. It is in the process of winding down its business. From 1989 until 2004, Mr. Schock was a founding partner and co-manager of Bluestem Capital Company, a private equity firm based in Sioux Falls, SD, with approximately \$150 million in assets under management. Mr. Schock is currently the founder and Chief Executive Officer of Destination Golf Ventures, LLC, a developer of destination golf resorts.

### David A. Timpe

Mr. Timpe, age 61, has been a Manager of the Company since October 2008 and is an Independent Manager appointed by the Class C Member. Mr. Timpe is a Certified Public Accountant and is a Fellow of the Healthcare Financial Management Association. He was a partner with Eide Bailly, LLP, a public accounting firm, and retired from the firm on May 1, 2007. Mr. Timpe worked for Eide Bailly, LLP and its predecessors for 37 years, and focused primarily on compliance services (audits, cost reports and non-profit tax) for healthcare industry clients.

Of the Company's Managers, Mr. Timpe is considered "independent" as defined by federal securities laws and by the New York Stock Exchange corporate governance standards.

Holders of Class A, Class A-1 and Class B Membership Interests have no right to nominate or vote for the Managers of the Company.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act requires our executive officers and managers, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Our officers and managers and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on our review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended December 31, 2008, all Section 16(a) filing requirements applicable to our executive officers, managers and greater than ten percent beneficial owners were satisfied.

### **Code of Ethics**

We have adopted a Code of Business Conduct and Ethics, our Code of Ethics, relating to the conduct of our business by our employees, executive officers and Managers. Our Audit Committee

## [Table of Contents](#)

retains responsibility for administering and interpreting our Code of Ethics. Our Code of Ethics generally provides, among other things, that our Managers, executive officers and employees must:

- not engage in any unlawful activity in conducting our business;
- avoid conflicts of interest arising between the persons' responsibilities related our business and the person' s personal or family interests;
- not divert corporate opportunities that are discovered through the use of our property or information to himself or herself unless that opportunity has first been presented to, and rejected by, us;
- not compete with us;
- deal ethically and lawfully with our customers, suppliers, competitors and employees;
- maintain complete and accurate business and financial records;
- not disclose or distribute our confidential information, except when such disclosure is authorized by us or required by law;
- protect our assets that are entrusted to them and take steps to ensure that our assets are used only for legitimate business purposes; and
- not use our property or information for his or her improper personal gain.

Our Code of Ethics also contains compliance procedures, allows for the anonymous reporting of a suspected violation of our Code of Ethics and specifically forbids retaliation against any executive officer or employee who reports suspected misconduct in good faith. The provisions of our Code of Ethics may only be waived or amended by our Board of Managers or, if permitted, a committee of our Board of Managers. Waivers of our Code of Ethics that apply to our executive officers or Board of Managers must be filed with the Securities and Exchange Commission.

The Company does not maintain an Internet website. A copy of the Code of Ethics is available in print to any member without charge upon written request addressed to Summit Hotel Properties, LLC, Attn: General Counsel, 2701 South Minnesota Avenue, Suite 6, Sioux Falls, SD 57105. Our Code of Ethics is attached to this annual report as Exhibit 14.1.

## **Corporate Governance**

### Executive Officers

Kerry W. Boekelheide is our Chief Executive Officer, and Daniel P. Hansen is our Chief Financial Officer. The day-to-day responsibilities of these officers are limited as day-to-day operations of the Company are managed by our Company Manager. The primary responsibilities of our Chief Executive Officer include setting Company goals and policies, providing Board support, and general oversight of the operations of the Company. The primary responsibilities of our Chief Financial Officer include setting financial, accounting and tax policies, and oversight of the financial administration and controls of the Company.

Compensation Committee

The Compensation Committee is comprised of a designee appointed by Paul Schock, the Investor Representative on the Board, and a representative appointed by The Summit Group. Currently, Robert Pulver is the designee of the Investor Representative and Kerry W. Boekelheide has been appointed by The Summit Group.

The Compensation Committee is responsible for setting the compensation packages, including salary, commissions, bonuses, and benefits of the Managers and executive officers of the Company. In addition, the Compensation Committee reviews the reimbursement paid to The Summit Group for its service as hotel manager and Company Manager.

Audit Committee

The Audit Committee is charged with hiring our independent registered public accounting firm, setting policy and procedure concerning our bookkeeping, accounting, tax return preparation and financial controls. The Audit Committee may be comprised of two or three Managers, none of whom shall be an employee or officer of the Company. One of the Audit Committee members must be generally regarded as a financial expert.

The Audit Committee is currently comprised of Managers David Timpe and Paul Schock. Mr. Timpe is the Audit Committee financial expert, as defined by federal securities laws, and is considered “independent” as defined by federal securities laws and the New York Stock Exchange corporate governance standards.

**ITEM 11. EXECUTIVE COMPENSATION**

**Compensation Committee Report**

Our executive compensation program is administered under the direction of the Compensation Committee of our Board of Managers. The current members of the Compensation Committee are Kerry W. Boekelheide and Robert Pulver.

The undersigned members of the Compensation Committee of the Board of Managers of Summit Hotel Properties, LLC submit this report as follows:

Kerry W. Boekelheide, our Chief Executive Officer, began service on April 24, 2006. Daniel P. Hansen, our Chief Financial Officer, began service on March 4, 2008. Our executive officers and employee-Managers receive no salary or bonus directly from the Company. Their compensation is paid by The Summit Group, Inc. and a portion is reimbursed by us through the management fee, as further described in Item 13. Certain Relationships and Related Transactions, and Director Independence.

The Compensation Committee is responsible for establishing and reviewing compensation programs. To date, however, the Company does not offer any long-term compensation programs. No options to purchase membership interests are held by any party.

## [Table of Contents](#)

There are no contracts, agreements, plans or arrangements that provide for payment to any officer in connection with any termination or change in any officer's responsibilities, or upon change in control of the Company. At this time, we do not anticipate issuing equity-based compensation to any executive officers or employees but reserve the right to do so based upon the recommendation of the Compensation Committee.

As there is no compensation program, no plans, no awards, no pension benefits, and no deferred compensation for any employees or officers, no Compensation Discussion and Analysis has been prepared by the Company or reviewed by the Compensation Committee, and no compensation tables have been prepared.

### Submitted by the Compensation Committee

Kerry W. Boekelheide  
Robert Pulver

### **Compensation Committee Interlocks and Insider Participation**

The Company has established a Compensation Committee consisting of Robert Pulver and Kerry W. Boekelheide. Mr. Pulver has not served as an employee or officer of the Company, and does not have any relationships with the Company requiring disclosure under applicable rules of the rules and regulations of the SEC.

Mr. Boekelheide is the Chief Executive Officer of the Company. Furthermore, he is the Chairman of the Board of Directors and sole shareholder of The Summit Group, Inc. Mr. Boekelheide is also a Class A Member of the Company. In addition, Mr. Boekelheide is the President and principal of Summit Capital Partners, LLC, which acts as a broker-dealer for the Company's securities offerings. These relationships and compensation, distributions or other payments received during 2008 as a result of such relationships is disclosed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

None of our executive officers serves as a director of, or a member of the compensation committee of, any entity that has one or more of its executive officers serving as a member of our Board of Managers or Compensation Committee.

### **Compensation of Managers**

Members of the Board of Managers who are also employees of the Company or The Summit Group do not receive any compensation for their service as Managers. Managers who are not employees receive an annual Manager fee of \$20,000 payable in quarterly installments in cash.



## Employment Contracts

The Company does not have employment contracts with its executive officers, as the individuals who perform the functions of executive officers are employees of The Summit Group.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

There are no outstanding options, warrants or rights to purchase any class of Company security, and no securities are available for issuance under equity compensation plans.

The following table sets forth information with respect to the beneficial ownership of the Company's Membership Interests, as of December 31, 2008, by:

- each person who is known by us to be the beneficial owner of 5 percent or more of each Class of the Company's voting membership interests;
- each manager, each manager nominee, our executive officers identified in the "Executive Compensation" section below; and
- all of our managers, manager nominees and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities.

Each time the Company accepts new capital from the sale of membership interests, the membership interests of all other members in all classes of membership are re-calculated. Therefore, the beneficial ownership percentages set forth in the table below are frequently adjusted slightly regardless of any acquisition or disposition of interests by the persons listed in the table below.

Except as otherwise noted in the footnotes below, the individual parties listed below had sole voting and investment power with respect to such securities.

[Table of Contents](#)**Certain Beneficial Owners**

Name and Address of Beneficial Owner	Percent of Class (1)
<b>Class A Interests</b>	
Bellevue Partners, L.L.C. 122 S. Phillips Avenue, Suite 300 Sioux Falls, SD 57104	5.36 % (2)
Steven T. Kirby 122 S. Phillips Avenue, Suite 300 Sioux Falls, SD 57104	17.01 % (3)
Bluestem Capital Company 122 S. Phillips Avenue, Suite 300 Sioux Falls, SD 57104	15.40 % (4)
<b>Class A-1 Interests</b>	
Bluestem Capital Company 122 S. Phillips Avenue, Suite 300 Sioux Falls, SD 57104	20.61 % (5)
<b>Class C Interests</b>	
The Summit Group, Inc. 2701 S. Minnesota Ave., Ste. 6 Sioux Falls, SD 57105	100.00% (6)

**Managers and Executive Officers of the Company**

Name of Beneficial Owner	Percent of Class (1)
<b>Class A Interests</b>	
Kerry W. Boekelheide	8.38 % (7)
Paul A. Schock	14.89 % (8)
Robert G. Pulver	0.14 %
All Executive Officers and Managers as a Group (3 persons)	23.41 %
<b>Class B Interests</b>	
Craig J. Aniszewski	1.05 %
Kerry W. Boekelheide	62.63 % (9)
Paul A. Schock	13.92 % (10)
All Executive Officers and Managers as a Group (3 persons)	77.60 %
<b>Class C Interests</b>	
The Summit Group, Inc.	100.00% (6)
All Executive Officers and Managers as a Group (1 person)	100.00%

## Table of Contents

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- (1) The Company's membership interests are presented as percentages of ownership, rather than in shares or units.
  - (2) Steven T. Kirby holds sole voting and investment control over Bellevue Partners, LLC.  
Steven T. Kirby may be deemed to be the beneficial owner of Class A interests, including 10.04% of the Class A Interests held by Bluestem Capital Company, L.L.C., in addition to the 5.36% of Class A Interests held by Bellevue Partners, L.L.C., because of his sole voting and investment control over that entity. Mr. Kirby disclaims beneficial ownership of these securities except to the extent of his respective pecuniary interest therein. Voting and investment power for those securities beneficially held by Bluestem Capital Company, LLC is as described in footnote (4). Mr. Kirby holds sole voting and investment power for the remaining 1.7% securities beneficially held.
  - (3) Bluestem Capital Company, LLC may be deemed to be the beneficial owner of Class A Interests, including: 3.07% held by Bluestem Capital Partners I, LLC; 5.36% held by Bellevue Partners, LLC; 0.52% held by OSandY Partners, LLC; 0.60% held by Carrier Pasta, LLC; 4.59% held by Bluestem Growth & Income Fund, LLC; and 1.26% held by Bluestem Growth & Income Fund II, LLC. Bluestem Capital Company, LLC disclaims beneficial ownership of these securities except to the extent of its respective pecuniary interest therein. Steven T. Kirby holds sole voting and investment control over Bluestem Capital Company, LLC and each of the entities listed in this footnote (4), except he shares voting and investment power over Carrier Pasta, LLC with John Dennis and Tyler Stowater.
  - (4) Bluestem Capital Company may be deemed to be the beneficial owner of Class A-1 interests held by Bluestem Growth & Income Fund II, LLC and Bluestem Select Opportunities Fund, LLC. Bluestem Capital Company, LLC disclaims beneficial ownership of these securities except to the extent of its respective pecuniary interest therein. Steven T. Kirby holds sole voting and investment power over securities held by Bluestem Growth & Income Fund II, LLC and Bluestem Select Opportunities Fund, LLC.
  - (5) Kerry W. Boekelheide is the sole stockholder of The Summit Group, Inc., and, holds sole investment and voting control over the interests held by The Summit Group, Inc.
  - (6) Kerry W. Boekelheide may be deemed to be the beneficial owner of Class A membership interests, including: 2.79% held by TS One, Inc.; 2.19% held by KS Two, Inc.; and 3.13% held by KS Three, Inc. Mr. Boekelheide shares voting and investment power with James P. Koehler over the securities held by KS Two, Inc. and KS Three, Inc. Mr. Boekelheide shares voting and investment power with Gary Tharaldson over the securities held by TS One, Inc. Mr. Boekelheide disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.
  - (7) Paul A. Schock may be deemed the beneficial owner of Class A membership interests, including: 0.52% held by Nordica Enterprises, Inc.; 2.25% held by Schock Investment Partnership; 0.60% held by Carrier Pasta, LLC; 0.09% held by Mystic Partnership; and 11.41% held by Schock Financial Services, Inc. Mr. Schock has sole investment and voting power in Schock Financial Services, Inc. Mr. Schock holds shared investment and voting power as follows: Nordica Enterprises, Inc. (shared with Lynne Steele, Bernie Schock, Roberta Kohrt, and Steve Schock who, with Paul Schock, constitute the Nordica Enterprises Board of Directors); Mystic Partnership (shared with Bernie Schock, Steve Schock, Barbara Martin, and Robert Kohrt, who with Paul Schock, constitute the partners of the general partnership); and Schock Investment Partnership (shared with 10 other general partners, including Nordica Enterprises, Inc., however, none of the persons or entities have more than
  - (8)

## Table of Contents

16.48% of the voting or investment control). Mr. Schock does not hold voting or investment power over Carrier Pasta, LLC. Mr. Schock disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.

- (9) Mr. Boekelheide may be deemed the beneficial owner of Class B membership interests, including: 5.07% held by SHB, Inc.; and 57.56% held by The Summit Group, Inc. Mr. Boekelheide has shared investment and voting power in SHB, Inc. with Michael Sahli. Mr. Boekelheide disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein
- (10) Paul A. Schock may be deemed the beneficial owner of Class B membership interests, including 13.61% held by Schock Financial Services, Inc. as he holds sole voting and investment power over these securities. Mr. Schock disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **The Summit Group, Inc.**

#### *General.*

The Summit Group is the Class C Member and the Company Manager. The Summit Group, as Class C Member, is entitled to appoint 6 of the 7 Managers.

#### *Management Agreement.*

We have entered into a contract with The Summit Group whereby The Summit Group provides us with certain hotel management services. For these services we reimburse The Summit Group for all of its expenses related to the management of our hotels, with certain exceptions. Such reimbursement, together with reimbursements to The Summit Group in its capacity as Company Manager, may not exceed 4.5% of the gross revenues of our hotels in any year. Expenses that are included in the reimbursement subject to the 4.5% cap include: salaries and benefits of The Summit Group employees who act as our executive officers and Managers; office lease expenses; salaries, bonuses and benefits provided to The Summit Group's employees and executive officers; and all other overhead expenses. Reimbursable expenses incurred by The Summit Group that are not included in the 4.5% cap include: expenses related to the acquisition and development of hotels; expenses that are customarily paid for or performed directly by hotels, such as bookkeeping and accounting expenses; and funds advanced for services performed by third parties, such as accounting, tax and legal services. There is no limit on the reimbursement of expenses that are not subject to the 4.5% cap. The Compensation Committee reviews the reimbursements to The Summit Group on an annual basis, or more frequently in its discretion. The Summit Group cannot be removed, or the Hotel Management Agreement terminated, except for cause as specified in the Hotel Management Agreement.

The reimbursements to The Summit Group for its services as Hotel Manager and as Company Manager during the year ended December 31, 2008, totaled \$4,186,593, which was 3.0%

## [Table of Contents](#)

of revenues from continuing and discontinued operations, December 31, 2007 totaled \$4,122,048, which was 3.1% of continuing and discontinued operations revenues, and \$3,988,019 during the year ended December 31, 2006, which was 3.2% of continuing and discontinued operations revenues. We also reimbursed The Summit Group \$626,685, \$637,448, and \$546,481 for accounting services during the years ended December 31, 2008, 2007, and 2006, respectively.

### *Membership Interests.*

The Summit Group is the sole Class C Member of the Company. As of December 31, 2008, 2007, and 2006, the Class C Member owned approximately 42.9911%, 42.8444% and 42.8444% of the total membership interests of the Company, respectively. During the years ended December 31, 2008, 2007 and 2006, The Summit Group received \$6,683,725, \$5,612,615, and \$5,780,665, respectively, in distributions as a result of its Class C interest ownership.

The Summit Group is a Class B Member of the Company. As of December 31, 2008, 2007, and 2006, it owned 57.56% of the Class B membership interests, and this comprised 4.5749%, 4.6706%, and 4.6706%, respectively, of the total membership interests of the Company. The Summit Group received \$728,609, \$611,875, and \$632,801 in the years ended December 31, 2008, 2007 and 2006, respectively, in distributions as a result of its Class B interest ownership.

The Summit Group's Sharing Ratio as a result of its combined Class B and Class C membership interests was 47.57 % as of December 31, 2008, and is subject to increase in the event we issue additional membership interests, including as a result of future private offerings or consolidation of additional entities.

As of December 31, 2008, 2007 and 2006, the Company had Accounts Payable to The Summit Group in the amount of \$3,173,179, \$1,137,985, and \$1,678,761, respectively, relating to reimbursement of development expenses for acquired properties and management expense.

### **Summit Capital Partners, LLC**

Summit Capital Partners, LLC fka Summit Real Estate Investments, LLC ("SCP") provides brokerage services in connection with sales made under the Company's private offerings. SCP is 100% owned by Kerry W. Boekelheide, and is managed by its President, Kerry W. Boekelheide. Mr. Boekelheide is a Principal, Executive Officer, and a Manager of the Company. SCP may receive selling commissions no greater than 6% of the gross purchase price per Company membership unit sold by SCP. We have also agreed to pay SCP a 1% placement agent fee on the gross purchase price of Company membership units sold by SCP and/or other broker-dealers contracted by SCP, and an offering expense reimbursement fee of 1% of the gross purchase price per Company membership unit sold by SCP. In the years ended December 31, 2008, 2007 and 2006, we paid SCP a total of \$206,625, \$0, and \$218,500, respectively, in commissions and fees related to sales of Company securities.

## **Kerry W. Boekelheide**

Kerry W. Boekelheide is the sole voting owner and sole director of The Summit Group. Mr. Boekelheide also is a Class A Member of the Company. As of December 31, 2008, he owned 5.4438% of the Class A Membership Interests, and this comprised 2.5006% of the total membership interests of the Company. During the years ended December 31, 2008, 2007 and 2006, Mr. Boekelheide received \$578,803, \$545,655, and \$557,433, respectively, in distributions as a result of his Class A interest ownership.

## **Review Approval or Ratification of Transactions with Related Persons**

The Company's Third Amended and Restated Operating Agreement ("Operating Agreement") provides that no transaction between a related person and the Company is void or voidable solely by virtue of the existence of such relationship, or because the related person participates in the meeting of Managers which authorizes the transaction, or because such related person's votes are counted for the purpose of authorizing the transaction. The Operating Agreement further states that Managers may own Membership Interests in the Company.

The Operating Agreement provides that The Summit Group, Inc. shall be the Hotel Manager for the Company and describes the compensation and reimbursements payable to The Summit Group, Inc. as a result of such position. The Compensation Committee retains responsibility for the review of all compensation and reimbursements paid to The Summit Group, Inc.

All other transactions with related parties are subject to the review and approval of the Company Manager or the Board of Managers, as set forth in the Operating Agreement. Transactions with related parties, except as set forth in the Operating Agreement or otherwise approved by the Board of Managers, are to be based upon terms no worse than those that could be received from an independent third party. The Company believes that no transactions were entered into with related parties between January 1, 2008 and December 31, 2008 that did not comply with the above terms.

## **Manager Independence**

The Board of Managers currently consists of six Managers, who are: Kerry W. Boekelheide, Craig J. Aniszewski, Daniel P. Hansen, Robert Pulver, Paul A. Schock and David Timpe. The Managers were appointed as follows:

The Class C Member is entitled to appoint four Managers -Kerry W. Boekelheide, Craig J. Aniszewski, and Daniel Hansen and currently appointed. The Class C Member is entitled to appoint a Manager to the vacant Manager position.

One member with a significant membership interest in the Company is appointed annually by the Class C Member ("Investor Representative") – Paul A. Schock has been appointed in this position.

One independent Manager ("Independent Manager") is appointed by the Managers – Robert Pulver has been appointed in this position.

## [Table of Contents](#)

Either one additional Investor Representative is appointed annually by the Class C Member or one additional Independent Manager is appointed by the Class C Member. The Class C Member appointed an Independent Manager – David A. Timpe has been appointed to this position.

For these purposes, an Independent Manager may be a member of the Company, but shall not be an employee or officer. Each of these persons is either appointed by the Class C Member, or by the Managers, who each has been appointed by the Class C Member. Of the Managers, only David A. Timpe is considered independent pursuant to the New York Stock Exchange corporate governance standards.

The Company does not maintain an Internet website. The manner for appointment of the Board of Managers and the Company's definition of independent manager are set forth in the Company's Third Amended and Restated Operating Agreement.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

#### *Audit Fees and Audit-Related Fees*

Gordon Hughes & Banks, LLP served as our independent registered public accounting firm for the fiscal year ended December 31, 2007, and through the period ended October 31, 2008. Aggregate fees paid by the Company for professional services rendered by Gordon Hughes & Banks for the year ended December 31, 2007 and period ended October 31, 2008, were as follows:

	Ten Months Ended October 31, 2008	Twelve Months Ended December 31, 2007
Audit Fees	\$ 83,906	\$ 89,825
Quarterly Reviews	\$ 15,531	\$ 12,040
Audit-Related Fees	\$ 0	\$ 0
Total	\$ 99,437	\$ 101,865

Eide Bailly, LLP, served as our independent registered public accounting firm from November 1, 2008, through December 31, 2008. Aggregate fees paid by the Company for professional services rendered by Eide Bailly, LLP, for the year ended December 31, 2008 were as follows:

	Two Months Ended December 31, 2008
Audit Fees	\$ 6,067
Quarterly Reviews	\$ 0
Audit-Related Fees	\$ 0
Total	\$ 6,067

## Table of Contents

### *Auditor Fees Policy.*

Our Board of Directors has adopted an Audit Committee Charter which includes a policy concerning the pre-approval of audit and non-audit services to be provided by our independent accountants. The policy requires that all services provided by our independent accountants, including audit services, audit-related services, and other services, must be pre-approved by our Audit Committee. So long as is in accordance with the Securities Exchange Act of 1934, engagement of our independent accountants for de minimus non-audit related services, however, does not require the approval of our Audit Committee.

Our Audit Committee approved all audit and non-audit services provided to us by Eide Bailly, LLP, and Gordon Hughes & Banks during the 2008 and 2007 fiscal years, respectively.

### *Tax Fees and All Other Fees*

Eide Bailly, LLP provided Audit Committee approved services for income tax preparation of \$54,514 in 2008 and \$50,602 in 2007. Eide Bailly, LLP also provided audit services of \$9,851 for the Summit Group, Inc., 401(k) plan in 2008 and \$8,288 in 2007.

### *Tax Fees and All Other Fees Policies.*

The Company Manager is responsible for hiring and setting the compensation for tax fees and all other fees. The Audit Committee does not have responsibility for pre-approving the services or fees related to such services.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

Financial statements are included herein on pages F-1 – F-25.

The following Exhibits are filed as part of this annual report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Organization of Summit Hotel Properties, LLC ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
3.2	Third Amended and Restated Operating Agreement for Summit Hotel Properties, LLC ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.1	Hotel Management Agreement between Summit Hotel Properties, LLC and The Summit Group, Inc., dated February 11, 2004 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.2	First Amendment to Hotel Management Agreement between The Summit Group, Inc. and Summit Hotel Properties, LLC, dated April 24, 2006



## Table of Contents

Exhibit Number	Description of Exhibit
	<i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.3	Hotel Management Agreement between The Summit Group, Inc. and Summit Hospitality I, LLC, dated December 20, 2004 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.4	Hotel Management Agreement between The Summit Group, Inc. and Summit Group of Scottsdale, Arizona, LLC, d/b/a Springhill Suites by Marriott dated July 29, 2003 (identical in all respects to the Hotel Management Agreement between The Summit Group, Inc., and Summit Group of Scottsdale, Arizona, LLC, d/b/a Courtyard by Marriott, dated July 29, 2003, except in the identification of the hotel under management. Such Hotel Management Agreement is omitted.) <i>(Incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.5	Management Agreement between The Summit Group, Inc. and Summit Hospitality V, LLC, dated April 12, 2007 <i>(Incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 31, 2008)</i>
10.6	Managing Dealer Agreement between Summit Hotel Properties, LLC and Summit Capital Partners, LLC dated October 31, 2005 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.7	Soliciting Dealer Agreement between Summit Hotel Properties, LLC and Summit Capital Partners, LLC dated October 31, 2005 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.8	Loan Agreement between Summit Hospitality I, LLC and Lehman Brothers Bank, FSB dated December 30, 2004 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.9	Loan Agreement between Summit Hotel Properties, LLC and ING Life Insurance and Annuity Company dated December 23, 2005 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.10	Deed of Trust Note between Dana Suites/Bell Hospitality, L.L.C., and Credit Suisse First Boston Mortgage Capital, LLC, dated July 31, 1998 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.11	Deed of Trust, Assignment of Leases and Rents and Security Agreement between Dana Suites/Bell Hospitality, L.L.C., and Credit Suisse First Boston Mortgage Capital, LLC, dated July 31, 1998 <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.12	Note and Deed of Trust Assumption Agreement between JP Morgan Chase Bank F/K/A Chase Manhattan Bank, a New York banking corporation, as trustee for the registered holders of Credit Suisse First Boston Mortgage Securities Corp., Commercial Pass-Through Certificates, Series 1999-C1, Dana Suites/Bell Hospitality, L.L.C., and Summit Group of Scottsdale, Arizona, LLC <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>
10.13	Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated June 24, 2005 ("Credit Pool") <i>(incorporated by reference to the Registrant's Registration Statement on Form 10)</i>

## Table of Contents

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.14	First Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, dated November 14, 2005 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.15	Second Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, dated April 4, 2006 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 30, 2007</i> )
10.16	Third Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, dated September 29, 2006 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 30, 2007</i> )
10.17	Fourth Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, dated October 25, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 31, 2008</i> )
10.18	Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha dated July 20, 2004 ("Acquisition Line") ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.19	First Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha dated October 1, 2004 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.20	Second Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated June 9, 2005 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.21	Third Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated August 24, 2005 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.22	Fourth Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated March 1, 2006 ( <i>incorporated by reference to the Registrant's Registration Statement on Form 10</i> )
10.23	Fifth Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated April 12, 2006 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 30, 2007</i> )
10.24	Sixth Amendment of Loan Agreement between Summit Hotel Properties, LLC and First National Bank of Omaha, N.A. dated November 7, 2006 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 30, 2007</i> )
10.25	Seventh Amendment of Loan Agreement between Summit Hotel Properties, LLC, Summit Hospitality V, LLC and First National Bank of Omaha, N.A. dated April 30, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on August 14, 2007</i> )

## Table of Contents

Exhibit Number	Description of Exhibit
10.26	Eighth Amendment of Loan Agreement between Summit Hotel Properties, LLC, Summit Hospitality V, LLC and First National Bank of Omaha, N.A. dated May 30, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on August 14, 2007</i> )
10.27	Ninth Amendment of Loan Agreement between Summit Hotel Properties, LLC, Summit Hospitality V, LLC and First National Bank of Omaha, N.A. dated October 25, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 31, 2008</i> )
10.28	Loan Agreement between Summit Hotel Properties, LLC and ING Life Insurance and Annuity Company, dated June 15, 2006 ( <i>incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form 10</i> )
10.29	First Modification of Loan Agreement between Summit Hotel Properties, LLC and ING Life Insurance and Annuity Company, dated April 24, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on May 15, 2007</i> )
10.30	Modification of Promissory Note and Loan Agreement between Summit Hotel Properties, LLC and ING Life Insurance and Annuity Company, dated November 28, 2007 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 31, 2008</i> )
10.31	Loan Agreement between Summit Hotel Properties, LLC and M&I Marshall & Ilsley Bank for loan in the amount of \$14,080,000.00, dated July 25, 2006 ( <i>incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2006</i> )
10.32	First Amendment to Loan Agreement, Note and Collateral Security Documents (\$14,080,000.00 loan) between Summit Hotel Properties, LLC and M&I Marshall & Ilsley Bank, dated December 31, 2008
10.33	Loan Agreement between Summit Hotel Properties, LLC and M&I Marshall & Ilsley Bank for loan in the amount of \$10,400,000.00, dated July 25, 2006 ( <i>incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 31, 2006</i> )
10.34	First Amendment to Loan Agreement, Note and Collateral Security Documents (\$10,400,000.00 loan) between Summit Hotel Properties, LLC and M&I Marshall & Ilsley Bank, dated December 31, 2008
10.35	Loan Agreement between Summit Hotel Properties, LLC and Fortress Credit Corp. dated March 5, 2007 for a loan in the amount of \$99,700,000 ( <i>incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2007</i> )
10.36	Loan Agreement between Summit Hotel Properties, LLC and General Electric Capital Corporation dated April 30, 2007 for a loan in the amount of \$9,500,000 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on May 15, 2007</i> )
10.37	Loan Agreement between Summit Hotel Properties, LLC and General Electric Capital Corporation dated August 15, 2007 for a loan in the amount of \$11,300,000 ( <i>incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on August 21, 2007</i> )

## [Table of Contents](#)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.38	Loan Modification Agreement between Summit Hotel Properties, LLC and General Electric Capital Corporation (\$11,300,000 loan) dated December 2008
10.39	Loan Agreement between Summit Hospitality V, LLC and General Electric Capital Corporation dated February 29, 2008 for a loan in the amount of \$11,400,000 ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 31, 2008</i> )
10.40	Loan Agreement between Summit Hotel Properties, LLC and Compass Bank, dated September 17, 2008 for a loan in the amount of \$19,300,000 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on November 13, 2008</i> )
14.1	Code of Ethics ( <i>incorporated by reference to the Company's Report on Form 10-K filed with the SEC on March 30, 2007</i> )
16.1	Correspondence dated November 18, 2008 from Gordon, Hughes & Banks, LLP concerning change in certifying accountant ( <i>incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 20, 2008</i> )
21.1	List of Subsidiaries of the Registrant
31.1	Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 – Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 – Chief Financial Officer.
32.1	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Chief Executive Officer.
32.2	Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Chief Financial Officer.
99.1	List of hotel properties with operating information
99.2	Amended and Restated Audit Committee Charter adopted in July 2007 ( <i>incorporated by reference to the Company's Report on Form 10-Q filed with the SEC on August 14, 2007</i> )

**SIGNATURES**

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

**SUMMIT HOTEL PROPERTIES, LLC**

Date: March 31, 2009

By: /s/ Kerry W. Boekelheide

Kerry W. Boekelheide  
Chief Executive Officer and Manager

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kerry W. Boekelheide</u> Kerry W. Boekelheide	Chief Executive Officer and Manager	March 31, 2009
<u>/s/ Daniel P. Hansen</u> Daniel P. Hansen	Chief Financial Officer and Manager	March 31, 2009
<u>/s/ Craig J. Aniszewski</u> Craig J. Aniszewski	Manager	March 31, 2009
<u>/s/ Robert Pulver</u> Robert Pulver	Manager	March 31, 2009
<u>/s/ David A. Timpe</u> David A. Timpe	Manager	March 31, 2009
<u>/s/ Paul A. Schock</u> Paul A. Schock	Manager	March 31, 2009

**SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT**

The Company did not furnish an annual report or proxy materials to security holders during 2008. The Company does not anticipate furnishing an annual report or proxy materials to security holders subsequent to the filing of this annual report.

**SUMMIT HOTEL PROPERTIES, LLC**  
**INDEX TO FINANCIAL STATEMENTS AND SCHEDULES**

	<u>Page</u>
<a href="#">Reports of Independent Registered Public Accounting Firm</a>	F-1 - F-2
Financial Statement	
Summit Hotel Properties, LLC:	
<a href="#">Consolidated Balance Sheets as of December 31, 2008 and 2007</a>	F-3
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006</a>	F-4
<a href="#">Consolidated Statements of Changes in Members' Equity for the years ended December 31, 2008, 2007 and 2006</a>	F-5
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</a>	F-6 - F-7
<a href="#">Notes to Consolidated Financial Statements</a>	F-8 - F-25

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Managers  
Summit Hotel Properties, LLC  
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheet of Summit Hotel Properties, LLC (the “Company”) as of December 31, 2008 and the related consolidated statements of operations, changes in members’ equity and cash flows for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company’ s management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’ s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the consolidated financial position of Summit Hotel Properties, LLC as of December 31, 2008, and the consolidated results of its operations and its cash flows for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

*/s/ Eide Bailly, LLP*  
Greenwood Village, Colorado  
March 23, 2009



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Managers  
Summit Hotel Properties, LLC  
Sioux Falls, South Dakota

We have audited the accompanying consolidated balance sheet of Summit Hotel Properties, LLC (the "Company") as of December 31, 2007 and the related consolidated statements of operations, changes in members' equity and cash flows for each of the two years in the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Summit Hotel Properties, LLC as of December 31, 2007 and the consolidated results of its operations and its cash flows for each of the two years ended December 31, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

*/s/ Gordon, Hughes & Banks, LLP*

Greenwood Village, Colorado  
March 21, 2008

[Table of Contents](#)

## SUMMIT HOTEL PROPERTIES, LLC

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$18,153,435	\$7,776,395
Restricted cash	1,679,027	2,462,947
Trade receivables	2,622,164	3,192,708
Prepaid expenses and other	2,170,955	1,863,846
Total current assets	<u>24,625,581</u>	<u>15,295,896</u>
PROPERTY AND EQUIPMENT, NET	<u>461,894,270</u>	<u>426,494,205</u>
<b>OTHER ASSETS</b>		
Deferred charges and other assets, net	5,664,796	4,998,923
Restricted cash	2,570,374	1,201,183
Total other assets	<u>8,235,170</u>	<u>6,200,106</u>
<b>TOTAL ASSETS</b>	<u>\$494,755,021</u>	<u>\$447,990,207</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$19,508,600	\$40,837,000
Lines of credit	12,288,500	21,575,864
Notes payable	7,469,865	12,700,557
Accounts payable	3,770,908	4,862,128
Related party accounts payable	3,173,179	1,137,985
Accrued expenses	9,956,372	9,639,577
Total current liabilities	<u>56,167,424</u>	<u>90,753,111</u>
LONG-TERM DEBT, NET OF CURRENT PORTION	<u>350,826,837</u>	<u>261,544,939</u>
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
MINORITY INTERESTS	<u>(1,624,463 )</u>	<u>(1,702,732 )</u>
<b>MEMBERS' EQUITY</b>		
Class A, 1,166.62 units issued and outstanding	76,512,442	82,892,941
Class A-1, 196.50 & 133.25 units issued and outstanding, respectively	15,855,756	10,672,761
Class B, 81.36 units issued and outstanding	3,007,247	4,108,213
Class C, 173.60 units issued and outstanding	<u>(5,990,222 )</u>	<u>(279,026 )</u>
Total members' equity	<u>89,385,223</u>	<u>97,394,889</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$494,755,021</u>	<u>\$447,990,207</u>

The accompanying notes are an integral part of these consolidated financial statements.

## SUMMIT HOTEL PROPERTIES, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	2008	2007	2006
<b>REVENUES</b>			
Room revenues	<b>\$135,062,049</b>	\$114,379,954	\$101,256,354
Other hotel operations revenues	<b>2,345,091</b>	1,886,164	1,690,237
	<b><u>137,407,140</u></b>	<u>116,266,118</u>	<u>102,946,591</u>
<b>COSTS AND EXPENSES</b>			
Direct hotel operations	<b>43,129,245</b>	35,802,298	31,811,736
Other hotel operating expenses	<b>15,446,788</b>	12,240,911	10,840,207
General, selling and administrative	<b>26,418,069</b>	22,443,526	18,417,662
Repairs and maintenance	<b>8,081,770</b>	10,487,992	8,440,939
Depreciation and amortization	<b>22,524,416</b>	16,419,680	13,874,827
	<b><u>115,600,288</u></b>	<u>97,394,407</u>	<u>83,385,371</u>
<b>INCOME FROM OPERATIONS</b>	<b><u>21,806,852</u></b>	<u>18,871,711</u>	<u>19,561,220</u>
<b>OTHER INCOME (EXPENSE)</b>			
Interest income	<b>198,517</b>	457,535	634,262
Interest (expense)	<b>(17,168,943)</b>	(14,425,732)	(11,285,183)
Gain (loss) on disposal of assets	<b>(392,092)</b>	(654,713)	(770,680)
	<b><u>(17,362,518)</u></b>	<u>(14,622,910)</u>	<u>(11,421,601)</u>
<b>INCOME BEFORE MINORITY INTERESTS</b>	<b>4,444,334</b>	4,248,801	8,139,619
<b>MINORITY INTERESTS IN OPERATIONS OF CONSOLIDATED PARTNERSHIPS</b>	<b>384,269</b>	777,762	660,904
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>4,060,065</b>	3,471,039	7,478,715
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>9,844,951</b>	11,256,578	2,502,467
<b>NET INCOME BEFORE INCOME TAXES</b>	<b>13,905,016</b>	14,727,617	9,981,182
<b>STATE INCOME TAX (EXPENSE)</b>	<b>(826,300)</b>	(715,187)	(539,460)
<b>NET INCOME</b>	<b><u>\$13,078,716</u></b>	<u>\$14,012,430</u>	<u>\$9,441,722</u>
<b>BASIC AND DILUTED EARNINGS PER \$100,000 CAPITAL UNIT</b>	<b><u>\$8,411.67</u></b>	<u>\$9,012.19</u>	<u>\$6,116.61</u>
<b>WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING FOR CALCULATION OF BASIC AND DILUTED EARNINGS PER CAPITAL UNIT (based on \$100,000 investment)</b>	<b><u>1,554.83</u></b>	<u>1,554.83</u>	<u>1,543.62</u>

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

## SUMMIT HOTEL PROPERTIES, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	# of Capital Units	Class A	Class A-1	Class B	Class C	Total
<b>BALANCES, JANUARY 1, 2006</b>	1,421.58	\$95,596,821	\$-	\$6,133,132	\$9,741,676	\$111,471,629
Proceeds from Class A-1 units issued in private placement	133.25	-	12,457,500	-	-	12,457,500
Net Income	-	9,441,722	-	-	-	9,441,722
Distributions to members	-	(16,784,874)	(1,422,226)	(1,160,779)	(5,780,665)	(25,148,544)
<b>BALANCES, DECEMBER 31, 2006</b>	1,554.83	\$88,253,669	\$11,035,274	\$4,972,353	\$3,961,011	\$108,222,307
Net Income	-	11,214,409	1,165,504	259,939	1,372,578	14,012,430
Distributions to members	-	(16,575,137)	(1,528,017)	(1,124,079)	(5,612,615)	(24,839,848)
<b>BALANCES, DECEMBER 31, 2007</b>	1,554.83	82,892,941	10,672,761	4,108,213	(279,026 )	97,394,889
Proceeds from Class A-1 units issued in private placement	63.25	-	5,614,466	-	-	5,614,466
Net Income	-	10,785,507	1,136,502	184,178	972,529	13,078,716
Distributions to members	-	(17,166,006)	(1,567,973)	(1,285,144)	(6,683,725)	(26,702,848)
<b>BALANCES, DECEMBER 31, 2008</b>	<b>1,618.08</b>	<b>\$76,512,442</b>	<b>\$15,855,756</b>	<b>\$3,007,247</b>	<b>\$(5,990,222)</b>	<b>\$89,385,223</b>

The accompanying notes are an integral part of these consolidated financial statements

[Table of Contents](#)

## SUMMIT HOTEL PROPERTIES, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	2008	2007	2006
<b>OPERATING ACTIVITIES</b>			
Net income	<b>\$13,078,716</b>	\$14,012,430	\$9,441,722
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	<b>23,027,566</b>	18,887,126	16,648,183
Minority interests in operations of consolidated partnership	<b>384,269</b>	777,762	660,904
(Gain) loss on disposal of assets	<b>(8,604,779 )</b>	(10,379,556)	(1,239,881 )
Changes in current assets and liabilities:			
Trade receivables	<b>570,544</b>	(41,035 )	255,083
Prepaid expenses and other	<b>(307,109 )</b>	(102,077 )	(589,289 )
Accounts payable and related party accounts payable	<b>(1,656,286 )</b>	1,180,615	(1,439,273 )
Accrued expenses	<b>316,909</b>	1,601,614	459,272
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b><u>26,809,830</u></b>	<u>25,936,879</u>	<u>24,196,721</u>
<b>INVESTING ACTIVITIES</b>			
Land and hotel acquisitions and construction in progress	<b>(12,904,466)</b>	(3,841,941 )	(3,675,560 )
Purchases of other property and equipment	<b>(6,628,779 )</b>	(9,465,898 )	(9,153,411 )
Proceeds from asset dispositions, net of closing costs	<b>23,584,638</b>	35,581,012	8,502,709
Restricted cash fundings	<b>(585,271 )</b>	164,348	3,311,363
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b><u>3,466,122</u></b>	<u>22,437,521</u>	<u>(1,014,899 )</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of long-term debt	<b>4,837,000</b>	8,853,669	13,623,349
Principal payments on long-term debt	<b>(20,909,992)</b>	(22,932,344)	(4,256,063 )
Financing fees on long-term debt	<b>(942,405 )</b>	(1,277,528 )	(682,919 )
Net change in notes payable	<b>18,510,867</b>	(7,432,397 )	(5,089,178 )
Proceeds from equity contributions	<b>5,614,466</b>	-	-
Distributions to members	<b>(26,702,848)</b>	(24,839,848)	(25,148,544)
Distributions to minority interests	<b>(306,000 )</b>	(969,000 )	(969,000 )
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b><u>(19,898,912)</u></b>	<u>(48,597,448)</u>	<u>(22,522,355)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>10,377,040</b>	(223,048 )	659,467
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>7,776,395</u></b>	<u>7,999,443</u>	<u>7,339,976</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$18,153,435</u></b>	<u>\$7,776,395</u>	<u>\$7,999,443</u>

(continued on next page)

[Table of Contents](#)

**SUMMIT HOTEL PROPERTIES, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS – PAGE 2**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash payments for interest, net of the amounts capitalized below	<u>\$17,833,598</u>	<u>\$15,867,060</u>	<u>\$13,137,445</u>
Interest capitalized	<u>\$3,829,267</u>	<u>\$4,489,724</u>	<u>\$572,938</u>
Cash payments for state income taxes	<u>\$781,081</u>	<u>\$356,187</u>	<u>\$1,305,895</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCIAL INFORMATION:</b>			
Acquisitions of hotel properties and land through issuance of capital units	<u>\$-</u>	<u>\$-</u>	<u>\$6,547,500</u>
Acquisitions of hotel properties and land through issuance of debt	<u>\$16,447,237</u>	<u>\$42,341,906</u>	<u>\$30,361,372</u>
Acquisitions of hotel properties and land financed through like-kind exchange	<u>\$-</u>	<u>\$-</u>	<u>\$2,592,260</u>
Construction in progress financed through related party accounts payable	<u>\$2,600,260</u>	<u>\$690,629</u>	<u>\$2,306,235</u>
Construction in progress financed through issuance of debt	<u>\$38,765,692</u>	<u>\$78,752,652</u>	<u>\$12,183,112</u>
Conversion of notes payable to long-term debt	<u>\$12,772,819</u>	<u>\$-</u>	<u>\$17,274,484</u>
Issuance of long-term debt to refinance existing long-term debt	<u>\$11,073,070</u>	<u>\$3,286,331</u>	<u>\$14,425,622</u>
Conversion of debt to equity	<u>\$-</u>	<u>\$-</u>	<u>\$5,910,000</u>
Financing costs funded through construction draws	<u>\$1,651,886</u>	<u>\$-</u>	<u>\$-</u>
Sale proceeds from dispositions used to payoff long-term debt	<u>\$4,215,362</u>	<u>\$-</u>	<u>\$-</u>

The accompanying notes are an integral part of these consolidated financial statements.

**SUMMIT HOTEL PROPERTIES, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

**NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

Summit Hotel Properties, LLC, “The Company”, (a South Dakota limited liability company) was organized January 8, 2004, and is engaged in the business of developing, owning and operating hotel properties.

The Company has agreements for the use of various trade names, trademarks and service marks which include Carlson Hospitality, Choice Hotels International, Hilton Hotel Corporation, Intercontinental Hotels Group, Hyatt Hotel Corporation and Marriott International. The Company also owns and operates two independent non-franchised hotels. As of December 31, 2008, the Company owned and managed 62 hotels, representing approximately 5,954 rooms located in 19 states. As of December 31, 2007, the Company owned and managed 64 hotels, representing approximately 5,863 rooms located in 19 states. As of December 31, 2006, the Company owned and managed 60 hotels, representing approximately 5,399 rooms located in 20 states. The Company’s hotel properties are located throughout various regions of the United States. Hotels operating in any given region are potentially susceptible to adverse economic and competitive conditions as well as unique trends associated with that particular region. The potential adverse affect of such conditions on the Company’s business, financial position, and results of its operations is mitigated due to the diversified locations of the Company’s properties.

*Basis of Presentation and Consolidation*

The Company is a 49% owner and the primary beneficiary of Summit Group of Scottsdale, AZ, LLC (“Scottsdale”), which qualifies as a variable interest entity. Accordingly, the financial position and results of operations and cash flows of Scottsdale have been included in the accompanying consolidated financial statements. The entity was formed for the purpose of purchasing two hotel properties in Scottsdale, AZ and its activities primarily relate to owning and operating those two hotel properties. As of December 31, 2008 and for the year then ended, Scottsdale had assets of \$21,291,843, liabilities of \$14,725,106, revenues of \$8,871,475 and expenses of \$7,049,137. As of December 31, 2007 and for the year then ended, Scottsdale had assets of \$21,842,939, liabilities of \$15,429,670, revenues of \$10,062,022, and expenses of \$7,468,129. As of December 31, 2006 and for the year then ended, Scottsdale had assets of \$22,397,585, liabilities of \$15,609,339, revenues of \$9,728,311, and expenses of \$7,363,551. Included in the consolidated assets are assets as of December 31, 2008 totaling \$19,037,378 which represent collateral for obligations of Scottsdale. The Company’s maximum exposure to loss is \$6,566,737. Apart from that amount, creditors and the beneficial holders of Scottsdale have no recourse to the assets or general credit of the Company. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has only one operating segment.

The Company has adopted FIN 46R “*Consolidation of Variable Interest Entities*”. Under FIN 46R, variable interest entities (“VIEs”) are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among the parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity’s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests. In applying FIN 46R, management has utilized available information and reasonable assumptions and estimates in evaluating whether an entity is a VIE and which party is the primary beneficiary. These assumptions and estimates are subjective and the use of different assumptions could result in different conclusions.

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

Beginning on October 1, 2004, the Company considered its interest in Summit Group of Scottsdale, AZ, LLC, a VIE in which the Company is the primary beneficiary. As per the provisions of FIN 46R, the Company's interest in the VIE has been included in the accompanying consolidated financial statements.

The Company is the 100% owner of several special purpose entities which were established due to various lending requirements. These entities include Summit Hospitality I, LLC; Summit Hospitality II, LLC; Summit Hospitality III, LLC; Summit Hospitality IV, LLC; and Summit Hospitality V, LLC. All assets, liabilities, revenues, and expenses of these wholly-owned subsidiaries are reflected on the financial statements.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

*Cash and Cash Equivalents*

The Company considers 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. The Company maintains its cash with high credit quality financial institutions. Due to the financial institution crisis and economic downturn that occurred in the second half of 2008, management has assessed the risks of each of the financial institutions where the Company has deposits in excess of insured limits and believes the risk of loss to still be minimal.

*Receivables and Credit Policies*

Trade receivables are uncollateralized customer obligations resulting from the rental of hotel rooms and the sales of food, beverage, catering and banquet services due under normal trade terms requiring payment upon receipt of the invoice. Trade receivables are stated at the amount billed to the customer and do not accrue interest. Customer account balances with invoices dated over 60 days old are considered delinquent. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The Company reviews the collectability of the receivables monthly. A provision for losses on receivables is determined on the basis of previous loss experience and current economic conditions. There were no material uncollectible receivables and no allowance for doubtful accounts recorded as of December 31, 2008 and 2007, respectively. The Company incurred bad debt expense of \$172,481, \$94,155, and \$92,680 for 2008, 2007 and 2006, respectively.

*Property and Equipment*

Buildings and major improvements are recorded at cost and depreciated using the straight-line method over 27 to 40 years, the estimated useful lives of the assets. Hotel equipment, furniture and fixtures are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets of 2 to 15 years. The Company periodically re-evaluates fixed asset lives based on current assessments of remaining utilization that may result in changes in estimated useful lives. Such changes are accounted for prospectively and will increase or decrease depreciation expense. Depreciation expense from continuing operations for the year ended December 31, 2008 totaled \$20,085,238.

(continued on next page)



**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

Expenditures that materially extend a property's life are capitalized. These costs may include hotel refurbishment, renovation and remodeling expenditures. Normal maintenance and repair costs are expensed as incurred. When depreciable property is retired or disposed of, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is reflected in current operations.

*Capitalized Development and Interest Costs*

The Company capitalizes all hotel development costs and other direct overhead costs related to the purchase and construction of hotels. Additionally, the Company capitalizes the interest costs associated with constructing new hotels. Capitalized development, direct overhead and interest are depreciated over the estimated lives of the respective assets. Organization and start-up costs are expensed as incurred. For the years ended December 31, 2008, 2007 and 2006, the Company capitalized interest of \$3,829,267, \$4,489,724, and \$572,938, respectively.

*Long-Lived Assets and Impairment*

The Company applies the provisions of Statement of Financial Accounting Standard No. 144, "Accounting for Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires a long-lived asset to be sold to be classified as "held for sale" in the period in which certain criteria are met, including that the sale of the asset within one year is probable. SFAS 144 also requires that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale be reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the Company's ongoing operations.

The Company periodically reviews the carrying value of its long-term assets in relation to historical results, current business conditions and trends to identify potential situations in which the carrying value of assets may not be recoverable. If such reviews indicate that the carrying value of such assets may not be recoverable, the Company would estimate the undiscounted sum of the expected cash flows of such assets to determine if such sum is less than the carrying value of such assets to ascertain if an impairment exists. If an impairment exists, the Company would determine the fair value by using quoted market prices, if available for such assets, or if quoted market prices are not available, the Company would discount the expected future cash flows of such assets.

*Deferred Charges*

These assets are carried at cost and consist of deferred financing fees and initial franchise fees. Costs incurred in obtaining financing are capitalized and amortized on the straight-line method over the term of the related debt, which approximates the interest method. Initial franchise fees are capitalized and amortized over the term of the franchise agreement using the straight line method. Amortization expense from continuing operations for the year ended December 31, 2008 totaled \$2,439,178.

*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 lenders. See also Note 8.

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

*Income Taxes*

Summit Hotel Properties, LLC is a limited liability company and, as such, all federal taxable income of the limited liability company flows through and is taxable to the members of the Company. Accordingly, no provision for federal income taxes has been made in the financial statements for income of the limited liability company.

The Company has elected to pay state income taxes at the Company level in all of the states in which it does business. The Company's estimated state income tax expenses at current statutory rates were \$826,300, \$715,187, and \$539,460, for the years ended December 31, 2008, 2007 and 2006, respectively.

*Members' Capital Contributions and Profit and Loss Allocations*

The Company is organized as a limited liability company and can issue to its members Class A, Class A-1, Class B and Class C units.

Approximate sharing ratios are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Class A	45 %	46 %	46 %
Class A-1	4	3	3
Class B	8	8	8
Class C	<u>43</u>	<u>43</u>	<u>43</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The limited liability company operating agreement provides that net profits are allocated to cover a 10% priority return to Class A members, 8% priority return to Class A-1 members, then the balance is allocated based on ownership of common membership units. Net losses are allocated to members based on ownership of common membership units.

Only Class A and A-1 members contribute capital. These members receive an 8-10% priority return on their capital contributions before distributions to other classes. Class A and A-1 members may also receive additional operating distributions based on their Sharing Ratio. These additional distributions are determined by the managing member and are based on excess cash from operations after normal operating expenses, loan payments, priority distributions, and reserves. Class A and A-1 members have voting rights on creation of new classes of membership, amendments to the Articles of Organization, and dissolution of the company. Class A and A-1 memberships are sold in units of \$100,000 each. Class B members do not have voting rights and receive distributions in accordance with their Sharing Ratio after Class A and A-1 members have received their priority return. The Class C member is The Summit Group, Inc. (SGI), a related party. SGI has limited voting rights, in addition to the right to appoint members to the Board. SGI, however, has significant authority to manage the hotel properties and acts as the Company's Manager. SGI receives distributions in accordance with its Sharing Ratio after Class A and A-1 members have received their priority return.

Costs paid for syndication are charged directly to equity against the proceeds raised. The Company's operating agreement contains extensive restrictions on the transfer of membership interests. In addition,

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

the transferability of membership interests is restricted by federal and state law. The membership interests may not be offered, sold, transferred, pledged, or hypothecated to any person without the consent of The Summit Group, Inc., a related party and 43% owner of the Company through its holding of 100% of the outstanding Class C units.

*Earnings per Capital Unit*

For purposes of calculating basic earnings per capital unit, capital units issued by the Company are considered outstanding on the effective date of issue.

*Minority Interests*

Summit Group of Scottsdale, AZ, LLC has made distributions to minority members in excess of income allocations to those members. Their excess is reflected in the consolidated balance sheets.

*Concentrations of Credit Risk*

The Company grants credit to qualified customers generally without collateral, in the form of accounts receivable. The Company believes its risk of loss is minimal due to its periodic evaluations of the credit worthiness of the customers.

*Advertising and Marketing Costs*

The Company expenses all advertising and marketing costs as they are incurred. Total costs for the years ended December 31, 2008, 2007 and 2006 were \$9,588,243, \$8,647,625, and \$7,970,223, respectively. Of this total cost, \$846,971, \$669,491, and \$635,537 represented general advertising expense for 2008, 2007 and 2006, respectively, and \$8,741,272, \$7,978,134, and \$7,334,686 represented national media fees required by the hotel franchise agreements for 2008, 2007 and 2006, respectively. These costs are reported as components of general, selling and administrative costs in the accompanying consolidated statements of operations.

*Sales Taxes*

The Company has customers in states and municipalities in which those governmental units impose a sales tax on certain sales. The Company collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Company's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

*Revenue Recognition*

The Company's hotel revenues are derived from room rentals and other sources, such as charges to guests for long-distance telephone service, fax machine use, movie and vending commissions, meeting and banquet room revenue, restaurant and bar revenue, and parking and laundry services. The Company recognizes hotel revenue on a daily basis based on an agreed upon daily rate after the guest has stayed at one of its hotels for a day, used its lodging facilities and received related lodging services and amenities. The Company believes that the credit risk with respect to trade receivables is limited, because approximately 90% of the Company's revenue is related to credit card transactions, which are typically reimbursed within 2-3 days. Reserves for any uncollectible accounts, if material, are established for accounts that age beyond a predetermined acceptable period. The Company had not recorded any such reserves at December 31, 2008 and 2007.

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

*Fair Value of Financial Instruments*

Effective January 1, 2008, the Company adopted FASB Statement No. 157, "Fair Value Measurements" (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonable available.

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, accounts payable, and debt obligations. The fair values of cash and cash equivalents, trade receivables, and accounts payable approximate their carrying values due to the short-term nature of these instruments. At December 31, 2008 and 2007, the Company's long-term debt obligations consisted of fixed and variable rate debt that had a carrying value of \$370,335,437 and \$302,381,939, respectively, and a fair value, based on current market interest rates of \$403,573,174 and \$284,598,550, respectively. The Company has classified their long-term debt instruments as Level 2 in the hierarchy of FAS 157 described above.

In early 2008, the FASB issued Staff Position (FSP) FAS-157-2, "Effective Date of FASB Statement No. 157," which generally delays by one year (per above), the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets and non-financial liabilities initially measured at fair value in a business combination, non-financial assets recorded at fair value at the time of acquisition, and long-lived assets measured at fair value for impairment assessment under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

The Company has adopted the portion of SFAS No. 157 that has not been delayed by FSP FAS-157-2 as of the beginning of its 2008 fiscal year, and plans to adopt the balance of its provisions as of the beginning of its 2009 fiscal year. Items carried at fair value on a recurring basis (to which SFAS No. 157 applies in fiscal 2008) consist of cash and cash equivalents based on quoted prices in active markets for identical assets. We do not currently have items which are carried at fair value on a non-recurring basis (to which SFAS No. 157 will apply in fiscal 2009). The Company also uses fair value concepts to test various long-lived assets for impairment. The Company is continuing to evaluate the impact the standard

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

will have on the determination of fair value related to non-financial assets and non-financial liabilities in post-2008 years.

*Recent Accounting Pronouncements*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes this Statement had an immaterial impact on the consolidated financial statements of the Company.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *"Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"*. This Statement improves the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for financial statements for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. Management is still assessing the impact this Statement will have on the consolidated financial statements of the Company once adopted.

In December 2007, the FASB revised Statement of Financial Accounting Standards No. 141R, *"Business Combinations"*. This Statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement is effective for business combinations which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Management is still assessing the impact this Statement will have on the consolidated financial statements of the Company once adopted.

**NOTE 2 – PREPAID EXPENSES AND OTHER**

Prepaid expenses and other at December 31, 2008 and 2007, are comprised of the following:

	<u>2008</u>	<u>2007</u>
Prepaid insurance expense	<b>\$743,491</b>	\$744,832
Other prepaid expense	<b>1,427,464</b>	1,119,014
	<b><u>\$2,170,955</u></b>	<b><u>\$1,863,846</u></b>

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2008 and 2007 are comprised of the following:

	<u>2008</u>	<u>2007</u>
Land	<b>\$90,014,168</b>	\$85,553,129
Hotel buildings and improvements	<b>321,115,322</b>	307,688,683
Furniture, fixtures and equipment	<b>64,738,527</b>	56,861,747
Construction in progress	<b>45,387,313</b>	19,523,566
	<b>521,255,330</b>	469,627,125
Less accumulated depreciation	<b>59,361,060</b>	43,132,920
	<b><u>\$461,894,270</u></b>	<b><u>\$426,494,205</u></b>

The construction in progress asset accounts consist of 17 hotels under development which will open in 2009, 2010 and 2011. During 2007, the Company purchased land in Houston, TX for \$1,864,000, San Antonio, TX for \$10,420,000, Portland, OR for \$3,650,000, El Paso, TX for \$2,614,000 and Ft. Myers, FL for \$3,307,500. Construction has been completed on one San Antonio hotel and has begun on hotels in Houston, Portland, and Ft. Myers. Construction on the other San Antonio and El Paso sites will begin in 2010 and 2011. During 2008, the Company purchased land in Twin Falls, ID for \$2,212,000, Spokane, WA for \$1,730,000, and Missoula, MT for \$1,379,000 and plans to build hotels on the purchased land in 2010 and 2011. Construction on one of the Twin Falls sites has begun and will be completed in early 2009.

**NOTE 4 – ASSETS HELD FOR SALE**

As a part of regular policy, the Company periodically reviews hotels based on established criteria such as age of hotel property, type of franchise associated with hotel property, and adverse economic and competitive conditions in the region surrounding the property.

During 2008, the Company completed a comprehensive review of its investment strategy and of its existing hotel portfolio to identify properties which the Company believes are either non-core or no longer complement the business. As of December 31, 2008 and 2007, the Company had no potential transactions where a probable sale would occur within the next year, so there were no hotels that met the Company's criteria of held for sale classification.

**NOTE 5 – DISCONTINUED OPERATIONS**

The Company has reclassified its consolidated financial statements of operations for the years ended December 31, 2008, 2007 and 2006 and its consolidated balance sheets as of December 31, 2008 and 2007, as a result of implementing SFAS 144 to reflect discontinued operations of twelve consolidated hotel properties sold or to be sold during these periods pursuant to the plan for hotel dispositions. This reclassification has no impact on the Company's net income or the net income per share. During 2006, the Company sold three hotel properties located in Sioux Falls, SD; Bradford, PA; and Jackson, MS for approximately \$11,210,000 with net cash proceeds of \$8,503,000. During 2007, the Company sold six hotel properties located in Coeur D' Alene, ID; Pueblo, CO; Lincoln, NE; Fenton, MO; and Detroit, MI for approximately \$36,095,000 with net cash proceeds of \$35,581,000. During 2008, the Company sold three hotel properties located in Lewiston, ID; Jackson, MS; and Overland Park, KS and two hotel

(continued on next page)

[Table of Contents](#)**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

properties located in Kennewick, WA for approximately \$28,575,000 with net cash proceeds of \$27,775,000.

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

	2008	2007	2006
REVENUES	<u>\$4,526,230</u>	<u>\$18,482,342</u>	<u>\$21,420,446</u>
COSTS AND EXPENSES			
Direct hotel operations	1,462,429	6,703,826	7,966,772
Other hotel operating expenses	552,840	2,486,323	2,874,539
General, selling and administrative	633,738	3,653,542	3,905,664
Repairs and maintenance	126,374	1,013,219	1,337,591
Depreciation and amortization	503,150	2,467,446	2,773,356
	<u>3,278,531</u>	<u>16,324,356</u>	<u>18,857,922</u>
INCOME FROM OPERATIONS	1,247,699	2,157,986	2,562,524
OTHER INCOME (EXPENSE)			
Interest income	12,960	(34,134 )	146,745
Interest (expense)	(412,579 )	(1,901,543 )	(2,217,363 )
Gain (loss) on disposal of assets	8,996,871	11,034,269	2,010,561
	<u>8,597,252</u>	<u>9,098,592</u>	<u>(60,057 )</u>
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	<u>\$9,844,951</u>	<u>\$11,256,578</u>	<u>\$2,502,467</u>

**NOTE 6 – ACQUISITIONS**

The Company applies the principles of SFAS No. 141, “*Business Combinations*”, in accounting for its acquisitions. The Company determines the cost of the acquired property based upon the fair value of assets distributed as consideration and the fair value of liabilities incurred. The cost of the acquired entity includes all direct costs of the business combination whereas indirect and general expenses are expensed as incurred. The Company allocates the cost of the acquired entity to the assets acquired and liabilities assumed based upon their estimated fair market values at the date of acquisition. To determine fair value of the various components acquired, the Company engages independent valuation consultants and other third-party real-estate appraisals as necessary. The Company allocates the cost of the acquired property based upon the relative fair values of the various components contained in the appraisals. In certain cases, the cost of the property acquired may be less than the fair value contained in the appraisals. In these cases, the Company reduces the fair values based upon the relative value of the components of the acquisition. The excess of the cost of the acquisition over the fair value will be assigned to intangible assets if the intangible asset is separable and if it arises from a contractual or other legal right. Any remaining excess of the cost of acquisition over fair values assigned to separable assets is recognized as goodwill. Further, many of the Company’s hotel acquisitions to date have been aggregated in accordance with SFAS No. 141 and has resulted in an aggregated purchase price allocation. Since its inception, the Company’s acquisitions and subsequent purchase price allocations have resulted in no goodwill.

The Company’s strategy is to pursue the acquisition of additional hotels under the investment parameters established in the Company’s Operating Agreement. In accordance with this strategy, the Company has made the following acquisitions.

(continued on next page)

[Table of Contents](#)

**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

On May 2, 2007, the Company purchased 2 hotel properties in Irving (Las Colinas), TX, for a combined purchase price of approximately \$14,110,000. On June 5, 2007, the Company purchased the Staybridge Suites in Ridgeland, MS, for an approximate price of \$9,150,000. Essentially all of the assets purchased were allocated to property and equipment.

On October 30, 2008, the Company purchased a hotel property in Flagstaff, AZ for approximately \$10,750,000. Essentially all of the assets purchased were allocated to property and equipment.

The following table illustrates the allocation of the respective purchase prices for each of the aggregated property purchases discussed above during 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current assets	\$-	\$-
Property and equipment	10,750,000	23,260,000
Intangible assets	-	-
Total assets acquired	<u>10,750,000</u>	<u>23,260,000</u>
Current liabilities	-	-
Long-term debt	-	-
Total liabilities assumed	-	-
Net assets acquired	<u>\$10,750,000</u>	<u>\$23,260,000</u>

**NOTE 7 – DEFERRED CHARGES AND OTHER ASSETS**

Deferred charges and other assets at December 31, 2008 and 2007, are comprised of the following:

	<u>2008</u>	<u>2007</u>
Initial franchise fees	<u>\$2,270,544</u>	<u>\$2,158,416</u>
Deferred financing costs	<u>7,415,091</u>	<u>4,820,800</u>
	<u>9,685,635</u>	<u>6,979,216</u>
Less accumulated amortization	<u>4,020,839</u>	<u>1,980,293</u>
Total	<u>\$5,664,796</u>	<u>\$4,998,923</u>

(continued on next page)



[Table of Contents](#)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

Future amortization expense is expected to be approximately:

2009	\$1,686,249
2010	1,110,855
2011	878,997
2012	516,114
2013	475,786
Thereafter	<u>996,795</u>
	<u>\$5,664,796</u>

**NOTE 8 – RESTRICTED CASH**

Financing Lender	Property Taxes	Insurance	FF&E Reserves	2008	2007
Wells Fargo (Scottsdale)	\$140,084	\$20,048	\$1,396,388	<b>\$1,556,520</b>	\$1,199,446
Wells Fargo (Lehman)	592,584	188,367	1,173,986	<b>1,954,937</b>	1,193,871
Financial Federal	–	–	–	–	487,916
Capmark (ING)	195,166	–	–	<b>195,166</b>	185,197
Capmark (ING)	501,778	–	–	<b>501,778</b>	577,431
Capmark (ING)	31,485	–	–	<b>31,485</b>	8,872
Capmark (ING)	<u>9,515</u>	<u>–</u>	<u>–</u>	<b><u>9,515</u></b>	<u>11,397</u>
	<u>\$1,470,612</u>	<u>\$208,415</u>	<u>\$2,570,374</u>	<b><u>\$4,249,401</u></b>	<u>\$3,664,130</u>

The Company has financing arrangements under which an agreed upon percentage of gross income is required to be deposited into a special reserve account for future replacements of furniture, fixtures and equipment. Some financing arrangements also include provisions that restricted cash must be maintained in escrow for property taxes and insurance. Funds may be disbursed from the account upon proof of expenditures and approval from the lender.

**NOTE 9 – ACCRUED EXPENSES**

Accrued expenses at December 31, 2008 and 2007 are comprised of the following:

	2008	2007
Accrued sales and other taxes	<b>\$5,910,209</b>	\$5,071,618
Accrued salaries and benefits	<b>1,838,615</b>	1,581,180
Accrued interest	<b>1,109,577</b>	1,361,653
Other accrued expenses	<b><u>1,097,971</u></b>	<u>1,625,126</u>
	<b><u>\$9,956,372</u></b>	<u>\$9,639,577</u>

(continued on next page)

[Table of Contents](#)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

**NOTE 10 – DEBT OBLIGATIONS**

The Company's debt obligations at December 31, 2008 and 2007 are as follows:

Payee	Interest Rate	Maturity Date	2008	2007
Lehman Brothers Bank	Fixed (5.4025%)	1/11/2012	\$ 81,016,607	\$ 82,932,600
ING Investment Management	Fixed (5.60%)	1/1/2012	31,211,603	32,273,427
	Fixed (6.10%)	7/1/2012	31,445,191	32,415,983
	Fixed (6.61%)	11/1/2013	6,578,270	5,888,393
	Fixed (6.34%)	7/1/2012	8,319,000	8,320,000
			<b>77,554,064</b>	<b>78,897,803</b>
Financial Federal Savings Bank	Fixed (7.31%)	7/1/2008	–	15,109,912
Chambers Bank	Fixed (6.5%)	6/24/2010	1,742,534	1,817,611
JP Morgan	Fixed (7.5%)	11/1/2024	14,180,289	14,589,463
US Bank National Association	Variable (6.25% at 12/31/07)	10/1/2009	–	780,196
MetaBank	Variable (7.25% at 12/31/07)	12/1/2010	–	1,634,169
BNC National Bank	Fixed (5.01%)	11/1/2013	6,092,607	7,120,000
	(f) Variable (3.0% at 12/31/08)	4/1/2016	2,041,373	–
			<b>8,133,980</b>	<b>7,120,000</b>
M & I Bank	Variable (6.8% at 12/31/07)	12/31/2010	9,895,727	8,931,573
	and 4.78% at 12/31/08)	12/31/2010	11,524,451	13,205,354
			<b>21,420,178</b>	<b>22,136,927</b>
General Electric Capital Corp.	(c) Variable (6.1% at 12/31/07)	11/1/2017	9,396,990	8,162,009
	and 3.60% at 12/31/08)	11/1/2018	9,557,647	1,665,133
Variable (4.40% at 12/31/08)		5/1/2014	9,887,995	–
			<b>28,842,632</b>	<b>9,827,142</b>
Fortress Credit Corp.	(b) Variable (10.0% at 12/31/07)	3/5/2010	74,899,566	40,998,543
	and 6.63% at 12/31/08)			
First National Bank of Omaha	(a) Variable (6.99% at 12/31/07)	7/1/2010	24,400,000	18,200,000
	and 3.03% at 12/31/08)			

First National Bank of Omaha	(a)	Variable (6.99% at 12/31/07)	5/1/2009	–	3,300,000
First National Bank of Omaha	(a)	Fixed (4.25%)	7/1/2013	<b>16,889,585</b>	–
First National Bank of Omaha	(a)	Fixed (6.62%)	4/1/2012	<b>2,971,977</b>	5,037,573
First National Bank of Omaha		Variable (4.16% at 12/31/08)	12/31/2008	<b>13,462,622</b>	–
Bank of Cascades	(d)	Variable (6.0% at 12/31/08)	9/30/2011	<b>1,862,974</b>	–
Compass Bank	(e)	Variable (3.0% at 12/31/08)	5/17/2018	<b>2,958,429</b>	–
Total long-term debt				<b>370,335,437</b>	302,381,939
Less current portion				<b>(19,508,600)</b>	<b>(40,837,000)</b>
Total long-term debt, net of current portion				<b>\$ 350,826,837</b>	<b>\$ 261,544,939</b>

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

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- The Company has a credit pool agreement with the First National Bank of Omaha providing the Company with medium-term financing up to \$50,000,000 on a revolving basis through June 2009. The agreement allows for two-year interest only notes and five-year amortizing notes, for which the term of an individual note can extend beyond the term of the agreement. Interest on unpaid principal is payable monthly at a rate between LIBOR plus 1.75% and LIBOR plus 2.15%. The amount of credit available on this agreement to the Company was \$5,738,438 at December 31, 2008.
- (a) On March 5, 2007, the Company closed on a loan with Fortress Credit Corporation to refinance the debt on several construction projects and provide equity for the acquisition, development and construction of additional real estate and hotel properties. The loan is in the amount of \$99,700,000. The current balance on this note is \$74,899,566 and carries a variable interest rate of 30-day LIBOR plus 575 basis points. The maturity date of the note is March 5, 2010. The amount of credit available on this loan was \$24,800,434 at December 31, 2008.
- (b) On April 30, 2007, the Company entered into a loan with General Electric Capital Corporation in the amount of \$9,500,000 to fund the land acquisition on hotel construction located in Denver, CO. The loan carries a variable interest rate of LIBOR plus 185 basis points, and matures in November, 2017. The current balance is approximately \$9,397,000.
- (c) On August 15, 2007, the Company entered into a loan with General Electric Capital Corporation in the amount of \$11,300,000 to fund the land acquisition and hotel construction located in Baton Rouge, LA. The loan carries a variable interest rate of LIBOR plus 185 basis points and matures in November, 2018. The current balance is approximately \$9,558,000. The amount of credit available on this loan was approximately \$1,742,000 at December 31, 2008.
- (d) On February 29, 2008, the Company entered into a loan with General Electric Capital Corporation in the amount of \$11,400,000 to fund the land acquisition and hotel construction located in San Antonio, TX. The loan carries a variable interest rate of 90 day LIBOR plus 255 basis points and matures in May, 2014. The current balance is approximately \$9,888,000. The amount of credit available on this loan was approximately \$1,512,000 at December 31, 2008.
- (e) On October 3, 2008, the Company entered into a loan with Bank of the Cascades in the amount of \$13,270,000 to fund the land acquisition and hotel construction of the Residence Inn located in Portland, OR. The loan carries a variable interest rate of Prime, with a floor of 6%, and matures September 30, 2011. The current balance is approximately \$1,863,000. The amount of credit available on this loan was approximately \$11,407,000 at December 31, 2008.
- (f) On September 17, 2008, the Company entered into a loan with Compass Bank in the amount of \$19,250,000 to fund the land acquisition and hotel construction of the Courtyard by Marriott located in Flagstaff, AZ. The loan carries a variable interest rate of Prime minus 25 basis points and matures May 17, 2018. The current balance is approximately \$2,958,000. The amount of credit available on this loan was approximately \$16,292,000 at December 31, 2008.
- (g) On October 1, 2008, the Company entered into a loan with BNC National Bank in the amount of \$6,460,000 to fund the land acquisition and hotel construction of the Holiday Inn Express located in Twin Falls, ID. The loan carries a variable interest rate of Prime minus 25 basis points and matures April 1, 2016. The current balance is approximately \$2,041,000. The amount of credit available on this loan was approximately \$4,419,000 at December 31, 2008.

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

Maturities of long-term debt for each of the next five years are estimated as follows:

2009	\$19,508,600
2010	128,884,300
2011	8,622,200
2012	162,078,400
2013	37,048,000
Thereafter	<u>14,193,937</u>
	<u>\$370,335,437</u>

At December 31, 2008 and 2007, the Company owned 62 and 64 properties, respectively, that were pledged as collateral on various credit agreements, as well as accounts receivable and intangible assets. Some of the credit agreements were also guaranteed by the affiliated members of the Company and certain affiliated entities. Significant covenants in the credit agreements require the Company to maintain minimum debt service coverage ratios. The weighted average interest rate for all borrowings was 5.01% and 6.58% at December 31, 2008 and 2007, respectively.

**NOTE 11 – LINES OF CREDIT AND NOTES PAYABLE**

The Company has a line-of-credit agreement with the First National Bank of Omaha providing the Company with short-term financing up to \$40,000,000 on a revolving basis. Interest on unpaid principal is payable monthly at a rate equal to one-half or three-quarters of one percent below the National Base Rate which was 3.25% at December 31, 2008. The amount of outstanding on this line-of-credit was \$12,288,500 and \$21,575,864 at December 31, 2008 and 2007, respectively, which also represents the maximum amount of borrowings during the year. The amount of credit available on this agreement was \$27,711,500 at December 31, 2008.

In addition, the Company has a note payable with MetaBank providing the Company with short-term construction financing up to \$8,450,000 which expires on April 29, 2009. Interest on unpaid principal is payable monthly at a rate equal to one quarter of one percent below the National Base Rate. The amount outstanding on this note payable was \$7,450,000 and \$8,450,000 at December 31, 2008 and 2007, respectively.

**NOTE 12 – MEMBERS' EQUITY**

The Company was formed on January 8, 2004. As specified in the Company's Operating Agreement, the Company has four classes of membership capital units authorized: Class A, A-1, B and C.

On October 21, 2005, the Company issued a "Confidential Private Placement Memorandum" (PPM) for the purpose of acquiring additional investors. The PPM offered up to \$75,000,000 of Class A-1 membership units. The Class A-1 Units were \$100,000 per unit. For the period ended December 31, 2005, no capital contributions had been received by the Company. In 2006, the Company issued 133.25 units in connection with this offering. The Company received proceeds of the offering (net of expenses) of \$12,457,500. The offering was closed on July 31, 2006.

On October 21, 2008, the Company issued another private placement memorandum (PPM) for the purpose of acquiring additional investors. The PPM offered up to \$100,000,000 of Class A-1 membership units. For the period ended December 31, 2008, the Company issued 63.25 units in

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

connection with this offering. The Company received proceeds of the offering (net of expenses) of \$5,614,466. The offering terminates on August 31, 2009, unless extended to October 21, 2009 at the discretion of the Company Manager.

**NOTE 13 – FRANCHISE AGREEMENTS**

The Company operates hotels under franchise agreements with various hotel chains expiring through 2025. The franchise agreements are for 3-20 year terms. Under the franchise agreements, the Company pays royalties of 2.5% to 5.0% of room revenues and national advertising and media fees of 3% to 4% of total room revenues.

For the years ended December 31, 2008, 2007 and 2006, the Company incurred royalties of \$6,172,495, \$5,852,019, and \$5,471,425, respectively, and advertising and national media fees of \$8,741,272, \$7,978,134, and \$7,334,686, respectively.

The franchise agreements include restrictions on the transfer of the franchise licenses and the sale or lease of the hotel properties without prior written consent of the franchisor.

**NOTE 14 – BENEFIT PLANS**

The Company has a qualified contributory retirement plan (the Plan), under Section 401(k) of the Internal Revenue Code which covers all full-time employees who meet certain eligibility requirements. Voluntary contributions may be made to the Plan by employees. Discretionary matching Company contributions of \$69,385, \$68,543, and \$49,874 were made in the years ended December 31, 2008, 2007 and 2006, respectively. The Plan was changed to a Safe Harbor Plan effective for the 2008 calendar year. This Plan requires a mandatory employer contribution. Therefore, the Company has accrued \$137,135 for employer contributions for the 2008 calendar year.

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

The Company leases land for three of its properties under the terms of operating ground lease agreements expiring August 2022, August 2024 and May 2030. The Company has options to renew these leases for periods that range from 5-30 years. Total rent expense for these leases for the years ended December 31, 2008, 2007 and 2006 was \$235,549, \$248,246, and \$236,875, respectively.

Approximate future minimum rental payments for noncancelable operating leases in excess of one year are as follows:

2009	\$240,501
2010	245,601
2011	250,855
2012	256,266
2013	261,839
Thereafter	<u>4,813,426</u>
	<u>\$6,068,488</u>

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006**

The Company has entered into a purchase agreement for land in Charlotte, NC for approximately \$3,046,000 and plans to build a hotel on the land in 2010.

The Company has entered into a purchase agreement for land in Charlotte, NC for approximately \$3,200,000 and plans to build two hotels on the land in 2010-2011.

The Company has entered into 10 construction contracts totaling approximately \$100,800,000 with five contractors to develop hotel properties. The remaining commitment at December 31, 2008 is estimated to be \$66,000,000.

**NOTE 16 – RELATED PARTY TRANSACTIONS**

Pursuant to a management agreement, The Summit Group, Inc. (a related party through common ownership and management control) provides management and accounting services for the Company. The agreement provides for the Company to reimburse The Summit Group, Inc. for its actual overhead costs and expenses relating to the managing of the hotel properties. At no time will the reimbursed management expenses exceed 4.5% of annual gross revenues. For the periods ended December 31, 2008, 2007 and 2006, the Company paid reimbursed management expenses of \$4,186,593, \$4,122,048, and \$3,988,019, respectively, and reimbursed accounting services of \$626,685, \$637,448, and \$546,481, respectively. At December 31, 2008 and 2007, the Company had accounts payable of \$572,919 and \$447,356, respectively, to The Summit Group, Inc. The Company cannot remove The Summit Group, Inc. as its manager except for cause as specified in the agreement.

As of December 31, 2008 and 2007, the Company had accounts payable to The Summit Group, Inc. for \$2,600,260 and \$690,629 relating to reimbursement and development expenses for 17 and 11 new hotel properties, respectively.

In 2008, the Company issued a private placement memorandum (PPM) for the purpose of acquiring additional investors. Summit Capital Partners, LLC (SCP), a related party through common ownership and management control, brokered securities related to the PPM for the company. For the period ended December 31, 2008, capital contributions of \$6,325,000 (cash proceeds received net of expenses equaled \$5,614,466) was raised with the assistance of SCP. Commission expense paid to SCP for the year ended December 31, 2008 was \$206,625.

**NOTE 17 – SUBSEQUENT EVENTS**

On October 21, 2008, the Company issued a private placement memorandum (PPM) for the purpose of acquiring additional investors. For the one month period ended January 31, 2009, the Company received capital contributions of \$3,407,500 in connection with this offering and issued 34.075 Class A-1 membership units. The Company received proceeds of the offering (net of expenses) of approximately \$3,140,650. For the one month period ended February 28, 2009, the Company received capital contributions of \$1,390,000 in connection with this offering and issued 13.9 Class A-1 membership units. The Company received proceeds of the offering (net of expenses) of approximately \$1,281,700.

(continued on next page)

[Table of Contents](#)**SUMMIT HOTEL PROPERTIES, LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008, 2007 AND 2006****NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

Selected consolidated quarterly financial data (in thousands, except per unit amounts) for 2008, 2007 and 2006 is summarized below. The sum of the quarterly earnings (loss) per unit amounts may not equal the annual earnings per unit amounts due primarily to changes in the number of common units and common unit equivalents outstanding from quarter to quarter. The matters which affect the comparability of our quarterly results include seasonality.

	Three Months Ended				Year Ended 12/31
	3/31	6/30	9/30	12/31	
<b>2008:</b>					
Total revenue	\$ 32,821	\$ 36,219	\$ 38,731	\$ 29,636	\$ 137,407
Net income (loss) from continuing operations before minority interests	464	2,894	5,543	(4,457 )	4,444
Less minority interests in operations of consolidated partnerships	244	73	(158 )	225	384
Net income (loss) from continuing operations	220	2,821	5,701	(4,682 )	4,060
Discontinued operations	285	1,545	7,842	173	9,845
Net income (loss) before income taxes	505	4,366	13,543	(4,509 )	13,905
Less state income tax	–	309	895	(378 )	826
Net income (loss)	\$ 505	\$ 4,057	\$ 12,648	\$ (4,131 )	\$ 13,079
Net income (loss) per unit:	\$ 324.79	\$ 2,609.29	\$ 8,134.65	\$ (2,656.88)	\$ 8,411.67
<b>2007:</b>					
Total revenue	\$ 26,321	\$ 29,752	\$ 31,367	\$ 28,826	\$ 116,266
Net income (loss) from continuing operations before minority interests	2,617	988	3,155	(2,512 )	4,248
Less minority interests in operations of consolidated partnerships	333	219	(107 )	333	778
Net income (loss) from continuing operations	2,284	769	3,262	(2,845 )	3,470
Discontinued operations	13	3,448	1,840	5,956	11,257
Net income (loss) before income taxes	2,297	4,217	5,102	3,111	14,727
Less state income tax	72	411	298	(66 )	715
Net income (loss)	\$ 2,225	\$ 3,806	\$ 4,804	\$ 3,177	\$ 14,012
Net income (loss) per unit:	\$ 1,431.02	\$ 2,447.86	\$ 3,089.73	\$ 2,043.31	\$ 9,012.19
<b>2006:</b>					
Total revenue	\$ 23,972	\$ 26,854	\$ 27,815	\$ 24,306	\$ 102,947
Net income (loss) from continuing operations before minority interests	2,483	2,277	3,471	(91 )	8,140
Less minority interests in operations of consolidated partnerships	221	234	(136 )	342	661
Net income (loss) from continuing operations	2,262	2,043	3,607	(433 )	7,479
Discontinued operations	(36 )	2,332	614	(408 )	2,502



Net income (loss) before income taxes	2,226	4,375	4,221	(841 )	9,981
Less state income tax	112	284	305	(162 )	539
Net income (loss)	\$ 2,114	\$ 4,091	\$ 3,916	\$ (679 )	\$ 9,442
Net income (loss) per unit:	\$ 1,403.72	\$ 2,631.16	\$ 2,518.60	\$ (436.70 )	\$ 6,116.61

(continued on next page)

**SUMMIT HOTEL PROPERTIES, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

**NOTE 19 – PRO FORMA FINANCIAL INFORMATION (UNAUDITED)**

The following condensed pro forma financial information is presented as if the acquisitions discussed in Note 6 had been consummated as of the beginning of the period presented but is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated at that time nor does it purport to represent the results of operations for future periods.

	For the year ended December 31:		
	2008	2007	2006
Total revenue	\$ 142,583,370	\$ 136,638,460	\$ 125,306,514
Net income before minority interests	12,984,433	14,040,192	11,680,427
Minority interests in operations of consolidated partnerships	384,269	777,762	660,904
Net income	\$ 12,600,164	\$ 13,262,430	\$ 11,019,523
Net income per unit:	\$ 8,103.89	\$ 8,529.83	\$ 7,138.75

FIRST AMENDMENT TO LOAN AGREEMENT,  
NOTE AND COLLATERAL SECURITY DOCUMENTS

THIS AMENDMENT is made and entered into as of the 31<sup>st</sup> day of December, 2008, by and among M&I Marshall & Ilsley Bank (“Bank”) and Summit Hotel Properties, LLC (“Borrower”).

W I T N E S S E T H:

WHEREAS, on July 25, 2006, Borrower and Bank entered into a Loan Agreement (“Loan Agreement”) pursuant to which Bank agreed to lend to Borrower up to \$14,080,000.00 (“Loan”);

WHEREAS, to evidence the Loan, Borrower executed a \$14,080,000.00 Mortgage Note (“Note”) on July 25, 2006; and

WHEREAS, Borrower and Bank have agreed to adjust the terms of the Note.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. Definitions. Capitalized terms not otherwise defined herein shall have the meaning given to such term in the Loan Agreement.

2. Amendments to Note.

2.1 Term. Notwithstanding anything to the contrary in the Note, the Maturity Date, as defined in the Note, shall be December 31, 2010.

2.2 Amount. Notwithstanding any contrary reference in the Note, all references to the term “Fourteen Million Eighty Thousand Dollars (\$14,080,000.00)” are hereby deleted and are hereby replaced with the term “Eleven Million Five Hundred Twenty-Four Thousand Four Hundred Fifty and 99/100 Dollars (\$11,524,450.99).”

2.3 Rate. Notwithstanding any contrary reference in the Note, all references to the term “two hundred fifty-five (255) basis points” are hereby deleted and are hereby replaced with the term “three and ninety hundredths percent (3.90%).”

2.4 Option. The following is hereby added as Paragraph 15 to the Note:

“Notwithstanding anything in this Note to the contrary, Maker is hereby granted an option (“Conversion Option”) to convert the Note Rate to a fixed rate on December 31, 2009, provided (i) no Event of Default, as defined in the Loan Agreement has occurred prior to the exercise of the Conversion Option, (ii) at least ninety (90) days prior to December 31, 2009, Maker gives Payee written

notice of Maker' s intent to exercise the Conversion Option, and (iii) Maker shall have a minimum Debt Service Coverage Ratio, as defined in the Loan Agreement, of no less than 1.10 to 1.00. If the Conversion Option is exercised, the fixed rate of interest shall be calculated on the 1-year LIBOR Swap Rate, as hereafter defined, at the time of conversion plus three and ninety hundredths percent (3.90%) ("Conversion Rate").

The "1-Year LIBOR Swap Rate" means the rate per annum equal to the average 1-Year LIBOR Swap Rate for the thirty (30) days preceding December 31, 2009 (rounded upwards, if necessary, to the nearest 1/16 of 1%) adjusted on the first business day of each month quoted by the British Bankers Association (BBA) (or a comparable service determined by Payee) as the rate at which dollar deposits in immediately available funds are offered on the first business day of each calendar month in the Interbank Eurodollar market on or about 9:00 A.M., Milwaukee time. If the first day of any calendar month is not a regular business day the 1-Year LIBOR Swap Rate shall be established on the preceding business day. Payee currently uses the BBA to provide information with respect to the Interbank Eurodollar market, but Payee may change the service providing such information at any time. Each such determination shall be conclusive and binding upon the parties hereto in the absence of demonstrable error. If Payee determines, at its sole discretion, that deposits in dollars are not being offered to banks in the relevant market for the applicable period, or Payee otherwise determines (which determination shall be binding and conclusive on all parties) that by reason of circumstances affecting the Interbank Eurodollar market adequate and reasonable means do not exist for ascertaining the applicable 1-Year LIBOR Swap Rate, then Payee shall not be under any obligation to make or continue loans based on a 1-Year LIBOR Swap Rate and on the first business day of the next calendar month, such loan shall bear interest at the Prime Rate, as hereafter defined, plus or minus the number of basis points which are needed to be added or subtracted to the Prime Rate to equal the Note Rate in effect at the time that 1-Year LIBOR Swap Rate is no longer used to determine the interest rate charged pursuant to this Note (the applicable basis points are hereinafter the New Basis Points and the Prime Rate plus or minus the New Basis Points shall thereafter be the Note Rate) (by way and example, in the event the 1-Year LIBOR Swap Rate is no longer published, the Note Rate shall be equal to the Prime Rate in effect on the date the 1-Year LIBOR Swap Rate is no longer published, plus or minus, as the case may be, the number of basis points necessary to equal the Note Rate last in effect hereunder. The "Prime Rate" is the rate announced periodically by Payee for interest rate determinations and the Prime Rate is not necessarily the lowest rate charged by Payee or any other lenders on loans. During any time that the Note Rate is determined by reference to the Prime Rate, the Note Rate shall change with each change in the Payee' s announced Prime Rate by adding (if at the time the 1-Year LIBOR Swap Rate is no longer used to determine the interest rate charged pursuant to this Note, the New Basis Points are added to the Prime Rate to determine the Note Rate) or subtracting (if at the time the 1-Year LIBOR Swap

Rate is no longer used to determine the interest rate charged pursuant to this Note, the New Basis Points are subtracted from the Prime Rate to determine the Note Rate) the New Basis Points to or from the Prime Rate.”

2.5 Prepayment. The following is hereby added to the end of Paragraph 5:

“Notwithstanding anything to the contrary herein, in the event Maker exercises the Conversion Option, as hereafter defined, and the Note Rate converts to the Conversion Rate, Maker shall pay a prepayment premium (“Prepayment Premium”), in addition to any unpaid and accrued interest, in an amount equal to ninety (90) days of interest of the then outstanding principal balance. Maker and Payee agree that the Prepayment Premium has been agreed to in order to provide Payee with partial compensation for the cost of reinvesting the loan proceeds and the loss of the contracted return on the Loan. Maker and Payee further agree that such Prepayment Premium is reasonable.

3. Warranties and Representations. Borrower hereby warrants and represents that (i) it is not in default pursuant to the provisions of the Loan Agreement, (ii) it remains in compliance with all provisions of the Loan Documents, as defined in the Loan Agreement, and (iii) it has no existing defenses against Bank pursuant to the Loan Documents. All warranties, representations and certifications made by Borrower pursuant to the Loan Documents remain true and correct as of the date hereof and restated as if made on this date.

4. Administrative Fee. Upon execution of this Amendment, Borrower shall have paid Bank an administrative fee in the amount of \$250.00.

5. Collateral Security Documents. Notwithstanding any contrary reference in the Collateral Security Documents, Borrower hereby acknowledges, agrees and states to the Bank that the Collateral Security Documents, as amended, secure the obligations of Borrower pursuant to the Loan Documents.

6. Amendments. Except as expressly amended herein, the Loan Documents remain as executed and in full force and effect.

7. Counterparts. This First Amendment to Loan Agreement, Note and Collateral Security Documents may be executed in any number of counterparts, each counterpart for all purposes being deemed an original, and all such counterparts shall together constitute only one and the same agreement.

**[SIGNATURES BEGIN ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have executed this First Amendment to Loan Agreement, Note and Collateral Security Documents as of the date first above written.

M&I MARSHALL & ILSLEY BANK

By: \_\_\_\_\_  
Michael J. Fruin, Senior Vice President

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SUMMIT HOTEL PROPERTIES, LLC

By: /s/ Kerry Boekelheide  
Kerry Boekelheide, Chief Executive Officer

FIRST AMENDMENT TO LOAN AGREEMENT,  
NOTE AND COLLATERAL SECURITY DOCUMENTS

THIS AMENDMENT is made and entered into as of the 31<sup>st</sup> day of December, 2008, by and among M&I Marshall & Ilsley Bank (“Bank”) and Summit Hotel Properties, LLC (“Borrower”).

W I T N E S S E T H:

WHEREAS, on July 25, 2006, Borrower and Bank entered into a Loan Agreement (“Loan Agreement”) pursuant to which Bank agreed to lend to Borrower up to \$10,400,000.00 (“Loan”);

WHEREAS, to evidence the Loan, Borrower executed a \$10,400,000.00 Mortgage Note (“Note”) on July 25, 2006; and

WHEREAS, Borrower and Bank have agreed to adjust the terms of the Note.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. Definitions. Capitalized terms not otherwise defined herein shall have the meaning given to such term in the Loan Agreement.

2. Amendments to Note.

2.1 Term. Notwithstanding anything to the contrary in the Note, the Maturity Date, as defined in the Note, shall be December 31, 2010.

2.2 Amount. Notwithstanding any contrary reference in the Note, all references to the term “Ten Million Four Hundred Thousand Dollars (\$10,400,000.00)” are hereby deleted and are hereby replaced with the term “Nine Million Eight Hundred Ninety-five Thousand One Hundred Seventy-two and 32/100 Dollars (\$9,895,727.32).”

2.3 Rate. Notwithstanding any contrary reference in the Note, all references to the term “two hundred fifty-five (255) basis points” are hereby deleted and are hereby replaced with the term “three and ninety hundredths percent (3.90%).”

2.4 Option. The following is hereby added as Paragraph 15 to the Note:

“Notwithstanding anything in this Note to the contrary, Maker is hereby granted an option (“Conversion Option”) to convert the Note Rate to a fixed rate on December 31, 2009, provided (i) no Event of Default, as defined in the Loan Agreement has occurred prior to the exercise of the Conversion Option, (ii) at least ninety (90) days prior to December 31, 2009, Maker gives Payee written

notice of Maker' s intent to exercise the Conversion Option, and (iii) Maker shall have a minimum Debt Service Coverage Ratio, as defined in the Loan Agreement, of no less than 1.10 to 1.00. If the Conversion Option is exercised, the fixed rate of interest shall be calculated on the 1-year LIBOR Swap Rate, as hereafter defined, at the time of conversion plus three and ninety hundredths percent (3.90%) ("Conversion Rate").

The "1-Year LIBOR Swap Rate" means the rate per annum equal to the average 1-Year LIBOR Swap Rate for the thirty (30) days preceding December 31, 2009 (rounded upwards, if necessary, to the nearest 1/16 of 1%) adjusted on the first business day of each month quoted by the British Bankers Association (BBA) (or a comparable service determined by Payee) as the rate at which dollar deposits in immediately available funds are offered on the first business day of each calendar month in the Interbank Eurodollar market on or about 9:00 A.M., Milwaukee time. If the first day of any calendar month is not a regular business day the 1-Year LIBOR Swap Rate shall be established on the preceding business day. Payee currently uses the BBA to provide information with respect to the Interbank Eurodollar market, but Payee may change the service providing such information at any time. Each such determination shall be conclusive and binding upon the parties hereto in the absence of demonstrable error. If Payee determines, at its sole discretion, that deposits in dollars are not being offered to banks in the relevant market for the applicable period, or Payee otherwise determines (which determination shall be binding and conclusive on all parties) that by reason of circumstances affecting the Interbank Eurodollar market adequate and reasonable means do not exist for ascertaining the applicable 1 -Year LIBOR Swap Rate, then Payee shall not be under any obligation to make or continue loans based on a 1 -Year LIBOR Swap Rate and on the first business day of the next calendar month, such loan shall bear interest at the Prime Rate, as hereafter defined, plus or minus the number of basis points which are needed to be added or subtracted to the Prime Rate to equal the Note Rate in effect at the time that 1-Year LIBOR Swap Rate is no longer used to determine the interest rate charged pursuant to this Note (the applicable basis points are hereinafter the New Basis Points and the Prime Rate plus or minus the New Basis Points shall thereafter be the Note Rate) (by way and example, in the event the 1-Year LIBOR Swap Rate is no longer published, the Note Rate shall be equal to the Prime Rate in effect on the date the 1-Year LIBOR Swap Rate is no longer published, plus or minus, as the case may be, the number of basis points necessary to equal the Note Rate last in effect hereunder. The "Prime Rate" is the rate announced periodically by Payee for interest rate determinations and the Prime Rate is not necessarily the lowest rate charged by Payee or any other lenders on loans. During any time that the Note Rate is determined by reference to the Prime Rate, the Note Rate shall change with each change in the Payee' s announced Prime Rate by adding (if at the time the 1-Year LIBOR Swap Rate is no longer used to determine the interest rate charged pursuant to this Note, the New Basis Points are added to the Prime Rate to determine the Note Rate) or subtracting (if at the time the 1-Year LIBOR Swap



Rate is no longer used to determine the interest rate charged pursuant to this Note, the New Basis Points are subtracted from the Prime Rate to determine the Note Rate) the New Basis Points to or from the Prime Rate.”

2.5 Prepayment. The following is hereby added to the end of Paragraph 5:

“Notwithstanding anything to the contrary herein, in the event Maker exercises the Conversion Option, as hereafter defined, and the Note Rate converts to the Conversion Rate, Maker shall pay a prepayment premium (“Prepayment Premium”), in addition to any unpaid and accrued interest, in an amount equal to ninety (90) days of interest of the then outstanding principal balance. Maker and Payee agree that the Prepayment Premium has been agreed to in order to provide Payee with partial compensation for the cost of reinvesting the loan proceeds and the loss of the contracted return on the Loan. Maker and Payee further agree that such Prepayment Premium is reasonable.

3. Warranties and Representations. Borrower hereby warrants and represents that (i) it is not in default pursuant to the provisions of the Loan Agreement, (ii) it remains in compliance with all provisions of the Loan Documents, as defined in the Loan Agreement, and (iii) it has no existing defenses against Bank pursuant to the Loan Documents. All warranties, representations and certifications made by Borrower pursuant to the Loan Documents remain true and correct as of the date hereof and restated as if made on this date.

4. Administrative Fee. Upon execution of this Amendment, Borrower shall have paid Bank an administrative fee in the amount of \$250.00.

5. Collateral Security Documents. Notwithstanding any contrary reference in the Collateral Security Documents, Borrower hereby acknowledges, agrees and states to the Bank that the Collateral Security Documents, as amended, secure the obligations of Borrower pursuant to the Loan Documents.

6. Amendments. Except as expressly amended herein, the Loan Documents remain as executed and in full force and effect.

7. Counterparts. This First Amendment to Loan Agreement, Note and Collateral Security Documents may be executed in any number of counterparts, each counterpart for all purposes being deemed an original, and all such counterparts shall together constitute only one and the same agreement.

**[SIGNATURES BEGIN ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have executed this First Amendment to Loan Agreement, Note and Collateral Security Documents as of the date first above written.

M&I MARSHALL & ILSLEY BANK

By: \_\_\_\_\_  
Michael J. Fruin, Senior Vice President

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SUMMIT HOTEL PROPERTIES, LLC

By: /s/ Kerry Boekelheide  
Kerry Boekelheide, Chief Executive Officer

## LOAN MODIFICATION AGREEMENT

This **LOAN MODIFICATION AGREEMENT** (the "**Modification**") is entered into as of December \_\_\_\_\_, 2008, by and between **GENERAL ELECTRIC CAPITAL CORPORATION**, a Delaware corporation ("**Lender**"), whose address is 8377 East Hartford Drive, Suite 200, Scottsdale, Arizona 85255-5401, and **SUMMIT HOTEL PROPERTIES, LLC**, a South Dakota limited liability company ("**Borrower**"), whose address 2701 S. Minnesota Ave., Ste. 6, Sioux Falls, SD 57105.

### PRELIMINARY STATEMENT

A. Pursuant to the loan documents described on *Exhibit A* (as previously amended and modified, the "**Loan Agreement**") between Lender and Borrower, Lender has extended loans to Borrower (collectively, the "**Loan**"). The Loan is evidenced by one or more promissory notes (collectively, the "**Note**"). The Loan Agreement, the Note and the other documents and instruments currently evidencing and securing the Loan are referred to collectively as the "**Current Loan Documents**." The Current Loan Documents, as modified by this Modification, are referred to as the "**Loan Documents**" and references in the Current Loan Documents and this Modification to the "Loan Documents," or any of them, shall be deemed to be a reference to such Loan Documents, as modified by this Modification.

B. Borrower has requested that Lender modify the Loan and the Current Loan Documents as provided in this Modification, and Lender is willing to so modify the Loan and the Current Loan Documents, subject to the terms and conditions set forth in this Modification. This modification is necessary and subject to the following:

1. Summit did not meet the completion deadline set forth in Section 2 of the Disbursement Agreement dated August 15, 2007.
2. Summit did not meet the completion deadline set forth in the Disbursement Agreement due to water sprinkler damage which occurred on the Premises.
3. The expected completion date of the Premises is now December 18, 2008.
4. Final draws under the Disbursement Agreement will occur on or before February 27, 2009.
5. Summit will convert to permanent financing in accordance with the Amended and Restated Promissory Note no later than February 27, 2009.

C. Capitalized terms used in this Modification and not otherwise defined in this Modification shall have the meanings given to those terms in the Loan Agreement.

### AGREEMENT:

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, Guarantors and Lender agree as follows:

1. Accuracy of Preliminary Statement; Effective Date. Borrower acknowledges the accuracy of the Preliminary Statement and the parties agree that the Preliminary Statement is a part of this Modification. Borrower also acknowledges and agrees that the information set forth on *Exhibit A* is complete and correct. The modifications of the Loan Documents and the obligations of Lender pursuant to this Modification will be effective on the date that Lender determines that the conditions precedent set forth in this Modification have been satisfied in full (such date, the "**Effective Date**").

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**10/20/08**  
 phx/463004.3

Contract No: 32775  
 Asset No: 8004-8031  
 Baton Rouge, Louisiana

2. Modification of Current Loan Documents.

**(a) DISBURSEMENT AGREEMENT**

- i. The terms of the Disbursement Agreement contained in Section 1 entitled Certain Defined Terms is hereby modified as follows:
  - (1) “Completion Date” means the date of the opening of the Premises as a Cambria Suites hotel. Such date shall be no later than December 18, 2008.
- ii. The terms of the Disbursement Agreement contained in Sub-Sections (a) of Section 2 entitled Construction of Improvements is hereby modified as follows:
  - (1) Borrower shall (i) construct the Improvements or cause the Improvements to be constructed in good and workmanlike manner and substantially in accordance with the Contract Documents, (ii) commence construction no later than the thirtieth day after the date of this Agreement and (iii) once construction of the Improvements has commenced, pursue such construction diligently to completion and complete such construction no later than December 18, 2008.

**(b) INTERIM PROMISSORY NOTE**

- i. The terms of the Interim Promissory Note shall be modified as follows:
  - (1) “Maturity Date” means February 27, 2009; provided, however, the Maturity Date may be extended, at the sole discretion of the Lender, as applicable, in the Amended and Restated Note (as defined in the Interim Promissory Note) to be the first day of the month immediately following the month in which the tenth anniversary of the Final Disbursement occurs.

3. Borrower Representations, Warranties and Covenants. As additional consideration to and inducement for Lender to enter into this Modification, Borrower represents and warrants to and covenants with Lender as follows:

(a) Representations and Warranties. Each and all representations and warranties of Borrower in the Current Loan Documents are and will continue to be accurate, complete and correct. The representations and warranties in this Modification are true, complete and correct as of the date set forth above, will continue to be true, complete and correct as of the consummation of the modifications contemplated by this Modification, and will survive such consummation.

(b) No Defaults. Borrower is not in default under any of the Loan Documents, nor has any event or circumstance occurred that is continuing that, with the giving of notice or the passage of time, or both, would be a default or an event of default by Borrower under any of the Loan Documents.

(c) No Material Changes. There has been no material adverse change in the financial condition of Borrower, Guarantors or any other person whose financial statement has been delivered to Lender in connection with the Loan from the most recent financial statement received by Lender from Borrower, Guarantors or such other persons.

(d) No Conflicts; No Consents Required. Neither execution nor delivery of this Modification nor fulfillment of or compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms or conditions of, or constitute a default under, any agreement or instrument to which

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**10/20/08**  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

Borrower is a party or by which Borrower may be bound. No consents, approvals or authorizations are required for the execution and delivery of this Modification by Borrower or for Borrower's compliance with its terms and provisions.

(e) Claims and Defenses. Borrower has no claims, counterclaims, defenses, or set-offs with respect to the Loan or the Loan Documents. Lender and its predecessors in interest have performed all of their obligations under the Loan Documents, and Borrower has no defenses, offsets, counterclaims, claims or demands of any nature which can be asserted against Lender or its predecessors in interest for damages or to reduce or eliminate all or any part of the obligations of Borrower under the Loan Documents.

(f) Validity. This Modification and the other Loan Documents are and will continue to be the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their terms.

(g) Valid Existence, Execution and Delivery, and Due Authorization. Borrower validly exists under the laws of the State of its formation or organization and has the requisite power and authority to execute and deliver this Modification and to perform the Loan Documents. The execution and delivery of this Modification and the performance of the Loan Documents have been duly authorized by all requisite action by or on behalf of Borrower. This Modification has been duly executed and delivered on behalf of Borrower.

(h) Ratification of Current Loan Documents and Collateral. The Current Loan Documents, as modified by this Modification, are ratified and affirmed by Borrower and shall remain in full force and effect. Except to the extent, if any, specifically provided for in this Modification: (i) the liens of Lender on and security interests in any and all real or personal property (tangible or intangible) granted as security for the Loan shall continue in full force and effect and none of such property is or shall be released from such liens and security interests; and (ii) this Modification shall not constitute a waiver of any rights or remedies of Lender in respect of the Loan Documents.

4. Release. Borrower fully, finally and forever releases and discharges Lender and each Lender Party from any and all actions, causes of action, claims, debts, demands, liabilities, obligations and suits, of whatever kind or nature, in law or equity, that Borrower has or in the future may have, whether known or unknown (i) in respect of the Loan, this Modification, the other Loan Documents or the actions or omissions of Lender in respect of the Loan or the Loan Documents and (ii) arising from events occurring prior to the date of this Modification. BORROWER EXPRESSLY WAIVES ANY PROVISION OF STATUTORY OR DECISIONAL LAW TO THE EFFECT THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN SUCH PARTY'S FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH, IF KNOWN BY SUCH PARTY, MUST HAVE MATERIALLY AFFECTED SUCH PARTY'S SETTLEMENT WITH THE RELEASED PARTIES, INCLUDING PROVISIONS SIMILAR TO SECTION 1542 OF THE CALIFORNIA CIVIL CODE, WHICH PROVIDES: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

5. Fees and Costs. Contemporaneously with the execution and delivery of this Modification, Borrower will pay the following amounts to Lender, in addition to any other amounts required to be paid to Lender pursuant to this Modification: all out of pocket expenses incurred by Lender or any of its affiliates in connection with this Modification, including reasonable attorneys' fees.

6. Conditions Precedent. The obligations of Lender to consummate the transactions contemplated by this Modification are subject to satisfaction of the following conditions precedent, each in the sole and absolute discretion of Lender:

(a) Borrower Performance. Borrower has duly executed and delivered this Modification and Borrower has paid all fees and other amounts and performed all obligations required under this

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**10/20/08**  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

Modification to be paid and performed contemporaneously with the execution and delivery of this Modification.

(b) Representations and Warranties. The representations and warranties of Borrower contained in this Modification and any other document or instrument expressly contemplated by this Modification shall be true and correct in all material respects.

(c) Existence and Authority. If requested by Lender, Borrower shall have provided Lender with evidence that Borrower is in good standing under the laws of their state of formation and in each state in which any collateral for the Loan is located and that the person or persons executing this Modification on behalf of Borrower is duly authorized to do so.

(d) No Default. No event or circumstance shall have occurred that is continuing, that, with the giving of notice or the passage of time, or both, would be a default or an event of default under any of the Loan Documents.

(e) Lien Priority. Lender shall have received such UCC search results, title reports and title insurance endorsements as Lender shall reasonably require evidencing the continuing first priority of all of Lender's liens in the collateral described in the Loan Documents.

(f) Insurance. Borrower shall have provided Lender with evidence satisfactory to Lender that all insurance required by the Loan Documents is in full force and effect.

7. Entire Agreement; Change; Discharge; Termination or Waiver. The Current Loan Documents, as modified by this Modification, contain the entire understanding and agreement of Borrower and Lender in respect of the Loan and supersede all prior representations, warranties, agreements and understandings. No provision of the Loan Documents may be changed, discharged, supplemented, terminated or waived except in a writing signed by Lender and Borrower.

8. No Limitations. The description of the Loan Documents contained in this Modification is for informational and convenience purposes only and shall not be deemed to limit, imply or modify the terms or otherwise affect the Loan Documents.

9. Time of the Essence. Time is of the essence in this Modification.

10. Binding Effect. The Loan Documents, as modified by this Modification, shall be binding upon, and inure to the benefit of, Borrower and Lender and their respective successors and assigns.

11. Further Assurances. Borrower shall execute, acknowledge (as appropriate) and deliver to Lender such additional agreements, documents and instruments as reasonably required by Lender to carry out the intent of this Modification.

12. Counterpart Execution. This Modification may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this Modification to physically form one document.

13. Limitation of Liability for Certain Damages. In no event shall any Lender Party be liable to Borrower or any of its respective affiliates (collectively the "**Credit Parties**" and individually a "**Credit Party**") on any theory of liability for any special, indirect, consequential or punitive damages (including any loss of profits, business or anticipated savings). **BORROWER AND EACH OTHER CREDIT PARTY HEREBY WAIVE, RELEASE AND AGREE NOT TO SUE UPON (AND BORROWER SHALL CAUSE EACH OF THE OTHER CREDIT PARTIES TO SO WAIVE, RELEASE, AND AGREE NOT TO SUE UPON) ANY SUCH CLAIM FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER OR NOT ACCRUED AND WHETHER OR NOT KNOWN OR SUSPECTED TO EXIST IN ITS FAVOR.**

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*10/20/08*  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

14. Jurisdiction and Service of Process.

(a) Submission to Jurisdiction. Any legal action or proceeding with respect to any Loan Document shall be brought exclusively in the courts of the State of Arizona located in Maricopa County or of the United States for the District of Arizona, and Borrower and each other Credit Party accept for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts; **provided, however,** that nothing in this Modification shall limit or restrict the right of Lender to commence any proceeding in the federal or state courts located in the state in which property securing the Loan is located to the extent Lender deems such proceeding necessary or advisable to exercise remedies available under any Loan Document. Lender, Borrower and each other Credit Party hereby irrevocably waive any objection, including any objection to the laying of venue or based on the grounds of forum non conveniens, that any of them may now or hereafter have to the bringing of any such action or proceeding in such jurisdictions.

(b) Service of Process. Borrower and each other Credit Party hereby irrevocably waive personal service of any and all legal process, summons, notices and other documents and other service of process of any kind and consents to such service in any suit, action or proceeding brought in the United States of America with respect to or otherwise arising out of or in connection with any Loan Document by any means permitted by applicable law, including by the mailing thereof (by registered or certified mail, postage prepaid) to the address of Borrower specified on the signature page hereto (and shall be effective when such mailing shall be effective, as provided therein). Borrower and each other Credit Party agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing contained in this subsection shall affect the right of Lender to serve process in any other manner permitted by applicable law.

(c) Non-Exclusive Jurisdiction. Nothing contained in this Section shall affect the right of Lender to serve process in any other manner permitted by applicable Requirements of Law or commence legal proceedings or otherwise proceed against any Borrower Party in any other jurisdiction.

15. Disclosure Authorization. Borrower authorizes its respective banks, creditors (including trade creditors), vendors, suppliers, customers, and each franchisor to disclose and release to Lender any and all information any of them may request from time to time regarding (a) any depository, loan or other credit account of Borrower; (b) the status of each franchise agreement; (c) the affairs and financial condition of Borrower; and (d) Borrower's respective business operations. Borrower expressly authorizes Lender to perform background, credit, judgment, lien and other checks, searches, inspections and investigations and to obtain personal and business credit reports and asset reports with respect to Borrower and to answer questions about their respective credit experience with Borrower. The information obtained by the Lender pursuant to this paragraph, together with all other information which any of the Lender now possess or in the future may acquire with respect to Borrower, the Collateral, or the business operations of Borrower, is referred to as the "**Borrower Information.**"

16. Permitted Disclosures. Borrower authorizes Lender to disclose Borrower Information as follows: (a) to each franchisor or licensor of Borrower, upon written request by such franchisor or licensor; (b) to any proposed transferee, purchaser, assignee, servicer, participant, lender, investor, ratings agency, or other Person with respect to any proposed sale, assignment, or other transfer by Lender of any of its rights in the Loan Documents, including servicing rights, or sale or other disposition of any of the Collateral; (c) to any of the other Lender Parties or any insurance or title company in connection with the transactions contemplated by the Loan Documents, including any action, suit, or proceeding arising out of, in connection with, or relating to, this Modification and the other Loan Documents, the Loan, or any other transaction contemplated hereby, including in connection with the exercise of Lender's rights and remedies; (d) to the extent such information is or becomes available to a Lender Party from sources not known by such Lender Party to be subject to disclosure restrictions; (e) to the extent disclosure is required by applicable law or other legal process or is requested or demanded by any governmental authority; and (f) as may otherwise be authorized in writing by Borrower. Borrower agrees that the disclosures permitted by this Section and any other disclosures of Borrower Information authorized pursuant to any of the Loan Documents may be made even though any such disclosure may involve the transmission or other communication of

**GEFF smartDocs Form 6001**  
**10/20/08**  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

Borrower Information from the nation of residence or domicile of such Borrower or a Lender Party to another country or jurisdiction, and Borrower waives the provisions of any data privacy law, rule, or regulation of any applicable governmental authority that would otherwise apply to the disclosures authorized in this Section.

(a) WAIVER OF JURY TRIAL. LENDER, BORROWER AND EACH OTHER CREDIT PARTY, TO THE EXTENT PERMITTED BY LAW, WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING ARISING OUT OF, IN CONNECTION WITH OR RELATING TO, THIS MODIFICATION, THE OTHER LOAN DOCUMENTS AND ANY OTHER TRANSACTION CONTEMPLATED HEREBY AND THEREBY. THIS WAIVER APPLIES TO ANY ACTION, SUIT OR PROCEEDING WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE.

17. Governing Law. The laws of the State of Arizona (without giving effect to its conflicts of laws principles) shall govern all matters arising out of, in connection with or relating to this Modification and the other Loan Documents, including its validity, interpretation, construction, performance and enforcement; *provided, however*, that with respect to any married individual signing this Modification who is not a resident of the State of Arizona, this Section shall not be a contractual choice of the community property laws of the State of Arizona.

[SIGNATURE PAGE FOLLOWS]

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*10/20/08*  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana



**EXHIBIT A  
THE LENDER AND THE LOAN**

	<u>Contract #</u>	<u>Lender</u>	<u>Date of Interim Promissory Note</u>	<u>Current Principal Balance, as of November 24, 2008</u>	<u>Current Balance of Accrued Interest and Fees, as of November 24, 2008</u>
<b>Loan</b>	<b>32775</b>	<b>GENERAL ELECTRIC CAPITAL CORPORATION</b>	<b>8-15-2007</b>	<b>\$9,485,350.64</b>	<b>\$30,832.93</b>

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*10/20/08*  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

Executed and effective as of the date first set forth above.

**LENDER:**

**GENERAL ELECTRIC CAPITAL CORPORATION**  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its Authorized Signatory

**BORROWER:**

**SUMMIT HOTEL PROPERTIES, LLC**  
a South Dakota limited liability company

By: /s/ Dan Hansen  
Name: DAN HANSEN  
Title: CFO

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**10/20/08**  
phx/463004.3

Contract No: 32775  
Asset No: 8004-8031  
Baton Rouge, Louisiana

**Subsidiaries of the Registrant**

Name of Subsidiary

Summit Group of Scottsdale, Arizona, LLC

Summit Hospitality I, LLC

Summit Hospitality V, LLC

State of Organization

South Dakota

Delaware

South Dakota

**CERTIFICATION PURSUANT TO RULE 13a-14 UNDER THE SECURITIES  
EXCHANGE ACT OF 1934**

I, Kerry W. Boekelheide, certify that:

- 1) I have reviewed this annual report on Form 10-K of Summit Hotel Properties, LLC;
  - 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  - 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  - 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal
-

quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5) The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions);

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Dated: March 31, 2009

*/s/ Kerry W. Boekelheide*

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Kerry W. Boekelheide  
Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14 UNDER THE SECURITIES  
EXCHANGE ACT OF 1934**

I, Daniel P. Hansen, certify that:

- 1) I have reviewed this annual report on Form 10-K of Summit Hotel Properties, LLC;
  - 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  - 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  - 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal
-

quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

*/s/ Daniel P. Hansen*

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Daniel P. Hansen  
Chief Financial Officer

Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code

I, Kerry W. Boekelheide, the Chief Executive Officer of Summit Hotel Properties, LLC (“Summit”), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that (i) the accompanying Form 10-K of Summit for the twelve months ended December 31, 2008 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Summit.

*/s/ Kerry W. Boekelheide*

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Kerry W. Boekelheide  
Chief Executive Officer  
Summit Hotel Properties, LLC

March 31, 2009



Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code

I, Daniel P. Hansen, the Chief Financial Officer of Summit Hotel Properties, LLC (“Summit”), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that (i) the accompanying Form 10-K of Summit for the twelve months ended December 31, 2008 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Summit.

*/s/ Daniel P. Hansen*

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Daniel P. Hansen  
Chief Financial Officer  
Summit Hotel Properties, LLC

March 31, 2009

PROPERTIES OWNED BY SUMMIT HOTEL PROPERTIES, LLC AS OF DECEMBER 31, 2008

Property Name	Franchise	Number of Guest Rooms	Acquisition/ Opening Date	For the Year Ended December 31, 2008		
				Occupancy Rate	ADR	RevPAR
Ft. Smith, AR	Aspen Hotel	57	6/24/ 2003	56.06%	84.53	47.39
Flagstaff, AZ(1)	Flagstaff Suites	114	10/ 30/ 2008	29.37%	61.78	18.14
Bloomington, MN	Cambria Suites	113	11/ 15/ 2007	51.22%	106.64	54.62
Boise, ID	Cambria Suites	119	4/13/ 2007	62.65%	80.92	50.70
Baton Rouge, LA(1)	Cambria Suites	127	12/ 11/ 2008	18.86%	74.51	14.05
San Antonio, TX(1)	Cambria Suites	126	12/ 18/ 2008	17.52%	63.86	11.19
Ellensburg, WA	Comfort Inn	52	8/30/ 1996	59.38%	87.20	51.78
Fort Smith, AR	Comfort Inn	89	4/3/ 1995	70.01%	76.81	53.77
Missoula, MT	Comfort Inn	52	1/12/ 1996	72.64%	89.22	64.81
Salina, KS	Comfort Inn	60	3/27/ 1992	77.17%	68.86	53.14
Twin Falls, ID	Comfort Inn	52	10/ 24/ 1992	76.38%	91.52	69.90
Charleston, WV	Comfort Suites	67	4/20/ 2001	75.36%	88.06	66.36
Ft. Worth, TX	Comfort Suites	70	6/19/ 1999	60.64%	98.41	59.68
Lakewood, CO	Comfort Suites	62	4/29/ 1995	62.53%	99.08	61.95
St. Joseph, MO	Comfort Suites	65	8/10/ 1998	71.84%	74.89	53.80
Charleston, WV	Country Inn & Suites	64	7/23/ 2001	74.00%	95.67	70.80
Germantown, TN	Courtyard by Marriott	93	2/24/ 2005	69.53%	106.78	74.24
Jackson, MS	Courtyard by Marriott	117	2/24/ 2005	69.54%	109.89	76.42
Memphis, TN	Courtyard by Marriott	96	6/30/ 2005	61.05%	86.65	52.90
Missoula, MT	Courtyard by Marriott	92	12/ 16/ 2005	64.63%	108.41	70.07
Scottsdale, AZ	Courtyard by Marriott	153	8/1/ 2003	64.16%	143.75	92.23
Baton Rouge, LA	Fairfield Inn by Marriott	79	2/13/ 2004	79.61%	99.36	79.10
Bellevue, WA	Fairfield Inn by Marriott	144	7/30/ 1997	60.72%	141.57	85.96
Boise, ID	Fairfield Inn by Marriott	63	4/7/ 1995	61.80%	80.41	49.69
Denver, CO	Fairfield Inn by Marriott	161	6/19/ 1997	77.80%	106.10	82.55

Emporia, KS	Fairfield Inn by Marriott	57	12/ 12/ 1994	66.31%	75.67	50.18
Germantown, TN	Fairfield Inn by Marriott	80	6/16/ 2005	60.72%	86.32	52.41
Lakewood, CO	Fairfield Inn by Marriott	63	4/14/ 1995	61.22%	102.31	62.63
Lewisville, TX	Fairfield Inn by Marriott	71	12/7/ 2000	68.71%	85.97	59.07
Salina, KS	Fairfield Inn by Marriott	63	6/1/ 1994	75.33%	68.84	51.86
Spokane, WA	Fairfield Inn by Marriott	86	5/1/ 1995	69.80%	101.96	71.17
Bloomington, MN	Hampton Inn	146	9/28/ 2007	62.64%	131.23	82.20
Boise, ID	Hampton Inn	64	5/1/ 1995	68.14%	93.26	63.55
Denver, CO	Hampton Inn	149	7/24/ 2003	50.44%	112.20	56.59
El Paso, TX	Hampton Inn	139	8/1/ 2005	84.36%	119.34	100.68
Ft. Collins, CO	Hampton Inn	75	11/1/ 1996	62.07%	99.43	61.72
Ft. Smith, AR	Hampton Inn	178	10/4/ 2005	68.67%	106.64	73.23
Ft. Wayne, IN	Hampton Inn	119	2/1/ 2006	68.36%	97.97	66.97
Ft. Worth, TX	Hampton Inn	105	11/ 19/ 2007	65.95%	121.76	80.30
Medford, OR	Hampton Inn	75	6/25/ 2001	70.18%	106.64	74.84
Provo, UT	Hampton Inn	87	1/24/ 1996	74.20%	94.19	69.89
Twin Falls, ID	Hampton Inn	75	4/28/ 2004	73.19%	102.42	74.96
Ft. Collins, CO	Hilton Garden Inn	120	9/21/ 2007	42.15%	107.04	45.12
Boise, ID	Holiday Inn Express	63	6/21/ 2005	67.27%	87.99	59.19
Emporia, KS	Holiday Inn Express	58	8/30/ 2000	76.84%	88.34	67.88
Las Colinas, TX	Holiday Inn Express	128	5/2/ 2007	38.66%	87.07	33.66
Sandy, UT	Holiday Inn Express	88	3/26/ 1998	73.65%	99.49	73.27

Property Name	Franchise	Number of Guest Rooms	Acquisition/ Opening Date	For the Year Ended December 31, 2008		
				Occupancy Rate	ADR	RevPAR
Twin Falls, ID	Holiday Inn Express	59	5/28/ 1999	77.50%	99.93	77.45
Vernon Hills, IL	Holiday Inn Express	119	12/ 30/ 1999	52.84%	95.75	50.59
Atlanta, GA	Hyatt Place	150	4/12/ 2006	71.35%	87.43	62.38
Las Colinas, TX	Hyatt Place	122	5/2/ 2007	45.85%	96.47	44.23
Ft. Wayne, IN	Residence Inn by Marriott	109	2/1/ 2006	72.70%	100.44	73.02
Germantown, TN	Residence Inn by Marriott	78	6/16/ 2005	68.72%	105.07	72.20
Jackson, MS	Residence Inn by Marriott	100	10/ 16/ 2007	82.75%	103.19	85.39
Baton Rouge, LA	SpringHill Suites by Marriott	78	2/13/ 2004	78.44%	104.36	81.86
Denver, CO	SpringHill Suites by Marriott	124	12/7/ 2007	54.10%	134.58	72.81
Lithia Springs, GA	SpringHill Suites by Marriott	78	2/13/ 2004	57.52%	85.10	48.95
Little Rock, AR	SpringHill Suites by Marriott	78	2/13/ 2004	70.42%	98.39	69.29
Nashville, TN	SpringHill Suites by Marriott	78	2/13/ 2004	77.54%	101.15	78.43
Scottsdale, AZ	SpringHill Suites by Marriott	123	8/1/ 2003	64.67%	119.06	77.00
Jackson, MS	Staybridge Suites	92	6/5/ 2007	78.51%	87.01	68.31
Baton Rouge, LA	TownePlace Suites by Marriott	90	2/13/ 2004	80.35%	91.53	73.54
<b>Total</b>		<b>5854</b>		<b>66.15%</b>	<b>100.95</b>	<b>66.78</b>

(1) Properties acquired or opened during 2008. Operating data is for the period the hotel was owned by the Company.