

Seagate Technology  
Form 8-K12B  
July 06, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

Date of report (date of earliest event reported): **July 3, 2010**

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**SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY**

(Exact Name of Registrant as Specified in its Charter)

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**Ireland**  
(State or Other Jurisdiction

of Incorporation)

**001-31560**  
(Commission File Number)

**98-0648577**  
(IRS Employer

Identification Number)

**Arthur Cox Building**

**Earlsfort Terrace**

**NA**

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**Dublin 2**

**Ireland**

(Address of Principal Executive Office)

(Zip Code)

Registrant's telephone number, including area code: **(353) (1) 618-0517**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Introductory Note:** As disclosed below, Seagate Technology public limited company, an Irish public limited company (the Registrant or Seagate-Ireland ) became the successor to Seagate Technology, an exempted company incorporated with limited liability under the laws of the Cayman Islands ( Seagate-Cayman ), effective as of July 3, 2010. This Current Report on Form 8-K is being filed for the purpose of establishing the Registrant as the successor issuer pursuant to Rule 12g-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and to timely disclose events required to be disclosed on Form 8-K with respect to the Registrant as of July 3, 2010. Pursuant to Rule 12g-3(a) under the Exchange Act, the ordinary shares (as described in Item 8.01 below) of the Registrant, as successor issuer, are deemed registered under Section 12(b) of the Exchange Act.

**Item 1.01. Entry into a Material Definitive Agreement.**

*Supplemental Indenture*

On July 3, 2010, Seagate-Ireland entered into a Supplemental Indenture (the Supplemental Indenture ) with Seagate HDD Cayman ( HDD ), Seagate-Cayman and Wells Fargo Bank, National Association, as trustee (the Trustee ). The Supplemental Indenture supplemented the Indenture dated May 13, 2010 (the Indenture ) among Seagate-Cayman, HDD and the Trustee whereby HDD issued and Seagate-Cayman fully and unconditionally guaranteed 6.875% Senior Notes due 2020 (the Notes ).

Pursuant to the Supplemental Indenture, Seagate-Ireland succeeded to, was substituted for, and assumed all of the obligations of, Seagate-Cayman as guarantor under the Indenture and the Notes and Seagate-Cayman was released from all obligations and covenants thereunder, as contemplated under Section 10.05(b) of the Indenture.

The description of the Supplemental Indenture contained herein is qualified in its entirety by reference to the Supplemental Indenture, which is filed herewith Exhibit 10.1 and is incorporated into this Item 1.01 by reference.

*Assumption of Employee Stock Plans and Awards*

On July 2, 2010, the Registrant, entered into a Deed Poll of Assumption relating to employee equity compensation plans of Seagate-Cayman (the Deed Poll ), pursuant to which the Registrant assumed, certain equity incentive related plans, sub-plans and agreements, including, the Seagate Technology 2001 Share Option Plan, the Amended Seagate Technology 2004 Stock Compensation Plan, the Seagate Technology Employee Stock Purchase Plan, the Maxtor Corporation 2005 Performance Incentive Plan, the Maxtor Corporation Amended and Restated 1996 Stock Option Plan, and the Quantum Corporation Supplemental Stock Option Plan (collectively, the Equity Compensation Plans ), which provide for the grant or award of stock options, restricted stock units, restricted stock, performance shares units and other similar forms of equity awards (collectively, the Awards ). The Deed Poll provides that the Registrant will undertake and discharge all of the rights and obligations previously discharged by Seagate-Cayman under the Equity Compensation Plans and the Awards, and exercise all of the powers previously exercised by Seagate-Cayman under the Equity Compensation Plans. All outstanding Seagate-Cayman equity awards issued before July 3, 2010 and all Awards remain subject to the same terms and conditions as in effect immediately prior to their assumption by the Registrant, except that upon the vesting or exercise of those awards, ordinary shares of the Registrant shall be issuable in lieu of Seagate-Cayman common shares. Similarly, ordinary shares of the Registrant, rather than common shares of Seagate-Cayman, shall be issued, held available or used as appropriate to give effect to purchases made under the Employee Stock Purchase Plan A copy of the Deed Poll is filed herewith as Exhibit 10.2 and incorporated into this Item 1.01 by reference, and the foregoing summary of the Deed Poll is qualified in its entirety by reference to Exhibit 10.2.

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**Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information under the heading Supplemental Indenture in Item 1.01 of this Current Report on Form 8-K is incorporated into this Item 2.03 by reference.

**Item 3.02. Unregistered Sales of Equity Securities.**

The information under the heading Completion of the Transaction in Item 8.01 of this Current Report on Form 8-K is incorporated into this Item 3.02 by reference.

**Item 3.03. Material Modification to Rights of Security Holders.**

As of July 3, 2010, in connection with and effective upon completion of the Transaction (as defined in Item 8.01 below), the rights of shareholders of Seagate-Ireland will be governed by its amended and restated memorandum and articles of association and the Irish Companies Acts 1963-2009 (the Irish Companies Acts ). The summary of the material terms of the amended and restated memorandum and articles of association and the comparison of the rights of shareholders under those documents and Irish Companies Acts described under the headings Description of Seagate Technology plc Share Capital and Comparison of Rights of Shareholders and Powers of the Board of Directors in Seagate-Cayman s Proxy Statement on Schedule 14A filed with the SEC on March 5, 2010

are incorporated into this Item 3.03 by reference. A copy of the amended and restated memorandum and articles of association is filed herewith as Exhibit 3.1 and is incorporated into this Item 3.03 by reference, and the foregoing information is qualified in its entirety by reference to Exhibit 3.1.

The information under the heading "Completion of the Transaction" in Item 8.01 of this Current Report on Form 8-K is incorporated into this Item 3.03 by reference.

**Item 5.01. Changes in Control of Registrant.**

The information under the heading "Completion of the Transaction" in Item 8.01 of this Current Report on Form 8-K is incorporated into this Item 5.01 by reference.

**Item 5.02. Departures of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

*Directors and Officers*

As of July 3, 2010, in connection with the completion of the Transaction, the directors and executive officers of Seagate-Cayman immediately prior to the completion of the Transaction became the directors and executive officers of the Registrant. The Registrant's directors will be subject to reelection at the 2010 annual general meeting of the Registrant. In addition, as of July 3, 2010, following completion of the Transaction, the Registrant replicated the committees that previously were in place for Seagate-Cayman which include a Compensation Committee, a Nominating and Governance Committee and an Audit Committee and a Strategic and Financial Transactions Committee.

*Employee Stock Plans and Awards*

In connection with the Transaction, effective as of July 3, 2010, the Registrant assumed the Equity Compensation Plans and all outstanding Awards granted under such Equity Compensation Plans. Certain of the Equity Compensation Plans, the Seagate Technology 2001 Share Option Plan, the Amended Seagate Technology 2004 Stock Compensation Plan, and the Seagate Technology Employee Stock Purchase Plan, were amended by Seagate-Cayman prior to the Transaction as necessary, appropriate or practical to (i) give effect to the Transaction; (ii) transfer the responsibility for maintaining and sponsoring such Equity Compensation Plans to Seagate-Ireland and to have Seagate-Ireland assume or adopt such Equity Compensation Plans (provided that certain subsidiaries may continue to sponsor certain plans); (iii) provide that any references in the Equity Compensation Plans to the common shares of Seagate-Cayman, including the issuance, acquisition or purchase thereof, shall be deemed to reference ordinary shares of Seagate-Ireland on a one-for-one basis and in consideration of the requirements of the Irish Companies (Amendment) Act of 1983; and (iv) transfer, adjust or assume all outstanding Awards granted under the Plans to outstanding rights over ordinary shares of Seagate-Ireland which are exercisable, issuable, held available, vest and otherwise have the same terms and conditions as under the applicable Equity Compensation Plan and Award agreement, except the ordinary shares of Seagate-Ireland shall be issuable or available on a one-for-one basis (or benefits determined in respect of) instead of common shares of Seagate-Cayman. A copy of each of the Amended Seagate Technology 2004 Stock Compensation Plan, the Seagate Technology 2001 Share Option Plan and the Seagate Technology Employee Stock Purchase Plan Compensation Plan, each as so amended, is filed herewith as Exhibits 10.3, 10.4 and 10.5, respectively, and incorporated into this Item 5.02 by reference, and the foregoing summary of the amended Equity Compensation Plans is qualified in its entirety by reference to Exhibits 10.3, 10.4 and 10.5.

**Item 5.03. Amendment to Articles of Incorporation or Bylaws; Change in Fiscal Year.**

As of July 3, 2010, in connection with and effective upon completion of the Transaction, the rights of shareholders of the Registrant will be governed by its memorandum and articles of association. The summary of the material terms of the memorandum and articles of association and the comparison of the rights of shareholders under those documents described under the headings "Description of Seagate-Ireland Share Capital" and "Comparison of Rights of Shareholders and Powers of the Board of Directors" in Seagate-Cayman's definitive proxy statement filed with the Securities and Exchange Commission (the "Commission") on March 5, 2010 is incorporated by reference herein. The complete text of the memorandum and articles of association of the Registrant is filed herewith as Exhibit 3.1 and is incorporated by reference into this Item 5.03. The summary of the memorandum and articles of association of the Registrant is qualified in its entirety by reference to Exhibit 3.1.

**Item 8.01. Other Events.**

**COMPLETION OF THE TRANSACTION**

On May 14, 2010, Seagate-Cayman received approval from the Grand Court of the Cayman Islands of a scheme of arrangement under Cayman Islands law (the Scheme of Arrangement ) and a separate, but interconnected and interdependent, scheme of arrangement (the Merger Scheme and together with the Scheme of Arrangement, the Schemes of Arrangement ) that, effective as of the Transaction Time (as defined below) effected a transaction (the Transaction ) that resulted in the common shareholders of Seagate-Cayman becoming ordinary shareholders of Seagate-Ireland and Seagate-Cayman becoming a wholly owned subsidiary of Seagate-Ireland. The court order sanctioning the Schemes of Arrangement was filed with the Cayman Islands Registrar of Companies on May 18, 2010 and the Schemes of Arrangement became effective on July 3, 2010.

At 1:30 p.m., Pacific Time, on July 3, 2010 (the Transaction Time ), the following steps occurred effectively simultaneously:

- all issued and outstanding Seagate-Cayman common shares were cancelled and ceased to exist;
- Seagate-Ireland issued ordinary shares on a one-for-one basis to the holders of Seagate-Cayman common shares for each Seagate-Cayman common share that was cancelled;
- in consideration for the issuance by Seagate-Ireland of its ordinary shares to the Seagate-Cayman common shareholders as set forth in the second bullet above, Seagate-Cayman allotted and issued a number of fully-paid Seagate-Cayman common shares to Seagate-Ireland equal to the number of Seagate-Ireland s ordinary shares issued to the holders of Seagate-Cayman common shares that were cancelled as set forth in the first bullet above; and
- pursuant to the Merger Scheme, Seagate-Cayman merged with merger sub, Seagate-Cayman survived the merger, merger sub was dissolved and ceased to exist and Seagate-Cayman became a direct, wholly-owned subsidiary of Seagate-Ireland, the resulting publicly traded parent of the Seagate group of companies.

Prior to the Transaction, Seagate-Cayman common shares were listed on the NASDAQ Global Select Market ( NASDAQ ) under the symbol STX and registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). In connection with the Transaction, Seagate-Cayman requested that NASDAQ file with the SEC an application on Form 25 to delist the Seagate-Cayman common shares from NASDAQ and from registration under Section 12(b) of the Exchange Act, which was filed on July 2, 2010. Seagate-Cayman expects to file a Form 15 with the SEC to terminate the registration of the Seagate-Cayman common shares under Section 12(g) of the Exchange Act and to suspend its duty under Section 15(d) of the Exchange Act to file reports required by the Exchange Act with respect to the Seagate-Cayman common shares.

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The Registrant's ordinary shares are deemed registered under Section 12(b) of the Exchange Act pursuant to Rule 12g-3(a) under the Exchange Act. The issuance of ordinary shares by Seagate-Ireland in the Transaction was exempt from registration under the Securities Act of 1933, as amended (the Securities Act), under Section 3(a)(10) of the Securities Act. The Registrant's ordinary shares began trading on NASDAQ under the symbol STX, the same symbol under which the Seagate-Cayman common shares previously traded, on July 6, 2010. The CUSIP number for the Registrant's ordinary shares is G7945M 107.

Under Irish law, Seagate-Ireland requires distributable reserves in its unconsolidated balance sheet prepared in accordance with the Irish Companies Acts to enable it to make distributions (including the payment of cash dividends) to its shareholders, or to redeem or buy back shares. Immediately following implementation of the Transaction, the unconsolidated balance sheet of Seagate-Ireland did not contain any distributable reserves. We are seeking to create distributable reserves, which requires the approval of the Irish High Court. Such approval is expected to be obtained within three to four weeks of the Transaction Time.

Set forth below is a description of the share capital of the Registrant and a discussion of certain Irish tax considerations. For purposes of the following, references to we, our, Seagate-Ireland or the Company refer to Seagate Technology plc.

### DESCRIPTION OF SEAGATE TECHNOLOGY PLC SHARES

The following description of the Registrant's share capital is a summary. This summary is not complete and is qualified in its entirety by reference to the Registrant's memorandum and articles of association, a copy of which is filed herewith as Exhibit 3.1 and incorporated into this Item 8.01 by reference. We encourage you to read the memorandum and articles of association carefully.

#### Capital Structure

*Authorized Share Capital.* The authorized share capital of Seagate-Ireland is 40,000 divided into 40,000 ordinary shares (which have become deferred shares upon consummation of the Transaction) with a nominal value of 1 per share and US\$13,500



divided into 1,250,000,000 ordinary shares with a nominal value of US\$0.00001 per share and 100,000,000 preferred shares with a nominal value of US\$0.00001 per share.

Seagate-Ireland may issue shares subject to the maximum prescribed by its authorized share capital contained in its memorandum and articles of association. The authorized share capital may be increased or reduced by way of an ordinary resolution of Seagate-Ireland's shareholders. The shares comprising the authorized share capital of Seagate-Ireland may be divided into shares of such nominal value as the resolution shall prescribe. As a matter of Irish company law, the directors of a company may issue new ordinary or preferred shares without shareholder approval once authorized to do so by the articles of association of the company or by an ordinary resolution adopted by the shareholders at a general meeting. An ordinary resolution requires the approval of over 50% of the votes of a company's shareholders cast at a general meeting. The authority conferred can be granted for a maximum period of five years, at which point it must be renewed by the shareholders of the company by an ordinary resolution. Because of this requirement of Irish law, the articles of association of Seagate-Ireland authorize the board of directors of Seagate-Ireland to issue new ordinary or preferred shares without shareholder approval for a period of five years from the date of adoption of such articles of association.

The rights and restrictions to which the ordinary shares are subject are prescribed in Seagate-Ireland's articles of association. Seagate-Ireland's articles of association entitle the board of directors, without shareholder approval, to determine the terms of the preferred shares issued by Seagate-Ireland. The Seagate-Ireland board of directors is authorized, without obtaining any vote or consent of the holders of any class or series of shares, unless expressly provided by the terms of that class or series of shares, to provide from time to time for the issuance of other classes or series of preferred shares and to establish the characteristics of each class or series, including the number of shares, designations, relative voting rights, dividend rights, liquidation and other rights, redemption, repurchase or exchange rights and any other preferences and relative, participating, optional or other rights and limitations not inconsistent with applicable law.

Irish law does not recognize fractional shares held of record. Accordingly, Seagate-Ireland's articles of association do not provide for the issuance of fractional shares of Seagate-Ireland, and the official Irish register of Seagate-Ireland does not reflect any fractional shares.

*Issued Share Capital.* Immediately prior to the Transaction, the issued share capital of Seagate-Ireland was 40,000, comprised of 40,000 ordinary shares, with nominal value of 1 per share (the **Euro Share Capital**). In connection with the consummation of the Transaction, the Euro Share Capital was reclassified as deferred shares and has ceased to carry any right to a dividend or to receive notice of or attend, vote or speak at any shareholder meeting and shall only confer the right of a return of capital on a winding-up or otherwise, to repayment of the nominal value paid on such shares and only after repayment of the ordinary shares in full. Further, they may be acquired by Seagate-Ireland for no consideration. Seagate-Ireland has simultaneously issued a number of ordinary shares with a nominal value of US\$0.00001 per share each that is equal to the number of Seagate-Cayman common shares that have been cancelled as part of the Transaction. All shares issued upon completion of the Transaction will be issued as fully-paid up and non-assessable.

#### **Pre-emption Rights, Share Warrants and Share Options**

Under Irish law certain statutory pre-emption rights apply automatically in favor of shareholders where shares are to be issued for cash. However, Seagate-Ireland has opted out of these pre-emption rights in its articles of association as permitted under Irish company law. Because Irish law requires this opt-out to be renewed every five years by a special resolution of the shareholders, Seagate-Ireland's articles of association provide that this opt-out must be so renewed. A special resolution requires the approval of not less than 75% of the votes of Seagate-Ireland's shareholders cast at a general meeting. If the opt-out is not renewed, shares issued for cash must be offered to existing shareholders of Seagate-Ireland pro rata to their existing shareholding before the shares can be issued to any new shareholders. The statutory pre-emption rights do not apply where shares are issued for non-cash consideration (such as in a stock-for-stock acquisition) and do not apply to the issue of non-equity shares (that is, shares that have the right to participate only up to a specified amount in any income or capital distribution).

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The articles of association of Seagate-Ireland provide that, subject to any shareholder approval requirement under any laws, regulations or the rules of any stock exchange to which Seagate-Ireland is subject, the board is authorized, from time to time, in its discretion, to grant such persons, for such periods and upon such terms as the board deems advisable, options to purchase such number of shares of any class or classes or of any series of any class as the board may deem advisable, and to cause warrants or other appropriate instruments evidencing such options to be issued. The Irish Companies Acts provide that directors may issue share warrants or options without shareholder approval once authorized to do so by the articles of association or an ordinary resolution of shareholders. The Seagate-Ireland board may issue shares upon exercise of warrants or options without shareholder approval or authorization (up to the relevant authorized share capital limit). In connection with the Transaction, Seagate-Ireland assumed, on a one-for-one basis, Seagate-Cayman's existing obligations to deliver shares under our equity incentive plans, warrants or other rights pursuant to the terms thereof.

The Irish Companies Acts prohibit an Irish company from allotting shares for nil or no consideration. Accordingly, the nominal value of the shares underlying any restricted share award, restricted share unit, performance shares awards, bonus shares or any other share-based grants must be paid pursuant to the Irish Companies Acts. This nominal value payment will include rights to ordinary shares issued by Seagate-Ireland to employees under the assumed equity incentive plans.

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Seagate-Ireland is subject to the rules of the NASDAQ and the Internal Revenue Code of 1986, as amended that require shareholder approval of certain equity plan and share issuances.

### **Dividends**

Under Irish law, dividends and distributions may only be made from distributable reserves. Distributable reserves generally means the accumulated realized profits of Seagate-Ireland less accumulated realized losses of Seagate-Ireland and includes reserves created by way of capital reduction. In addition, no distribution or dividend may be made unless the net assets of Seagate-Ireland are equal to, or in excess of, the aggregate of Seagate-Ireland's called up share capital plus undistributable reserves and the distribution does not reduce Seagate-Ireland's net assets below such aggregate. Undistributable reserves include the share premium account, the capital redemption reserve fund and the amount by which Seagate-Ireland's accumulated unrealized profits, so far as not previously utilized by any capitalization, exceed Seagate-Ireland's accumulated unrealized losses, so far as not previously written off in a reduction or reorganization of capital.

The determination as to whether or not Seagate-Ireland has sufficient distributable reserves to fund a dividend must be made by reference to relevant accounts of Seagate-Ireland. The relevant accounts will be either the last set of unconsolidated annual audited financial statements or other financial statements properly prepared in accordance with the Irish Companies Acts, which give a true and fair view of Seagate-Ireland's unconsolidated financial position and accord with accepted accounting practice. The relevant accounts must be filed in the Companies Registration Office (the official public registry for companies in Ireland).

Although Seagate-Ireland does not currently have any distributable reserves immediately following the Transaction Time, we are taking steps to create such distributable reserves. We received the approval of Seagate-Cayman's shareholders at the April 14, 2010 shareholder meetings to approve a reduction of the share premium account (similar to additional paid-up capital) of Seagate-Ireland to establish distributable reserves of Seagate-Ireland. Before the Transaction, the previous shareholders of Seagate-Ireland (Seagate-Cayman and its nominees) passed a resolution to approve the reduction of the share premium account of Seagate-Ireland. We are currently in the process of seeking the approval of the Irish High Court, which is required for the reduction of the share premium account to be effective and for the distributable reserves to be created.

The mechanism as to who declares a dividend and when a dividend shall become payable is governed by the articles of association of Seagate-Ireland. Seagate-Ireland's articles of association authorize the directors to declare such dividends as appear justified from the profits of Seagate-Ireland without the approval of the shareholders at a general meeting. The board of directors may also recommend a dividend to be approved and declared by the shareholders at a general meeting. The board of directors may direct that the payment be made by distribution of assets, shares or cash and no dividend issued may exceed the amount recommended by the directors. The dividends can be declared and paid in the form of cash or non-cash assets and may be paid in U.S. dollars or any other currency.

The directors of Seagate-Ireland may deduct from any dividend payable to any shareholder all sums of money (if any) payable by such shareholder to Seagate-Ireland in relation to the shares of Seagate-Ireland.

The directors of Seagate-Ireland are also entitled to issue shares with preferred rights to participate in dividends declared by Seagate-Ireland. The holders of such preferred shares may, depending on their terms, rank senior to the Seagate-Ireland ordinary shares in terms of dividend rights and/or be entitled to claim arrears of a declared dividend out of subsequently declared dividends in priority to ordinary shareholders.

**Share Repurchases, Redemptions and Conversions**

*Overview*

Seagate-Ireland's articles of association provide that any ordinary share which Seagate-Ireland has agreed to acquire shall be deemed to be a redeemable share. Accordingly, for Irish company law purposes, the repurchase of ordinary shares by Seagate-Ireland will technically be effected as a redemption of those shares as described below under Repurchases and Redemptions by Seagate-Ireland. If the articles of association of Seagate-Ireland did not contain such provision, repurchases by Seagate-Ireland would be subject to many of the same rules that apply to purchases of Seagate-Ireland shares by subsidiaries described below under Purchases by Subsidiaries of Seagate-Ireland, including the shareholder approval requirements described below and the requirement that any on-market purchases be effected on a recognized stock exchange. Except where otherwise noted, when we refer elsewhere in this proxy statement to repurchasing or buying back ordinary shares of Seagate-Ireland, we are referring to the redemption of ordinary shares by Seagate-Ireland pursuant to such provision of the articles of association or the purchase of ordinary shares of Seagate-Ireland by a subsidiary of Seagate-Ireland, in each case in accordance with the Seagate-Ireland articles of association and Irish company law as described below.

***Repurchases and Redemptions by Seagate-Ireland***

Under Irish law, a company can issue redeemable shares and redeem them out of distributable reserves (which are described above under Dividends ) or the proceeds of a new issue of shares for that purpose. Although Seagate-Ireland does not currently have any distributable reserves, we are taking steps to create such distributable reserves. Please see above under Dividends for additional information on distributable reserves and the steps we have taken to date. The issue of redeemable shares may only be made by Seagate-Ireland where the nominal value of the issued share capital that is not redeemable is not less than 10% of the nominal value of the total issued share capital of Seagate-Ireland. All redeemable shares must also be fully-paid and the terms of redemption of the shares must provide for payment on redemption. Redeemable shares may, upon redemption, be cancelled or held in treasury. Shareholder approval will not be required to redeem Seagate-Ireland shares.

Seagate-Ireland has also been given an additional general authority to purchase its own shares on-market which would take effect on the same terms and be subject to the same conditions as applicable to purchases by Seagate-Ireland's subsidiaries as described below.

The board of directors of Seagate-Ireland is also be entitled to issue preferred shares which may be redeemed at the option of either Seagate-Ireland or the shareholder, depending on the terms of such preferred shares. Please see above under Capital Structure Authorized Share Capital for additional information on preferred shares.

Repurchased and redeemed shares may be cancelled or held as treasury shares. The nominal value of treasury shares held by Seagate-Ireland at any time must not exceed 10% of the nominal value of the issued share capital of Seagate-Ireland. Seagate-Ireland cannot exercise any voting rights in respect of any shares held as treasury shares. Treasury shares may be cancelled by Seagate-Ireland or re-issued subject to certain conditions.

***Purchases by Subsidiaries of Seagate-Ireland***

Under Irish law, it may be permissible for an Irish or non-Irish subsidiary to purchase shares of Seagate-Ireland either on-market or off-market. A general authority of the shareholders of Seagate-Ireland (by way of ordinary resolution) is required to allow a subsidiary of Seagate-Ireland to make on-market purchases of Seagate-Ireland shares. However, as long as this general authority has been granted, no specific shareholder authority for a particular on-market purchase by a subsidiary of Seagate-Ireland shares is required. Prior to the Transaction Time, Seagate-Cayman together with the nominee shareholders of Seagate-Ireland authorized the purchase of Seagate-Ireland shares by subsidiaries of Seagate-Ireland, such that Seagate-Ireland's subsidiaries are authorized to purchase shares in an aggregate amount approximately equal to the then remaining authorization under the Seagate-Cayman share repurchase program that was in effect immediately prior to the Transaction Time and such other shares as the board of directors of Seagate-Ireland may authorize and approve for repurchase. We expect that Seagate-Ireland will seek to renew this general authority, which will expire no later than 18 months after the date on which it was granted, at the first annual general meeting of Seagate-Ireland in 2010 and at subsequent annual general meetings.

In order for a subsidiary of Seagate-Ireland to make an on-market purchase of Seagate-Ireland's shares, such shares must be purchased on a recognized stock exchange. NASDAQ, on which the shares of Seagate-Ireland are listed following the Transaction, is now specified as a recognized stock exchange for this purpose by Irish company law. For an off-market purchase by a subsidiary of Seagate-Ireland, the proposed purchase contract must be authorized by special resolution of the shareholders of Seagate-Ireland before the contract is entered into. The person whose shares are to be bought back cannot vote in favor of the special resolution and, for at least 21 days prior to the special resolution, the purchase contract must be on display or must be available for inspection by shareholders at the registered office of Seagate-Ireland.

The number of shares held by the subsidiaries of Seagate-Ireland at any time will count as treasury shares and will be included in any calculation of the permitted treasury share threshold of 10% of the nominal value of the issued share capital of Seagate-Ireland. While a subsidiary holds shares of Seagate-Ireland, it cannot exercise any voting rights in respect of those shares. The acquisition of the shares of Seagate-Ireland by a subsidiary must be funded out of distributable reserves of the subsidiary.

***Existing Share Repurchase Program***

The board of directors of Seagate-Cayman previously authorized an Anti-Dilution Share Repurchase Program. The share repurchase program authorizes Seagate-Cayman to repurchase shares of common shares to offset increases in diluted shares, such as those caused by employee stock plans and convertible debt, used in the determination of diluted net income per share. The timing and number of shares to be repurchased are dependent on general business and market conditions, cash flows generated by future operations, the price of our shares, cash requirements for other investing and financing activities, and maintaining compliance with our debt covenants.

Prior to the consummation of the Transaction, (i) the board of directors of Seagate-Ireland authorized the repurchase of Seagate-Ireland shares by Seagate-Ireland and its subsidiaries and (ii) Seagate-Cayman and the nominee shareholders of Seagate-Ireland authorized the purchase of Seagate-Ireland shares by subsidiaries of Seagate-Ireland, such that Seagate-Ireland and its subsidiaries are authorized to purchase shares in an aggregate amount approximately equal to the then remaining authorization under the Seagate-Cayman Anti-Dilution Share Repurchase Program that was in effect immediately prior to the Transaction Time as described above, and such other shares as the board of directors of Seagate-Ireland may authorize and approve for repurchase.

As noted above, because repurchases of Seagate-Ireland shares by Seagate-Ireland can technically be effected as a redemption of those shares pursuant to the articles of association, shareholder approval for such repurchases will not be required.

### **Bonus Shares**

Under Seagate-Ireland's articles of association, upon the recommendation of the directors, the shareholders may by ordinary resolution authorize the directors to capitalize any amount for the time being standing to the credit of any of Seagate-Ireland's reserves (including any capital redemption reserve fund or share premium account) or to the credit of profit and loss account for issuance and distribution to shareholders as fully-paid up bonus shares on the same basis of entitlement as would apply in respect of a dividend distribution. An ordinary resolution of Seagate-Ireland requires approval by more than 50% of the votes cast at a meeting of shareholders by shareholders entitled to vote at the meeting.

### **Lien on Shares, Calls on Shares and Forfeiture of Shares**

Seagate-Ireland's articles of association provide that Seagate-Ireland has a first and paramount lien on every share (not being a fully paid up share) for all moneys payable at a fixed time or called in respect of that share. Subject to the terms of their allotment the directors can also make calls upon the shareholders in respect of any moneys unpaid on their shares and if such payment is not forthcoming the shares in question may be liable to be forfeited. These provisions are standard inclusions in the articles of association of an Irish company limited by shares such as Seagate-Ireland and will only be applicable to shares of Seagate-Ireland that have not been fully paid.

### **Consolidation and Division; Subdivision**

Under its articles of association, Seagate-Ireland may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger nominal value than its existing shares or subdivide its shares into smaller amounts than is fixed by its articles of association.

### **Reduction of Share Capital**

Seagate-Ireland may, by ordinary resolution, reduce its authorized share capital in any way. Seagate-Ireland also may, by special resolution and subject to confirmation by the Irish High Court, reduce or cancel its issued share capital in any way.

### **Annual Meetings of Shareholders**

Seagate-Ireland will be required to hold an annual general meeting within 18 months of incorporation and at intervals of no more than 15 months thereafter, provided that an annual general meeting is held in each calendar year following the first annual general meeting and no more than

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nine months after Seagate-Ireland's fiscal year-end. Seagate-Ireland plans to hold its first annual general meeting in 2010. Under Irish law, the first annual general meeting of Seagate-Ireland is permitted to be held outside Ireland. Thereafter, any annual general meeting may be held outside Ireland if a resolution so authorizing has been passed at the preceding annual general meeting. We currently do not intend to hold annual general meetings in Ireland.

Notice of an annual general meeting must be given to all shareholders of Seagate-Ireland and to the auditors of Seagate-Ireland. The articles of association of Seagate-Ireland provide for a minimum notice period of 21 days, which is the minimum permitted under Irish law.

The only matters which must, as a matter of Irish company law, be transacted at an annual general meeting are the presentation of the annual accounts, balance sheet and reports of the directors and auditors, the appointment of new auditors and the fixing of the auditor's remuneration (or delegation of same). If no resolution is made in respect of the reappointment of an existing auditor at an annual general meeting, the existing auditor will be deemed to have continued in office.

Directors are elected by the affirmative vote of a majority of the votes cast by shareholders at an annual general meeting and serve until the next annual general meeting. Any nominee for director who does not receive a majority of the votes cast is not elected to the board.

### **Extraordinary General Meetings of Shareholders**

Extraordinary general meetings of Seagate-Ireland may be convened by (i) the board of directors, (ii) on requisition of the shareholders holding not less than 10% of the paid up share capital of Seagate-Ireland carrying voting rights or (iii) on requisition of Seagate-Ireland's auditors. Extraordinary general meetings are generally held for the purposes of approving shareholder resolutions of Seagate-Ireland as may be required from time to time. At any extraordinary general meeting only such business shall be conducted as is set forth in the notice thereof.



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Notice of an extraordinary general meeting must be given to all shareholders of Seagate-Ireland and to the auditors of Seagate-Ireland. Under Irish law, the minimum notice periods are 21 days' notice in writing for an extraordinary general meeting to approve a special resolution and 14 days' notice in writing for any other extraordinary general meeting. Because of the 21 day and 14 day requirements described in this paragraph, Seagate-Ireland's articles of association include provisions reflecting these requirements of Irish law.

In the case of an extraordinary general meeting convened by shareholders of Seagate-Ireland, the proposed purpose of the meeting must be set out in the requisition notice. Upon receipt of this requisition notice, the board of directors has 21 days to convene a meeting of Seagate-Ireland's shareholders to vote on the matters set out in the requisition notice. This meeting must be held within two months of the receipt of the requisition notice. If the board of directors does not convene the meeting within such 21 day period, the requisitioning shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, which meeting must be held within three months of the receipt of the requisition notice.

If the board of directors becomes aware that the net assets of Seagate-Ireland are half or less of the amount of Seagate-Ireland's called-up share capital, the directors of Seagate-Ireland must convene an extraordinary general meeting of Seagate-Ireland's shareholders not later than 28 days from the date that they learn of this fact. This meeting must be convened for the purposes of considering whether any, and if so what, measures should be taken to address the situation.

### **Quorum for General Meetings**

The presence, in person or by proxy, of the holders of not less than a majority of the issued and outstanding shares of the company entitled to vote at such meeting constitutes a quorum for the conduct of business. No business may take place at a general meeting of Seagate-Ireland if a quorum is not present in person or by proxy. The board of directors has no authority to waive quorum requirements stipulated in the articles of association of Seagate-Ireland. Abstentions and broker non-votes will be counted as present for purposes of determining whether there is a quorum in respect of the proposals. A broker non-vote occurs when a nominee (such as a broker) holding shares for a beneficial owner abstains from voting on a particular proposal because the nominee does not have discretionary voting power for that proposal and has not received instructions from the beneficial owner on how to vote those shares.

### **Voting**

Where a poll is demanded at a general meeting, every shareholder shall have one vote for each ordinary share that he or she holds as of the record date for the meeting. Voting rights may be exercised by shareholders registered in Seagate-Ireland's share register as of the record date for the meeting or by a duly appointed proxy of such a registered shareholder, which proxy need not be a shareholder. Where interests in shares are held by a nominee trust company this company may exercise the rights of the beneficial holders on their behalf as their proxy. All proxies must be appointed in the manner prescribed by Seagate-Ireland's articles of association. The articles of association of Seagate-Ireland permit the appointment of proxies by the shareholders to be notified to Seagate-Ireland electronically in such manner as may be approved by the board.

Seagate-Ireland's articles of association provide that all resolutions shall be decided by a show of hands unless a poll is demanded by (i) the chairman, (ii) at least 10 shareholders of record, as of the record date for the meeting, or (iii) any shareholder, or shareholders, holding not less than 10% of the total voting rights of Seagate-Ireland as of the record date for the meeting. Each Seagate-Ireland ordinary shareholder of record as of the record date for the meeting has one vote at a general meeting on a show of hands.

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In accordance with the articles of association of Seagate-Ireland, the directors of Seagate-Ireland may from time to time cause Seagate-Ireland to issue preferred shares. These preferred shares may have such voting rights as may be specified in the terms of such preferred shares (e.g., they may carry more votes per share than ordinary shares or may entitle their holders to a class vote on such matters as may be specified in the terms of the preferred shares).

Treasury shares will not be entitled to be voted at general meetings of shareholders.

Irish company law requires special resolutions of the shareholders at a general meeting to approve certain matters. A special resolution requires the approval of not less than 75% of the votes of Seagate-Ireland's shareholders cast at a general meeting where a quorum is present. This may be contrasted with ordinary resolutions, which require a simple majority of the votes of Seagate-Ireland's shareholders cast at a general meeting.

Examples of matters requiring special resolutions include:

- amending the objects or memorandum of association of Seagate-Ireland;
- amending the articles of association of Seagate-Ireland;
- approving the change of name of Seagate-Ireland;

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- authorizing the entering into of a guarantee or provision of security in connection with a loan, quasi-loan or credit transaction to a director or connected person;
- opting out of pre-emption rights on the issuance of new shares;
- re-registration of Seagate-Ireland from a plc as a private company;
- variation of class rights attaching to classes of shares (where the articles of association do not provide otherwise);
- purchase of own shares off-market;
- the reduction of share capital;
- sanctioning a compromise/scheme of arrangement;
- resolving that Seagate-Ireland be wound up by the Irish courts;
- resolving in favor of a shareholders voluntary winding-up;
- re-designation of shares into different share classes; and
- setting the re-issue price of treasury shares.

### **Variation of Rights Attaching to a Class or Series of Shares**

Any variation of class or series rights attaching to the issued shares of Seagate-Ireland is addressed in the articles of association of Seagate-Ireland as well as the Irish Companies Acts and must be in accordance with the articles of association be approved by a special

resolution of the class or series affected.

### **Inspection of Books and Records**

Under Irish law, shareholders have the right to: (i) receive a copy of the memorandum and articles of association of Seagate-Ireland and any act of the Irish Government which alters the memorandum of association of Seagate-Ireland; (ii) inspect and obtain copies of the minutes of general meetings and resolutions of Seagate-Ireland; (iii) inspect and receive a copy of the register of shareholders, register of directors and secretaries, register of directors' interests and other statutory registers maintained by Seagate-Ireland; (iv) receive copies of balance sheets and directors' and auditors' reports which have previously been sent to shareholders prior to an annual general meeting; and (v) receive balance sheets of a subsidiary company of Seagate-Ireland which have previously been sent to shareholders prior to an annual general meeting for the preceding 10 years. The auditors of Seagate-Ireland will also have the right to inspect all books, records and vouchers of Seagate-Ireland. The auditors report must be circulated to the shareholders with Seagate-Ireland's financial statements prepared in accordance with Irish law 21 days before the annual general meeting and must be read to the shareholders at Seagate-Ireland's annual general meeting.

### **Acquisitions**

There are a number of mechanisms for acquiring an Irish plc, including:

(a) a court-approved scheme of arrangement under the Irish Companies Acts. A scheme of arrangement with shareholders requires a court order from the Irish High Court and the approval of: (i) 75% of the voting shareholders by value; and (ii) 50% in number of the voting shareholders, at a meeting called to approve the scheme;

(b) through a tender offer by a third party for all of the shares of Seagate-Ireland. Where the holders of 80% or more of Seagate-Ireland's shares have accepted an offer for their shares in Seagate-Ireland, the remaining shareholders may be statutorily required to also transfer their shares. If the bidder does not exercise its "squeeze out" right, then the non-accepting shareholders also have a statutory right to require the bidder to acquire their shares on the same terms. If shares of Seagate-Ireland were listed on the Irish Stock Exchange or another regulated stock exchange in the EU, this threshold would be increased to 90%; and

(c) it is also possible for Seagate-Ireland to be acquired by way of a merger with an EU-incorporated company under the EU Cross-Border Mergers Directive 2005/56/EC. Such a merger must be approved by a special resolution. If Seagate-Ireland is being merged with another EU company under the EU Cross-Border Mergers Directive 2005/56/EC and the consideration payable to Seagate-Ireland's shareholders is not all in the form of cash, Seagate-Ireland's shareholders may be entitled to require their shares to be acquired at fair value.

Under Irish law, there is no requirement for a company's shareholders to approve a sale, lease or exchange of all or substantially all of a company's property and assets. However, Seagate-Ireland's articles of association provide that an ordinary resolution of the shareholders is required to approve a sale, lease or exchange of all or substantially all of Seagate-Ireland's property and assets (other than a sale, lease or exchange to or with a subsidiary of Seagate-Ireland).

### **Appraisal Rights**

Generally, under Irish law, shareholders of an Irish company do not have dissenters or appraisal rights. Under the European Communities (Cross-Border Mergers) Regulations 2008 governing the merger of an Irish company limited by shares such as Seagate-Ireland and a company incorporated in the European Economic Area (the European Economic Area includes all member states of the EU and Norway, Iceland and Liechtenstein), a shareholder (i) who voted against the special resolution approving the merger or (ii) of a company in which 90% of the shares is held by the other company the party to the merger of the transferor company has the right to request that the company acquire its shares for cash.

### **Disclosure of Interests in Shares**

Under the Irish Companies Acts, there is a notification requirement for shareholders who acquire or cease to be interested in five percent of the shares of an Irish plc. A shareholder of Seagate-Ireland must therefore make such a notification to Seagate-Ireland if as a result of a transaction the shareholder will be interested in five percent or more of the shares of Seagate-Ireland; or if as a result of a transaction a shareholder who was interested in more than five percent of the shares of Seagate-Ireland ceases to be so interested. Where a shareholder is interested in more than five percent of the shares of Seagate-Ireland, any alteration of his or her interest that brings his or her total holding through the nearest whole percentage number, whether an increase or a reduction, must be notified to Seagate-Ireland. The relevant percentage figure is calculated by reference to the aggregate nominal value of the shares in which the shareholder is interested as a proportion of the entire nominal value of Seagate-Ireland's share capital. Where the percentage level of the shareholder's interest does not amount to a whole percentage this figure may be rounded down to the next whole number. All such disclosures should be notified to Seagate-Ireland within five business days of the transaction or alteration of the shareholder's interests that gave rise to the requirement to notify. Where a person fails to comply with the notification requirements described above no right or interest of any kind whatsoever in respect of any shares in Seagate-Ireland concerned, held by such person, shall be enforceable by such person, whether directly or indirectly, by action or legal proceeding. However, such person may apply to the court to have the rights attaching to the shares concerned reinstated.

In addition to the above disclosure requirement, Seagate-Ireland, under the Irish Companies Acts, may by notice in writing require a person whom Seagate-Ireland knows or has reasonable cause to believe to be, or at any time during the three years immediately preceding the date on which such notice is issued, to have been interested in shares comprised in Seagate-Ireland's relevant share capital to: (i) indicate whether or not it is the case; and (ii) where such person holds or has during that time held an interest in the shares of Seagate-Ireland, to give such further information as may be required by Seagate-Ireland including particulars of such person's own past or present interests in shares of Seagate-Ireland. Any information given in response to the notice is required to be given in writing within such reasonable time as may be specified in the notice.

Where such a notice is served by Seagate-Ireland on a person who is or was interested in shares of Seagate-Ireland and that person fails to give Seagate-Ireland any information required within the reasonable time specified, Seagate-Ireland may apply to court for an order directing that the affected shares be subject to certain restrictions. Under the Irish Companies Acts, the restrictions that may be placed on the shares by the court are as follows:

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- (a) any transfer of those shares, or in the case of unissued shares any transfer of the right to be issued with shares and any issue of shares, shall be void;
- (b) no voting rights shall be exercisable in respect of those shares;
- (c) no further shares shall be issued in right of those shares or in pursuance of any offer made to the holder of those shares; and
- (d) no payment shall be made of any sums due from Seagate-Ireland on those shares, whether in respect of capital or otherwise.

Where the shares in Seagate-Ireland are subject to these restrictions, the court may order the shares to be sold and may also direct that the shares shall cease to be subject to these restrictions.

### **Anti-Takeover Provisions**

#### ***Irish Takeover Rules and Substantial Acquisition Rules***

A transaction by virtue of which a third party is seeking to acquire 30% or more of the voting rights of Seagate-Ireland will be governed by the Irish Takeover Panel Act 1997 and the Irish Takeover Rules made thereunder and will be regulated by the Irish Takeover Panel. The General Principles of the Irish Takeover Rules and certain important aspects of the Irish Takeover Rules are described below.

***General Principles***

The Irish Takeover Rules are built on the following General Principles which will apply to any transaction regulated by the Irish Takeover Panel:

- in the event of an offer, all classes of shareholders of the target company should be afforded equivalent treatment and, if a person acquires control of a company, the other holders of securities must be protected;
  
- the holders of securities in the target company must have sufficient time to allow them to make an informed decision regarding the offer;
  
- the board of a company must act in the interests of the company as a whole. If the board of the target company advises the holders of securities as regards the offer it must advise on the effects of the implementation of the offer on employment, employment conditions and the locations of the target company's place of business;
  
- false markets in the securities of the target company or any other company concerned by the offer must not be created;
  
- a bidder can only announce an offer after ensuring that he or she can fulfill in full the consideration offered;
  
- a target company may not be hindered longer than is reasonable by an offer for its securities. This is a recognition that an offer will disrupt the day-to-day running of a target company particularly if the offer is hostile and the board of the target company must divert its attention to resist the offer; and
  
- a substantial acquisition of securities (whether such acquisition is to be effected by one transaction or a series of transactions) will only be allowed to take place at an acceptable speed and shall be subject to adequate and timely disclosure.

***Mandatory Bid***

If an acquisition of shares were to increase the aggregate holding of an acquirer and its concert parties to shares carrying 30% or more of the voting rights in Seagate-Ireland, the acquirer and, depending on the circumstances, its concert parties would be required (except with the consent of the Irish Takeover Panel) to make a cash offer for the remaining outstanding shares at a price not less than the highest price paid for the shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by an acquisition of shares by a person holding (together with its concert parties) shares carrying between 30% and 50% of the voting rights in Seagate-Ireland if the effect of

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such acquisition were to increase the percentage of the voting rights held by that person (together with its concert parties) by 0.05% within a twelve-month period. A single holder (that is, a holder excluding any parties acting in concert with the holder) holding more than 50% of the voting rights of a company is not subject to this rule.

### *Voluntary Bid; Requirements to Make a Cash Offer and Minimum Price Requirements*

A voluntary offer is an offer that is not a mandatory offer. If a bidder or any of its concert parties acquire ordinary shares of Seagate-Ireland within the period of three months prior to the commencement of the offer period, the offer price must be not less than the highest price paid for Seagate-Ireland ordinary shares by the bidder or its concert parties during that period. The Irish Takeover Panel has the power to extend the look back period to 12 months if the Irish Takeover Panel, having regard to the General Principles, believes it is appropriate to do so.

If the bidder or any of its concert parties has acquired ordinary shares of Seagate-Ireland (i) during the period of 12 months prior to the commencement of the offer period which represent more than 10% of the total ordinary shares of Seagate-Ireland or (ii) at any time after the commencement of the offer period, the offer shall be in cash (or accompanied by a full cash alternative) and the price per Seagate-Ireland ordinary share shall be not less than the highest price paid by the bidder or its concert parties during, in the case of (i), the period of 12 months prior to the commencement of the offer period and, in the case of (ii), the offer period. The Irish Takeover Panel may apply this rule to a bidder who, together with its concert parties, has acquired less than 10% of the total ordinary shares of Seagate-Ireland in the 12 month period prior to the commencement of the offer period if the Irish Takeover Panel, having regard to the General Principles, considers it just and proper to do so.

An offer period will generally commence from the date of the first announcement of the offer or proposed offer.

### *Substantial Acquisition Rules*

The Irish Takeover Rules also contain rules governing substantial acquisitions of shares which restrict the speed at which a person may increase his or her holding of shares and rights over shares to an aggregate of between 15% and 30% of the voting rights of Seagate-Ireland. Except in certain circumstances, an acquisition or series of acquisitions of shares or rights over shares representing 10% or more of the voting rights of Seagate-Ireland is prohibited, if such acquisition(s), when aggregated with shares or rights already



held, would result in the acquirer holding 15% or more but less than 30% of the voting rights of Seagate-Ireland and such acquisitions are made within a period of seven days. These rules also require accelerated disclosure of acquisitions of shares or rights over shares relating to such holdings.

***Frustrating Action***

Under the Irish Takeover Rules, the board of directors of Seagate-Ireland is not permitted to take any action which might frustrate an offer for the shares of Seagate-Ireland once the board of directors has received an approach which may lead to an offer or has reason to believe an offer is imminent except as noted below. Potentially frustrating actions such as (i) the issue of shares, options or convertible securities, (ii) material disposals, (iii) entering into contracts other than in the ordinary course of business or (iv) any action, other than seeking alternative offers, which may result in frustration of an offer, are prohibited during the course of an offer or at any time during which the board has reason to believe an offer is imminent. Exceptions to this prohibition are available where:

(a) the action is approved by Seagate-Ireland's shareholders at a general meeting; or

(b) with the consent of the Irish Takeover Panel where:

(i) the Irish Takeover Panel is satisfied the action would not constitute a frustrating action;

(ii) the holders of 50% of the voting rights state in writing that they approve the proposed action and would vote in favor of it at a general meeting;

(iii) in accordance with a contract entered into prior to the announcement of the offer; or

(iv) the decision to take such action was made before the announcement of the offer and either has been at least partially implemented or is in the ordinary course of business.

For other provisions that could be considered to have an anti-takeover effect, please see above under **Authorized Share Capital** (regarding issuance of preferred shares), **Pre-emption Rights, Share Warrants and Share Options** and **Disclosure of Interests in Shares**, in addition to **Corporate Governance**, **Comparison of Rights of Shareholders and Powers of the Board of Directors** **Election of Directors**, **Vacancies on Board of Directors**, **Removal of Directors**, **Amendment of Governing Documents** and **Director Nominations; Proposals of Shareholders** below.

**Corporate Governance**

The articles of association of Seagate-Ireland allocate authority over the day-to-day management of Seagate-Ireland to the board of directors. The board of directors may then delegate the management of Seagate-Ireland to committees (consisting of members of the board or other persons) or executives, but regardless, the directors will remain responsible, as a matter of Irish law, for the proper management of the affairs of Seagate-Ireland. Seagate-Ireland replicated the committees that were in place for Seagate-Cayman immediately prior to the consummation of the Transaction which include an Audit Committee, a Compensation Committee, a Corporate Governance and Nominating Committee and a Strategic and Financial Transaction Committee. Subject to certain changes in order to comply with Irish law, Seagate-Ireland also adopted Seagate-Cayman's Corporate Governance Guidelines, Code of Business Conduct and Ethics, Insider Trading Policy and all other policies or guidelines in substantially the forms that had been approved by the board of directors of Seagate-Cayman and were in effect as of the Transaction Time.

**Legal Name; Formation; Fiscal Year; Registered Office**

The legal and commercial name of Seagate-Ireland is Seagate Technology public limited company. Seagate-Ireland was incorporated in Ireland, as Hephastus Public Limited Company on January 22, 2010 with company registration number 480010. Seagate-Ireland's fiscal year ends on the Friday closest to June 30 and Seagate-Ireland's registered address is Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland.

**Duration; Dissolution; Rights upon Liquidation**

Seagate-Ireland's duration will be unlimited. Seagate-Ireland may be dissolved and wound up at any time by way of a shareholders' voluntary winding up or a creditors' winding up. In the case of a shareholders' voluntary winding-up, a special resolution of shareholders is required. Seagate-Ireland may also be dissolved by way of court order on the application of a creditor, or by the Companies Registration Office as an enforcement measure where Seagate-Ireland has failed to file certain returns.

The rights of the shareholders to a return of Seagate-Ireland's assets on dissolution or winding up, following the settlement of all claims of creditors, may be prescribed in Seagate-Ireland's articles of association or the terms of any preferred shares issued by the directors of Seagate-Ireland from time to time. The holders of preferred shares in particular may have the right to priority in a dissolution or winding up of Seagate-Ireland. If the articles of association contain no specific provisions in respect of a dissolution or winding up then, subject to the priorities of any creditors, the assets will be distributed to shareholders in proportion to the paid-up nominal value of the shares held. Seagate-Ireland's articles of association provide that the ordinary shareholders of Seagate-Ireland are

entitled to participate pro rata in a winding up, but their right to do so may be subject to the rights of any preferred shareholders to participate under the terms of any series or class of preferred shares.

#### **Uncertificated Shares**

Holders of ordinary shares of Seagate-Ireland do not have the right to require Seagate-Ireland to issue certificates for their shares. Seagate-Ireland will only issue uncertificated ordinary shares.

#### **Stock Exchange Listing**

Seagate-Ireland ordinary shares are listed on the NASDAQ under the symbol `STX`, the same symbol under which Seagate-Cayman common shares were listed. We do not plan for Seagate-Ireland's ordinary shares to be listed on the Irish Stock Exchange.

#### **No Sinking Fund**

The Seagate-Ireland ordinary shares have no sinking fund provisions.

#### **No Liability for Further Calls or Assessments**

All issued and outstanding ordinary shares are duly and validly issued and fully-paid.

#### **Transfer and Registration of Shares**

Seagate-Ireland's share register will be maintained by its transfer agent. Registration in this share register will be determinative of membership in Seagate-Ireland. A shareholder of Seagate-Ireland who holds shares beneficially will not be the holder of record of such shares. Instead, the depository (for example, Cede & Co., as nominee for DTC) or other nominee will be the holder of record of such shares. Accordingly, a transfer of shares from a person who holds such shares beneficially to a person who also holds such shares beneficially through a depository or other nominee will not be registered in Seagate-Ireland's official share register, as the depository or other nominee will remain the record holder of such shares.

A written instrument of transfer is required under Irish law in order to register on Seagate-Ireland's official share register any transfer of shares (i) from a person who holds such shares directly to any other person, (ii) from a person who holds such shares beneficially to a person who holds

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such shares directly, or (iii) from a person who holds such shares beneficially to another person who holds such shares beneficially where the transfer involves a change in the depository or other nominee that is the record owner of the transferred shares. An instrument of transfer also is required for a shareholder who directly holds shares to transfer those shares into his or her own broker account (or vice versa). Such instruments of transfer may give rise to Irish stamp duty, which must be paid prior to registration of the transfer on Seagate-Ireland's official Irish share register. However, a shareholder who directly holds shares may transfer those shares into his or her own broker account (or vice versa) without giving rise to Irish stamp duty provided there is no change in the ultimate beneficial ownership of the shares as a result of the transfer and the transfer is not made in contemplation of a sale of the shares.

Any transfer of Seagate-Ireland shares that is subject to Irish stamp duty will not be registered in the name of the buyer unless an instrument of transfer is duly stamped and provided to our transfer agent. Seagate-Ireland's articles of association allow Seagate-Ireland, in its absolute discretion, to create an instrument of transfer and pay (or procure the payment of) any stamp duty, which is the legal obligation of a buyer. In the event of any such payment, Seagate-Ireland is (on behalf of itself or its affiliates) entitled to (i) seek reimbursement from the buyer or seller (at its discretion), (ii) set-off the amount of the stamp duty against future dividends payable to the buyer or seller (at its discretion), and (iii) claim a lien against the Seagate-Ireland shares on which it has paid stamp duty. Parties to a share transfer may assume that any stamp duty arising in respect of a transaction in Seagate-Ireland shares has been paid unless one or both of such parties is otherwise notified by us.

Seagate-Ireland's articles of association delegate to Seagate-Ireland's Secretary the authority to execute an instrument of transfer on behalf of a transferring party.

In order to help ensure that the official share register is regularly updated to reflect trading of Seagate-Ireland shares occurring through normal electronic systems, we intend to regularly produce any required instruments of transfer in connection with any transactions for which we pay stamp duty (subject to the reimbursement and set-off rights described above). In the event that we notify one or both of the parties to a share transfer that we believe stamp duty is required to be paid in connection with such transfer and that we will not pay such stamp duty, such parties may either themselves arrange for the execution of the required instrument of transfer (and may request a form of instrument of transfer from Seagate-Ireland for this purpose) or request that Seagate-Ireland execute an instrument of transfer on behalf of the transferring party in a form determined by Seagate-Ireland. In either event, if the parties to the share transfer have the instrument of transfer duly stamped (to the extent required) and then provide it to Seagate-Ireland's transfer agent, the buyer will be registered as the legal owner of the relevant shares on Seagate-Ireland's official Irish share register (subject to the matters described below).

The registration of transfers may be suspended by the directors at such times and for such period, not exceeding in the whole 30 days in each year, as the directors may from time to time determine.

**Transfer Agent and Registrar**

Computershare Trust Company, Inc. serves as transfer agent and branch registrar for the ordinary shares in the United States. Arthur Cox serves as principal registrar for the ordinary shares in Ireland.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits are attached to this Current Report on Form 8-K:

<b>Exhibit No.</b>	<b>Description</b>
3.1	Memorandum and Articles of Association of Seagate Technology public limited company
10.1	Supplemental Indenture, dated as of July 3, 2010, among Seagate HDD Cayman, as issuer, Seagate Technology, as original guarantor, Seagate Technology plc, as successor guarantor, and Wells Fargo Bank, National Association, as trustee, amending and supplementing the Indenture, dated as of May 13, 2010, among Seagate HDD Cayman, as issuer, Seagate Technology, as guarantor, and Wells Fargo Bank, National Association, as trustee.
10.2	Deed Poll of Assumption by Seagate Technology public limited company, dated July 2, 2010
10.3	Amended Seagate Technology public limited company 2004 Stock Compensation Plan
10.4	Seagate Technology public limited company 2001 Share Option Plan
10.5	Seagate Technology public limited company Employee Stock Purchase Plan

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY

By: /s/ PATRICK J. O MALLEY  
Name: Patrick J. O Malley  
Title: Executive Vice President and Chief Financial Officer

Date: July 6, 2010

:inherit;font-size:9pt;">(63,240  
)

(63,240  
)

(184  
)

(63,424  
)  
Equity-based compensation

—

—

397,421

4

4,462

—

—

4,466

17

4,483

Shares acquired for employee withholding requirements

—

—

(59,111

)

(1

)

(960

)

—

—

(961

)

—

(961

)

Other comprehensive income

—

—

—

—

—

677

—

677

3

680

Net income

—

—

—

—

—

—

89,445

89,445

289



89,734

Balance at September 30, 2017

9,400,000

\$  
94

104,266,587

\$  
1,043

\$  
1,178,896

\$  
(300  
)

\$  
24,783

\$  
1,204,516

\$  
3,086

\$  
1,207,602

See Notes to the Condensed Consolidated Financial Statements

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

	For the Nine Months Ended September 30,	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	\$85,369	\$89,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75,141	62,052
Amortization of deferred financing costs	1,495	1,553
Equity-based compensation	5,367	4,483
Realization of deferred gain	—	(15,000 )
Gain on disposal of assets, net	(42,114 )	(28,531 )
Other	(1,386 )	51
Changes in operating assets and liabilities:		
Trade receivables, net	(7,054 )	(9,140 )
Prepaid expenses and other	2,729	1,817
Accounts payable	(627 )	(233 )
Accrued expenses and other	10,040	9,780
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>128,960</b>	<b>116,566</b>
<b>INVESTING ACTIVITIES</b>		
Acquisitions of hotel properties	(71,002 )	(424,734)
Investment in hotel properties under development	(12,208 )	(15,954 )
Improvements to hotel properties	(49,523 )	(25,252 )
Proceeds from asset dispositions, net of closing costs	103,587	120,901
Funding of real estate loans	(15,245 )	—
Proceeds from collection of real estate loans	—	32,500
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(44,391 )</b>	<b>(312,539)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	470,000	485,000
Principal payments on debt	(369,147)	(365,087)
Proceeds from equity offerings, net of issuance costs	—	163,620
Redemption of preferred stock	(85,000 )	—
Dividends paid	(69,755 )	(63,148 )
Financing fees on debt and other issuance costs	(1,850 )	(1,642 )
Repurchase of common shares for withholding requirements	(2,724 )	(961 )
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(58,476 )</b>	<b>217,782</b>
Net change in cash, cash equivalents and restricted cash	26,093	21,809
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Beginning of period	66,007	59,575
End of period	\$92,100	\$81,384
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$29,038	\$20,242
Accrued acquisition costs and improvements to hotel properties	\$7,853	\$3,482
Capitalized interest	\$446	\$172
Cash payments for income taxes, net of refunds	\$749	\$600

See Notes to the Condensed Consolidated Financial Statements

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SUMMIT HOTEL PROPERTIES, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 - DESCRIPTION OF BUSINESS

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

We focus on owning primarily premium-branded, select-service hotels. At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms located in 26 states. We have elected to be taxed as a real estate investment trust (“REIT”) for federal income tax purposes. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, all of our hotels are leased to subsidiaries (“TRS Lessees”) of our taxable REIT subsidiary (“TRS”). We indirectly own 100% of the outstanding equity interests in all of our TRS Lessees.

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of the Company consolidate the accounts of the Company and all entities that are controlled by the Company’s ownership of a majority voting interest in such entities, as well as variable interest entities for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in the Condensed Consolidated Financial Statements.

We prepare our Condensed Consolidated Financial Statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Act of 1934 (the “Exchange Act”). Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation in accordance with GAAP have been included. Results for the three and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the full year of 2018. For further information, please read the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Investment in Hotel Properties

The Company allocates the purchase price of acquired hotel properties based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Intangible assets may include certain value associated with the on-going operations of the hotel business being acquired as part of the hotel property acquisition. We determine the acquisition-date fair values of all assets and assumed liabilities using methods similar to those used by independent appraisers, including using a discounted cash flow analysis that uses appropriate discount or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions.

If substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, the asset or asset group is not considered a business. When we conclude that an

acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired hotel properties.

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

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

In certain circumstances, we provide loan financing to developers of hotel properties for development projects. We record these loans as Investment in real estate loans, net unless we determine that we are the primary beneficiary of a variable interest entity through the loan provisions or other agreements. If we are the primary beneficiary of a variable interest entity, then the loan is recorded in Investment in hotel properties under development in our Condensed Consolidated Balance Sheets. If classified as Investment in hotel properties under development, no interest income is recognized on the loan and interest expense is capitalized as part of our investment in the hotel property during the construction period.

#### Cash and Cash Equivalents

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

#### Restricted Cash

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

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

#### Revenue Recognition

On January 1, 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers. In accordance with ASU No. 2014-09, revenues from the operation of our hotels are recognized when guestrooms are occupied, services have been rendered or fees have been earned. Revenues are recorded net of any discounts and sales and other taxes collected from customers. Revenues consist of room sales, food and beverage sales, and other hotel revenues and are presented on a disaggregated basis on our Condensed Consolidated Statements of Operations.

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

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

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

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

#### Equity-Based Compensation

Our 2011 Equity Incentive Plan, which was amended and restated effective June 15, 2015 (as amended, the “Equity Plan”), provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, and other stock-based awards. We account for the stock options granted upon completion of our IPO at fair value using the Black-Scholes option-pricing model and we account for all other awards of equity, including time-based and performance-based stock awards, using the grant date fair value of those equity awards. Restricted stock awards with performance-based vesting conditions are market-based awards tied to total stockholder return and are valued using a Monte Carlo simulation model in accordance with ASC Topic 718, Compensation — Stock Compensation. We expense the fair value of awards under the Equity Plan ratably over the vesting period and market-based awards are not adjusted for performance. The amount of stock-based compensation expense may be subject to adjustment in future periods due to a change in forfeiture assumptions or modification of previously granted awards.

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

#### Derivative Financial Instruments and Hedging

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

During 2017, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. Accordingly, beginning in 2017, the change in the fair value of the hedging instruments is recorded in Other comprehensive income. Amounts deferred in Other comprehensive income will be reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings.

#### Income Taxes

We have elected to be taxed as a REIT under certain provisions of the Internal Revenue Code. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute annually to our stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, which does not necessarily equal net income as calculated in accordance with GAAP. As a REIT, we generally will not be subject to federal income tax (other than taxes paid by our TRS at regular corporate income tax rates) to the extent we distribute 100% of our REIT taxable income to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions.

#### Fair Value Measurement



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

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

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

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

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

On January 1, 2018, we adopted ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Accordingly, we have elected a measurement alternative for equity investments, such as our purchase options, that do not have readily determinable fair values. Under the alternative, our purchase options are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, if any.

#### Use of Estimates

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

#### Reclassifications

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

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

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

#### New Accounting Standards

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

consolidated financial position or our results of operations.

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

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

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

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

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

### NOTE 3 - INVESTMENT IN HOTEL PROPERTIES, NET

Investment in Hotel Properties, net

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

	September 30, 2018	December 31, 2017
Land	\$ 290,782	\$ 272,932
Hotel buildings and improvements	1,899,906	1,868,273
Intangible assets	22,064	22,764
Construction in progress	20,219	12,464
Furniture, fixtures and equipment	189,457	174,126
	2,422,428	2,350,559
Less - accumulated depreciation and amortization	(339,823 )	(291,067 )
	\$ 2,082,605	\$ 2,059,492

### Recently Developed Properties

We completed the development and commenced operations of the new 168-guestroom Hyatt House Across From Orlando Universal Resort™ on June 27, 2018. The total construction cost for this hotel was \$32.7 million, excluding

land that we acquired in a prior-year transaction. The carrying amount for this hotel includes internal capitalized costs of \$1.6 million. Total costs of \$37.1 million, including the carrying amount of the land, were reclassified as Investment in hotel properties, net upon completion of construction.

#### Asset Sales

On September 28, 2018, we sold the Hyatt Place in Fort Myers, FL and adjacent land for \$16.5 million. The sale of this property resulted in the realization of a net gain of \$2.2 million during the three and nine months ended September 30, 2018.

On July 24, 2018, we completed the sale of three hotel properties, the Hilton Garden Inn - Smyrna, TN, the Hampton Inn & Suites - Smyrna, TN, and the Hyatt Place Phoenix North - Phoenix, AZ, for an aggregate sales price of \$46.5 million. The sales of these three properties resulted in the realization of an aggregate net gain of \$23.0 million during the three and nine months ended September 30, 2018. The proceeds from these sales were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$22.2 million.

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

On July 21, 2017, we completed the sale of three hotel properties in Fort Worth, TX for an aggregate sales price of \$27.8 million, resulting in a net gain of \$8.1 million during the three and nine months ended September 30, 2017. The proceeds from this sale were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$8.6 million.

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

On April 27, 2017, we completed the sale of seven hotels to Hospitality Investors Trust, Inc. ("HIT") for a total purchase price of \$66.8 million, resulting in a net gain of \$16.0 million during the nine months ended September 30, 2017.

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

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

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

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

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

paid in full on March 31, 2017.

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## Hotel Property Acquisitions

A summary of the hotel properties acquired during the nine months ended September 30, 2018 and 2017 is as follows (in thousands):

Date Acquired	Franchise/Brand	Location	Guestrooms	Purchase Price
For the nine months ended September 30, 2018				
September 12, 2018	Residence Inn by Marriott	Boston (Watertown), MA	150	\$71,000
			150	\$71,000 (1)
For the nine months ended September 30, 2017				
March 1, 2017	Homewood Suites	Aliso Viejo (Laguna Beach), CA	129	\$38,000
March 30, 2017	Hyatt Place	Phoenix (Mesa), AZ	152	22,200
May 23, 2017	Courtyard by Marriott	Fort Lauderdale, FL	261	85,000
June 9, 2017	Courtyard by Marriott	Charlotte, NC	181	56,250
June 21, 2017	Courtyard by Marriott	Fort Worth, TX	203	40,000
June 21, 2017	Courtyard by Marriott	Kansas City, MO	123	24,500
June 21, 2017	Courtyard by Marriott	Pittsburgh, PA	182	42,000
June 21, 2017	Hampton Inn & Suites	Baltimore, MD	116	18,000
June 21, 2017	Residence Inn by Marriott	Baltimore, MD	188	38,500
July 13, 2017	AC Hotel by Marriott	Atlanta, GA	255	57,500
			1,790	\$421,950(2)

(1) The net assets acquired totaled \$71.0 million due to the purchase at settlement of \$0.1 million of net working capital liabilities and capitalized transaction costs of \$0.1 million.

(2) The net assets acquired totaled \$424.8 million due to the purchase at settlement of \$0.6 million of net working capital assets and capitalized transaction costs of \$2.2 million.

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

	For the Nine Months Ended September 30,	
	2018	2017
Land	\$25,083	\$63,339
Hotel buildings and improvements	42,676	328,395
Intangible assets	—	16,162
Furniture, fixtures and equipment	3,300	16,294
Other assets	185	1,937
Total assets acquired	71,244	426,127
Less - other liabilities assumed	(242 )	(1,354 )
Net assets acquired	\$71,002	\$424,773

All hotel purchases completed in 2018 and 2017 were deemed to be the acquisition of assets. Therefore, acquisition costs related to these transactions have been capitalized as part of the recorded amount of the acquired assets.



The results of operations of acquired hotel properties are included in the Condensed Consolidated Statements of Operations beginning on their respective acquisition dates. The following unaudited pro forma information includes operating results for 77 hotels owned as of September 30, 2018 as if all such hotels had been owned by us since January 1, 2017. For hotels acquired by us after January 1, 2017 (the "Acquired Hotels"), we have included in the pro forma information the financial results of each of the Acquired Hotels for the period from January 1, 2017 to the date the Acquired Hotels were purchased by us (the "Preacquisition Period"). The financial results for the Pre-Acquisition Period were provided by the third-party owner of such Acquired Hotel prior to purchase by us and such information has not been audited or reviewed by our auditors or adjusted by us. For hotels sold by us between January 1, 2017 and September 30, 2018 (the "Disposed Hotels"), the unaudited pro forma information excludes the financial results, including gains on disposal of assets, of each of the Disposed Hotels for the period of ownership by us from January 1, 2017 through the date that the Disposed Hotels were sold by us. The unaudited pro forma information is included to enable comparison of results for the current reporting period to results for the comparable period of the prior year and is not indicative of what actual results of operations would have been had the hotel acquisitions and dispositions taken place on or before January 1, 2017. The pro forma amounts exclude the gain or loss on the sale of hotel properties during the three and nine months ended September 30, 2017 and 2018, respectively. This information does not purport to be indicative of or represent results of operations for future periods.

The unaudited condensed pro forma financial information for the 77 hotel properties owned at September 30, 2018 for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands, except per share):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$143,609	\$140,582	\$424,745	\$414,604
Income from hotel operations	\$53,423	\$53,515	\$158,869	\$158,756
Net income <sup>(1)</sup>	\$14,142	\$17,539	\$43,113	\$64,416
Net income attributable to common stockholders, net of amount allocated to participating securities <sup>(1) (2)</sup>	\$10,280	\$13,225	\$26,546	\$51,317
Basic and diluted net income per share attributable to common stockholders <sup>(1) (2)</sup>	\$0.10	\$0.13	\$0.26	\$0.52

(1) Pro forma amounts include depreciation expense, property tax expense, interest expense, income tax expense, and other corporate expenses totaling \$48.0 million and \$43.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$145.2 million and \$118.5 million for the nine months ended September 30, 2018 and 2017, respectively.

(2) Pro forma amounts for the nine months ended September 30, 2018 include the effect of the premium on redemption of preferred stock of \$3.3 million.

#### Assets Held for Sale

Assets held for sale at September 30, 2018 and December 31, 2017 included land parcels in Spokane, WA and Flagstaff, AZ. The land in Spokane, WA is under contract for sale and is expected to close in the fourth quarter of 2018.

## NOTE 4 - DEBT

At September 30, 2018, our indebtedness was comprised of borrowings under our \$450.0 million senior unsecured revolving credit and term loan facility (described below), the 2018 Term Loan (as defined below), the 2017 Term Loan (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. At December 31, 2017, our indebtedness was comprised of borrowings under our \$450.0 million senior unsecured credit and term loan facility, the 2017 Term Loan (as defined below), the 2015 Term Loan (as defined below), and indebtedness secured by first priority mortgage liens on various hotel properties. The weighted average interest rate, after giving effect to our interest rate derivatives, for all borrowings was 4.31% at September 30, 2018 and 3.89% at December 31, 2017.

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

	September 30, December 31,	
	2018	2017
Revolving debt	\$ 65,000	\$ 15,000
Term loans	600,000	515,000
Mortgage loans	308,962	343,109
	973,962	873,109
Unamortized debt issuance costs	(4,816 )	(4,873 )
Debt, net of debt issuance costs	\$ 969,146	\$ 868,236

We have entered into five interest rate swaps to partially fix the interest rates on a portion of our variable interest rate unsecured indebtedness and term loans. See "Note 5- Derivative Financial Instruments and Hedging" to the Condensed Consolidated Financial Statements for additional information. Our total fixed-rate and variable-rate debt, after considering our interest rate derivative agreements that are currently effective, is as follows (in thousands):

	September 30, (1) Percentage		December 31, Percentage	
	2018		2017	
Fixed-rate debt	\$ 627,833	64%	\$ 386,313	44%
Variable-rate debt	346,129	36%	486,796	56%
	\$ 973,962		\$ 873,109	

(1) Excludes the effect of a \$125 million interest rate swap agreement that becomes effective December 31, 2018.

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

	September 30, 2018		December 31, 2017		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Valuation Technique
Fixed-rate debt	\$277,833	\$272,177	\$311,313	\$310,535	Level 2 - Market approach

At September 30, 2018 and December 31, 2017, we had \$350.0 million and \$75.0 million, respectively, of debt with variable interest rates that had been converted to fixed interest rates through derivative financial instruments which are carried at fair value. Differences between carrying value and fair value of our fixed-rate debt are primarily due to changes in interest rates. Inherently, fixed-rate debt is subject to fluctuations in fair value as a result of changes in the current market rate of interest on the valuation date. For additional information on our use of derivatives as interest rate hedges, refer to "Note 5 — Derivative Financial Instruments and Hedging."



## \$450 Million Senior Unsecured Credit and Term Loan Facility

On January 15, 2016, the Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the loan documentation as a subsidiary guarantor, entered into a \$450.0 million senior unsecured revolving credit and term loan facility (the “2016 Unsecured Credit Facility”). The 2016 Unsecured Credit Facility is comprised of a \$300.0 million revolving credit facility (the “\$300 Million Revolver”) and a \$150.0 million term loan (the “\$150 Million Term Loan”). At September 30, 2018, the maximum amount of borrowing provided by the 2016 Unsecured Credit Facility was \$450.0 million, of which we had borrowed \$150.0 million under the \$150 Million Term Loan and \$65.0 million under the \$300 Million Revolver and we had \$235.0 million available to borrow.

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

The Company pays interest on revolving credit advances at varying rates based upon, at the Company’s option, either (i) 1-, 2-, 3- or 6-month LIBOR, plus a margin of between 1.50% and 2.25%, depending upon the Company’s leverage ratio (as defined in the 2016 Unsecured Credit Facility agreement), or (ii) the applicable base rate, which is the greatest of the administrative agent’s prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin of between 0.50% and 1.25%, depending upon the Company’s leverage ratio. The interest rate at September 30, 2018 was 4.06%.

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

**Unencumbered Assets.** The 2016 Unsecured Credit Facility is unsecured. However, borrowings under the 2016 Unsecured Credit Facility are limited by the value of hotel assets that qualify as unencumbered assets. At September 30, 2018, the Company had 47 unencumbered hotel properties (the “Unencumbered Properties”) supporting the 2016 Unsecured Credit Facility. In addition, the Company has one other hotel with a total of 150 guestrooms unencumbered by mortgage debt that is available to be used as collateral for future loans.

## Unsecured Term Loans

### 2018 Term Loan

On February 15, 2018, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a new \$225.0 million unsecured term loan (the “2018 Term Loan”) with KeyBank National Association, as administrative agent, and a syndicate of lenders listed in the loan documentation. The 2018 Term Loan has an accordion feature that allows us to increase the total commitments by \$150.0 million prior to the maturity date of February 14, 2025, subject to certain conditions. At closing, we drew \$140.0 million of the \$225.0 million available under the 2018 Term Loan and used the proceeds to pay off and replace the 2015 Term Loan. On May 16, 2018, we drew the remaining \$85.0 million available under the 2018 Term Loan and used the proceeds to pay down the \$300 Million Revolver.

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.80% and 2.55%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent’s prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.80% and 1.55%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2018 was 4.31%.

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

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

## 2017 Term Loan

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

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

We pay interest on advances at varying rates, based upon, at our option, either (i) 1-, 2-, 3-, or 6-month LIBOR, plus a LIBOR margin between 1.45% and 2.20%, depending upon our leverage ratio (as defined in the loan documents), or (ii) the applicable base rate, which is the greatest of the administrative agent's prime rate, the federal funds rate plus 0.50%, and 1-month LIBOR plus 1.00%, plus a base rate margin between 0.45% and 1.20%, depending upon our leverage ratio. We are required to pay other fees, including customary arrangement and administrative fees. The interest rate at September 30, 2018 was 4.01%.

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

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

## 2015 Term Loan

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

On February 15, 2018, we repaid the \$140.0 million outstanding balance with funds received from the 2018 Term Loan.

## Metabank Loan

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

## Mortgage and Term Loans

On April 2, 2018, we repaid four mortgage loans with Western Alliance Bank totaling \$23.9 million that had a blended interest rate of 5.39%. There were no prepayment penalties associated with the repayment of these loans. The

properties that secured the mortgage loans are now unencumbered and have been added to our unencumbered pool to support our 2016 Unsecured Credit Facility, 2017 Term Loan and 2018 Term Loan.

At September 30, 2018, we had \$909.0 million in secured mortgage loans and unsecured term loans outstanding (including the 2018 Term Loan, the 2017 Term Loan, and the \$150 Million Term Loan). Term loans totaling \$309.0 million, including the Metabank Loan, are secured primarily by first mortgage liens on certain hotel properties.

## NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

Contract date	Effective Date	Expiration Date	Notional Amount		Fair Value	
			September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
September 5, 2013	January 2, 2014	October 1, 2018	\$75,000 <sup>(1)</sup>	\$75,000 <sup>(1)</sup>	\$—	\$(190 )
October 2, 2017	January 29, 2018	January 31, 2023	100,000 <sup>(2)</sup>	100,000	3,707	722
October 2, 2017	January 29, 2018	January 31, 2023	100,000 <sup>(2)</sup>	100,000	3,779	787
June 11, 2018	September 28, 2018	September 30, 2024	75,000 <sup>(3)</sup>	—	180	—
June 11, 2018	December 31, 2018	December 31, 2025	125,000 <sup>(4)</sup>	—	254	—
			\$475,000	\$275,000	\$7,920	\$1,319

- (1) Interest rate swap is related to a portion of our 2016 Unsecured Credit Facility and converts LIBOR from a floating rate to an average annual fixed rate of 2.04%.
- (2) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 1.98%.
- (3) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.87%.
- (4) Interest rate swap partially fixes the interest rate on a portion of our variable interest rate unsecured indebtedness and converts LIBOR from a floating rate to an average annual fixed rate of 2.93%.

Our interest rate swaps have been designated as cash flow hedges and are valued using a market approach, which is a Level 2 valuation technique. At September 30, 2018, all of our interest rate swaps were in an asset position. At December 31, 2017, two of our interest rate swaps were in an asset position and one was in a liability position. We are not required to post any collateral related to these agreements and are not in breach of any financial provisions of the agreements.

Changes in the fair value of the hedging instruments are deferred in Other comprehensive income and are reclassified to Interest expense in our Condensed Consolidated Statements of Operations in the period in which the hedged item affects earnings. In the next twelve months, we estimate that \$0.9 million will be reclassified from Other comprehensive income and recorded as a reduction to Interest expense.

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Gain recognized in Other comprehensive income on derivative financial instruments	\$2,555	\$2	\$6,401	\$92
Gain (loss) reclassified from Other comprehensive income to Interest expense	\$60	\$(155)	\$(200 )	\$(588)

## NOTE 6 - EQUITY

Common Stock



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

On May 9, 2017, the Company and the Operating Partnership entered into an underwriting agreement relating to the issuance and sale of 9,000,000 shares of the Company's common stock, \$0.01 par value per share, at a public offering price of \$16.50 per share, less an underwriting discount of \$0.66 per share. Pursuant to the terms of the underwriting agreement, the Company granted the underwriters a 30-day option to purchase up to an additional 1,350,000 shares of common stock on the same terms, which the underwriters exercised in full on May 10, 2017. The closing of the offering occurred on May 15, 2017 for net proceeds of \$163.8 million, after the underwriting discount and offering-related expenses of \$7.0 million.

On May 25, 2017, the Company filed a prospectus supplement to sell up to \$200.0 million in common shares under a new "at the market" offering program (the "2017 ATM program"). At the same time, the Company terminated its prior ATM program. To date, we have not sold any shares of our common stock under the 2017 ATM Program.

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

	For the Nine Months Ended September 30,	
	2018	2017
Beginning common shares outstanding	104,287,128	93,525,469
Stock offering	—	10,350,000
Grants under the Equity Plan	583,738	366,679
Common Unit redemptions	25,839	52,808
Annual grants to independent directors	34,130	28,426
Common stock issued for director fees	3,543	3,553
Forfeitures	(818	) (1,237
Shares retained for employee tax withholding requirements	(187,850	) (59,111
Ending common shares outstanding	104,745,710	104,266,587

#### Preferred Stock

The Company is authorized to issue up to 100,000,000 shares of preferred stock, \$0.01 par value per share, of which 90,600,000 is currently undesignated, 3,000,000 shares have been designated as 6.45% Series D Cumulative Redeemable Preferred Stock (the "Series D preferred shares") and 6,400,000 shares have been designated as 6.25% Series E Cumulative Redeemable Preferred Stock (the "Series E preferred shares").

On March 20, 2018, the Company paid \$85.3 million to redeem all 3,400,000 of its outstanding 7.125% Series C Cumulative Redeemable Preferred Stock at a redemption price of \$25 per share plus accrued and unpaid dividends.

The Company's outstanding shares of preferred stock (collectively, "Preferred Shares") rank senior to our common stock and on parity with each other with respect to the payment of dividends and distributions of assets in the event of a liquidation, dissolution, or winding up. The Preferred Shares do not have any maturity date and are not subject to mandatory redemption or sinking fund requirements. The Company may not redeem the Series D or Series E preferred shares prior to June 28, 2021 and November 13, 2022, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or in connection with certain changes in control. After those dates, the Company may, at its option, redeem the applicable Preferred Shares, in whole or from time to time in part, by payment of \$25 per share, plus any accumulated, accrued and unpaid distributions up to, but not including, the date of redemption. If the Company does not exercise its rights to redeem the Preferred Shares upon certain changes in control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company's common shares based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each Series D preferred share is 3.9216 shares of common stock and each Series E preferred share is 3.1686

shares of common stock, all subject to certain adjustments.

The Company pays dividends at an annual rate of \$1.6125 for each Series D preferred share and \$1.5625 for each Series E preferred share. Dividend payments are made quarterly in arrears on or about the last day of February, May, August and November of each year.

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## Non-controlling Interests in Operating Partnership

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

At September 30, 2018 and December 31, 2017, unaffiliated third parties owned 297,552 and 323,391 Common Units of the Operating Partnership, respectively, representing less than a 1% limited partnership interest in the Operating Partnership for each period.

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

## NOTE 7 - FAIR VALUE MEASUREMENT

The following table presents information about our financial instruments measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, we classify assets and liabilities based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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

	Fair Value Measurements at September 30, 2018 using		
	Level 2	Level 3	Total
Assets:			
Interest rate swaps	\$ —	\$ 7,920	\$ 7,920
Purchase options related to real estate loans	—	6,120	6,120
Fair Value Measurements at December 31, 2017 using			
	Level 2	Level 3	Total
Assets:			
Interest rate swaps	\$ —	\$ 1,509	\$ 1,509
Purchase options related to real estate loans	—	6,078	6,078
Liabilities:			
Interest rate swaps	—	190	190

We are a mezzanine lender on three construction loans to fund up to an aggregate of \$29.6 million for the development of three hotel properties. The three real estate loans closed in the fourth quarter of 2017 and each has a stated interest rate of 8% and an initial term of approximately three years. As of September 30, 2018, we have funded the full amount of \$29.6 million. We have separate options related to each loan (each the "Initial Option") to purchase a 90% interest in each joint venture that owns the respective hotel upon completion of construction. We also have the

right to purchase the remaining interests in each joint venture at future dates, generally five years after we exercise our Initial Option. We have recorded the aggregate estimated fair values of the Initial Options totaling \$6.1 million in Other assets and as a discount to the related real estate loans. The discount will be amortized as a component of interest income over the term of the real estate loans using the straight-line method, which approximates the interest method. We recorded amortization of the discount of \$0.5 million during the three months ended September 30, 2018 and \$1.5 million during the nine months ended September 30, 2018.

Our purchase options do not have readily determinable fair values. The fair value of each purchase option was estimated using a binomial lattice model. The estimated fair values of the purchase options were based on unobservable inputs for which there is little or no market information available and required us to develop our own assumptions as follows (dollar amounts in thousands):

	Real Estate Loan 1	Real Estate Loan 2	Real Estate Loan 3
Exercise price	\$ 15,143	\$ 17,377	\$ 5,503
First option exercise date	12/31/2018	3/31/2019	5/31/2019
Last option exercise date	11/1/2020	12/5/2020	12/1/2020
Expected volatility	32.0 %	38.0 %	37.0 %
Risk free rate	1.7 %	1.8 %	1.9 %
Expected annualized equity dividend yield	6.8 %	9.9 %	6.5 %

#### NOTE 8 - COMMITMENTS AND CONTINGENCIES

##### Restricted Cash

The Company maintains reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at some of our hotel properties in accordance with management, franchise or mortgage loan agreements. These agreements generally require us to reserve cash ranging from 3% to 5% of the revenues of the individual hotel in restricted cash escrow accounts. Any unused restricted cash balances revert to us upon the termination of the underlying agreement or may be released to us from the restricted cash escrow accounts upon proof of expenditures and approval from the lender or other party requiring the restricted cash reserves. At September 30, 2018 and December 31, 2017, approximately \$31.6 million and \$29.5 million, respectively, was available in restricted cash reserve funds for property taxes, insurance, capital expenditures and replacement or refurbishment of furniture, fixtures and equipment at our hotel properties.

##### Ground Leases

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

Total rent expense for ground leases for each of the three months ended September 30, 2018 and 2017 was \$0.4 million. Total rent expense for ground leases for each of the nine months ended September 30, 2018 and 2017 was \$1.3 million.

In addition, we lease land for one hotel property in Garden City, NY under a PILOT (payment in lieu of taxes) lease. We pay a reduced amount of property tax each year of the lease as rent. The lease expires on December 31, 2019.

Upon expiration of the lease, we expect to exercise our right to acquire a fee simple interest in the hotel for nominal consideration.

#### Franchise Agreements

During the three months ended September 30, 2018 and 2017, we expensed fees related to our franchise agreements of \$11.7 million and \$11.4 million, respectively. During the nine months ended September 30, 2018 and 2017, we expensed fees related to our franchise agreements of \$36.2 million and \$30.8 million, respectively.

## Management Agreements

Our hotel properties operate pursuant to management agreements with various professional third-party management companies. We pay base management fees that are a percentage of gross room revenues and incentive management fees based on achievement of certain financial targets pursuant to contracts that generally have remaining terms of less than five years.

## Litigation

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

## NOTE 9 - EQUITY-BASED COMPENSATION

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

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

The Company's former Chief Financial Officer retired on March 31, 2018. In connection with his retirement, the Company recorded \$1.0 million of additional stock-based compensation expense during the nine months ended September 30, 2018 related to the modification of certain stock award agreements.

### Stock Options Granted Under our Equity Plan

As of September 30, 2018, we had 235,000 outstanding and exercisable stock options with a weighted average exercise price of \$9.75 per share, weighted average contractual term of 2.4 years and an aggregate intrinsic value of \$0.9 million.

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

The following table summarizes time-based restricted stock award activity under our Equity Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value (per share)	Aggregate Current Value (in thousands)
Non-vested at December 31, 2017	391,477	\$ 13.52	\$ 5,962
Granted	185,930	13.15	
Vested	(205,619)	13.41	
Forfeited	(818 )	12.84	
Non-vested at September 30, 2018	370,970	\$ 13.40	\$ 5,019

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



grant date).

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

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

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

The following table summarizes performance-based restricted stock activity under the Equity Plan for the nine months ended September 30, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value (1) (per share)	Aggregate Current Value (in thousands)
Non-vested at December 31, 2017	619,429	\$ 16.16	\$ 9,434
Granted	397,808	15.69	
Vested	(309,010)	18.78	
Non-vested at September 30, 2018	708,227	\$ 14.75	\$ 9,582

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

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

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

Equity-Based Compensation Expense

Equity-based compensation expense included in Corporate general and administrative expenses in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 was as follows (in thousands):

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Time-based restricted stock	\$518	\$541	\$1,870	\$1,607
Performance-based restricted stock	784	849	2,943	2,333
Director stock	17	99	554	543
	\$1,319	\$1,489	\$5,367	\$4,483

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

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Unrecognized equity-based compensation expense for all non-vested awards pursuant to our Equity Plan was \$7.9 million at September 30, 2018 and will be recorded as follows (in thousands):

	Total	2018	2019	2020	2021	2022
Time-based restricted stock	\$3,310	\$518	\$1,617	\$957	\$205	\$13
Performance-based restricted stock	4,577	784	2,320	1,287	186	—
	\$7,887	\$1,302	\$3,937	\$2,244	\$391	\$13

## NOTE 10 - INCOME TAXES

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the "TCJA"), was enacted. The TCJA made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Pursuant to this legislation, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37% (through taxable years ending in 2025), (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. stockholders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not "capital gain dividends" or "qualified dividend income," subject to certain limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years ending in 2025). The maximum rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. The reduced corporate tax rate will apply to our TRS and any other TRS that we form.

The reduced 21% federal income tax rate applicable to corporations will apply to taxable earnings reported for the full 2018 fiscal year. Accordingly, the Company remeasured its net deferred tax assets as a result of the TCJA at December 31, 2017 using the lower federal tax rate that will apply when these amounts are expected to reverse. At September 30, 2018, we have completed our accounting for all the enactment-date income tax effects of the act under ASC 740, Income Taxes. No subsequent adjustments have been necessary.

Income taxes for the interim periods presented have been included in our Condensed Consolidated Financial Statements on the basis of an estimated annual effective tax rate. Our effective tax rate is affected by the mix of earnings and losses by taxing jurisdictions. Our earnings, other than from our TRS, are not generally subject to federal and state corporate income taxes due to our REIT election, provided that we distribute 100% of our taxable income to our shareholders. However, there are a limited number of local and state jurisdictions that tax the taxable income of the Operating Partnership. Accordingly, we provide for income taxes in these jurisdictions for the Operating Partnership.

We recorded an income tax benefit of \$0.5 million and \$0.2 million for the three months ended September 30, 2018 and 2017, respectively. We recorded an income tax benefit of \$0.1 million for the nine months ended September 30, 2018 and an income tax expense related to net income from continuing operations of \$0.6 million for the nine months ended September 30, 2017. The Company had deferred tax assets of \$2.4 million and \$1.6 million at September 30, 2018 and December 31, 2017, respectively.

We had no unrecognized tax benefits at September 30, 2018. We expect no significant changes in unrecognized tax benefits within the next year.

## NOTE 11 - EARNINGS PER SHARE

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



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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
Numerator:				
Net income	\$38,001	\$22,445	\$85,369	\$89,734
Less: Preferred dividends	(3,710 )	(4,200 )	(12,962 )	(12,600 )
Premium on redemption of preferred stock	—	—	(3,277 )	—
Allocation to participating securities	(122 )	(69 )	(249 )	(305 )
Attributable to non-controlling interest	(100 )	(55 )	(204 )	(289 )
Net income attributable to common stockholders, net of amount allocated to participating securities	\$34,069	\$18,121	\$68,677	\$76,540
Denominator:				
Weighted average common shares outstanding - basic	103,666	103,253	103,603	98,105
Dilutive effect of equity-based compensation awards	155	379	265	366
Weighted average common shares outstanding - diluted	103,821	103,632	103,868	98,471
Earnings per share:				
Basic	\$0.33	\$0.18	\$0.66	\$0.78
Diluted	\$0.33	\$0.17	\$0.66	\$0.78

All outstanding stock options were included in the computation of diluted earnings per share for the three and nine months ended September 30, 2018 and 2017 due to their dilutive effect. The Common Units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income would also be added to derive net income attributable to common stockholders. We had unvested performance-based restricted stock awards of 453,664 shares for the three and nine months ended September 30, 2018 and 464,924 shares for the three and nine months ended September 30, 2017, which were excluded from the denominator of the diluted earnings per share as the awards had not achieved the requisite performance conditions for vesting at each period end.

NOTE 12 - SUBSEQUENT EVENTS

Dividends

On October 26, 2018, our Board of Directors declared cash dividends of \$0.18 per share of common stock, \$0.403125 per share of 6.45% Series D Cumulative Redeemable Preferred Stock, and \$0.390625 per share of 6.25% Series E Cumulative Redeemable Preferred Stock. These dividends are payable November 30, 2018 to stockholders of record on November 16, 2018.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2017 and our unaudited interim Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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

Cautionary Statement about Forward-Looking Statements

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

- financing risks, including the risk of leverage and the corresponding risk of default on our existing indebtedness and potential inability to refinance or extend the maturities of our existing indebtedness as well as the risk of default by borrowers to which we lend or provide seller financing;
- global, national, regional and local economic and geopolitical conditions;
- levels of spending for business and leisure travel, as well as consumer confidence;
- supply and demand factors in our markets or sub-markets;
- adverse changes in, or declining rates of growth with respect to, occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR") and other hotel operating metrics;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
- financial condition of, and our relationships with, third-party property managers and franchisors;
- the degree and nature of our competition;
- increased interest rates;
- increased operating costs;
- increased renovation costs, which may cause actual renovation costs to exceed our current estimates;
- changes in zoning laws and increases in real property taxes;
- risks associated with hotel acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history or that require substantial amounts of capital improvements for us to earn stabilized economic returns consistent with our expectations at the time of acquisition, and risks associated with dispositions of hotel properties, including our ability to successfully complete the sale of hotel properties under contract to be sold, including the risk that the purchaser may not have access to the capital needed to complete the purchase;
- the nature of our structure and transactions such that our federal and state taxes are complex and there is risk of successful challenges to our tax positions by the Internal Revenue Service ("IRS") or other federal and state taxing

authorities;

the recognition of taxable gains from the sale of hotel properties as a result of the inability to complete certain like-kind exchanges in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the "IRC");

availability of and our ability to retain qualified personnel;

our failure to maintain our qualification as a real estate investment trust ("REIT") under the IRC;

changes in our business or investment strategy;

availability, terms and deployment of capital;

general volatility of the capital markets and the market price of our common stock;

environmental uncertainties and risks related to natural disasters;

our ability to recover fully under our existing insurance policies for insurable losses and our ability to maintain

adequate or full replacement cost "all-risk" property insurance policies on our properties on commercially reasonable terms;



the effect of a data breach or significant disruption of hotel operator information technology networks as a result of cyber attacks beyond insurance coverages or indemnities from service providers;  
 current and future changes to the IRC; and  
 the other factors discussed under the heading "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

## Overview

Summit Hotel Properties, Inc. is a self-managed hotel investment company that was organized in June 2010 and completed its initial public offering in February 2011. We focus on owning primarily premium-branded, select-service hotels. At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms located in 26 states. We own our hotels in fee simple, except for six hotels, five of which are subject to ground leases and one of which is subject to a PILOT (payment in lieu of taxes) lease. Our hotels are typically located in markets with multiple demand generators such as corporate offices and headquarters, retail centers, airports, state capitols, convention centers, and leisure attractions.

The vast majority of our hotels operate under premium franchise brands owned by Marriott® International, Inc. ("Marriott"), Hilton® Worldwide ("Hilton"), Hyatt® Hotels Corporation ("Hyatt") and InterContinental® Hotels Group ("IHG").

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

Management Company	Number of Properties	Number of Guestrooms
Interstate Management Company, LLC and its affiliate Noble Management Group, LLC	33	4,734
OTO Development, LLC	13	1,797
Select Hotels Group, LLC, an affiliate of Hyatt	9	1,322
Affiliates of Marriott, including Courtyard Management Corporation, SpringHill SMC Corporation and Residence Inn by Marriott, Inc.	7	1,176
Stonebridge Realty Advisors, Inc.	5	755
White Lodging Services Corporation	4	791
American Liberty Hospitality, Inc.	2	372
Aimbridge Hospitality	2	199
Fillmore Hospitality	1	261
Intercontinental Hotel Group Resources, Inc., an affiliate of IHG	1	252
Total	77	11,659

Our typical hotel management agreement requires us to pay a base fee to our hotel manager calculated as a percentage of hotel revenues. In addition, our hotel management agreements generally provide that the hotel manager can earn an incentive fee for revenue or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") over certain thresholds or based on a return over our required preferred return. Our TRS lessees may employ other hotel managers

in the future. We do not, and will not, have any ownership or economic interest in any of the hotel management companies engaged by our TRS lessees.

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

## Industry Trends and Outlook

Room-night demand in the U.S. lodging industry is generally correlated to macroeconomic trends. Key drivers of demand include growth in gross domestic product, corporate profits, capital investments and employment. Volatility in the economy and lodging demand and risks arising from global and domestic political or economic conditions may cause economic growth to slow or stall. Also, increasing supply in the industry, and specifically in our markets or sub-markets, may reduce RevPAR growth expectations.

According to the PricewaterhouseCoopers, LLP industry report, "Hospitality Directions: August 2018," RevPAR growth in the U.S. for Upscale hotels (the Smith Travel Research segment in which the majority of our hotel properties are included) is forecasted to be 2.4% for 2018. We continue to have a positive outlook on national macroeconomic conditions and their potential effects on RevPAR growth. We are encouraged by the relative strength of leisure demand and some of the more recent positive indicators suggesting improved business travel conditions. However, the industry and the Upscale chain scale in particular, experienced a deceleration in RevPAR growth in 2017, based in part on slower corporate demand growth and accelerating supply growth. These trends have continued throughout 2018 as room starts have increased and industry demand growth has moderated.

## Our Hotel Property Portfolio

At September 30, 2018, our portfolio consisted of 77 hotels with a total of 11,659 guestrooms. According to current chain scales as defined by STR, Inc., two of our hotel properties with 280 guestrooms are categorized as Upper-upscale hotels, 61 of our hotel properties with 9,480 guestrooms are categorized as Upscale hotels and 14 of our hotel properties with 1,899 guestrooms are categorized as Upper-midscale hotels. Information about our hotel properties as of September 30, 2018 is as follows:

Franchise/Brand	Number of Hotel Properties	Number of Guestrooms
Marriott		
Courtyard by Marriott	15	2,760
Residence Inn by Marriott	10	1,445
SpringHill Suites by Marriott	6	874
AC Hotel by Marriott	1	255
Fairfield Inn & Suites by Marriott	1	140
Four Points by Sheraton	1	101
Marriott	1	165
Total Marriott	35	5,740
Hilton		
Hampton Inn & Suites	7	1,044
Hilton Garden Inn	7	962
Hampton Inn	2	240
Homewood Suites	2	251
DoubleTree by Hilton	1	210
Total Hilton	19	2,707
Hyatt		
Hyatt Place	14	2,035
Hyatt House	3	466
Total Hyatt	17	2,501
IHG		
Holiday Inn Express & Suites	2	345
Holiday Inn Express	1	66
Hotel Indigo	1	115
Staybridge Suites	1	121
Total IHG	5	647
Carlson		
Country Inn & Suites by Carlson	1	64
Total	77	11,659

## Hotel Property Portfolio Activity

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



## Asset Sales

On September 28, 2018, we sold the Hyatt Place in Fort Myers, FL and adjacent land for \$16.5 million. The sale of this property resulted in the realization of a net gain of \$2.2 million during the three and nine months ended September 30, 2018.

On July 24, 2018, we completed the sale of three hotel properties, the Hilton Garden Inn - Smyrna, TN, the Hampton Inn & Suites - Smyrna, TN, and the Hyatt Place Phoenix North - Phoenix, AZ, for an aggregate sales price of \$46.5 million. The sales of these three properties resulted in the realization of an aggregate net gain of \$23.0 million during the three and nine months ended September 30, 2018. The proceeds from these sales were used to complete a 1031 Exchange, which resulted in the deferral of taxable gains of \$22.2 million.

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

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

## Hotel Property Acquisitions

On September 12, 2018, the Company completed the acquisition of the 150-guestroom Residence Inn by Marriott Boston Watertown for a purchase price of \$71.0 million. The acquisition was funded by advances on our \$300 Million Revolver, cash generated from the sale of properties, and operating cash flows.

## Recently Developed Properties

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

Results of Operations

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

Comparison of the Three Months Ended September 30, 2018 with the Three Months Ended September 30, 2017

The following table contains key operating metrics for our total portfolio and our same-store portfolio for the three months ended September 30, 2018 compared with the three months ended September 30, 2017 (dollars in thousands, except ADR and RevPAR). We define same-store hotels as properties that we owned or leased as of September 30, 2018 and that we have owned or leased at all times since January 1, 2017.

	For the Three Months Ended September 30,				Quarter-over-Quarter		Quarter-over-Quarter			
	2018		2017		Dollar Change		Percentage/Basis Point Change			
	Total Portfolio (77 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (79 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (77/79 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (77/79 hotels)	Same-Store Portfolio (61 hotels)		
<b>Revenues:</b>										
Room	\$131,429	\$100,311	\$127,246	\$100,572	\$ 4,183	\$ (261 )	3.3 %	(0.3 )%		
Food and beverage	5,817	4,063	5,465	4,037	352	26	6.4 %	0.6 %		
Other	5,094	3,276	3,876	2,868	1,218	408	31.4 %	14.2 %		
Total	\$142,340	\$107,650	\$136,587	\$107,477	\$ 5,753	\$ 173	4.2 %	0.2 %		
<b>Expenses:</b>										
Room	\$30,854	\$23,854	\$28,976	\$23,080	\$ 1,878	\$ 774	6.5 %	3.4 %		
Food and beverage	4,684	3,254	4,444	3,216	240	38	5.4 %	1.2 %		
Other hotel operating expenses	40,437	29,992	38,284	29,316	2,153	676	5.6 %	2.3 %		
Total	\$75,975	\$57,100	\$71,704	\$55,612	\$ 4,271	\$ 1,488	6.0 %	2.7 %		
<b>Operational Statistics:</b>										
Occupancy	79.1 %	79.3 %	80.5 %	81.4 %	n/a	n/a	(141 ) bps	(209 ) bps		
ADR	\$153.55	\$154.56	\$147.84	\$151.11	\$ 5.71	\$ 3.45	3.9 %	2.3 %		
RevPAR	\$121.44	\$122.54	\$119.02	\$122.97	\$ 2.42	\$ (0.43 )	2.0 %	(0.3 )%		

Revenue. The \$5.8 million increase in total portfolio revenues for the three months ended September 30, 2018 compared to the same period of 2017 is the result of incremental revenues of \$12.5 million generated as a result of the acquisition of fourteen hotels in 2017 and two hotels in 2018 (the “2017/2018 Acquisitions”) and an increase in same-store revenues of \$0.2 million, partially offset by a decline in revenues of \$6.9 million related to properties sold after June 30, 2017.

The 2.0% increase in RevPAR for the total portfolio for the three months ended September 30, 2018 compared to the same period of 2017 is the result of the purchase of higher RevPAR hotel properties with the 2017/2018 Acquisitions, which produced an aggregate RevPAR of \$123.14 for the three months ended September 30, 2018, and the sale of lower RevPAR hotels since September 30, 2017, which produced an aggregate RevPAR of \$87.02 for the three months ended September 30, 2017.

Expenses. The \$4.3 million increase in total portfolio expenses for the three months ended September 30, 2018 compared to the same period of 2017 is the result of incremental expenses of \$6.5 million due to the 2017/2018 Acquisitions and an increase in same-store expenses of \$1.5 million, partially offset by a decline in expenses of \$3.7 million related to properties sold after June 30, 2017. The increase in total portfolio and same-store expenses for the three months ended September 30, 2018 compared to the same period of 2017 were primarily driven by increased labor costs and sales and marketing expenses, such as travel agent commissions. We anticipate that labor costs are likely to continue to grow particularly in certain markets with more supply growth or lower unemployment rates.

Depreciation and amortization. Depreciation and amortization expenses increased \$1.3 million, or 5.7%, in the three months ended September 30, 2018, primarily due to incremental depreciation expense associated with the 2017/2018 Acquisitions.



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Corporate, general and administrative. Corporate general and administrative expenses increased by \$0.3 million, or 6.6%, during the three months ended September 30, 2018 compared with the three months ended September 30, 2017, primarily due to changes in incentive compensation costs.

Gain on disposal of assets, net. Gain on disposal of assets, net increased \$17.1 million for the three months ended September 30, 2018 compared to the same period of 2017 due to the sale of four hotels during the three months ended September 30, 2018 for a net gain of \$25.2 million compared to the sale of three hotels during the three months ended September 30, 2017 for a net gain of \$8.1 million.

Other income, net. Other income, net increased by \$1.4 million during the three months ended September 30, 2018 compared with the three months ended September 30, 2017 primarily due to an increase in Investment in real estate loans, net that resulted in additional interest income during the three months ended September 30, 2018 of approximately \$1.1 million.

Comparison of the Nine Months Ended September 30, 2018 with the Nine Months Ended September 30, 2017

The following table contains key operating metrics for our total portfolio and our same-store portfolio for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 (dollars in thousands, except ADR and RevPAR). We define same-store hotels as properties that we owned or leased as of September 30, 2018 and that we have owned or leased at all times since January 1, 2017.

	For the Nine Months Ended September 30,				Period-over-Period		Period-over-Period		
	2018		2017		Dollar Change		Percentage/Basis Point Change		
	Total Portfolio (77 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (79 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (77/79 hotels)	Same-Store Portfolio (61 hotels)	Total Portfolio (77/79 hotels)	Same-Store Portfolio (61 hotels)	
<b>Revenues:</b>									
Room	\$401,651	\$297,233	\$358,110	\$296,566	\$43,541	\$ 667	12.2 %	0.2	%
Food and beverage	18,663	12,708	15,718	12,694	2,945	14	18.7 %	0.1	%
Other	14,447	9,300	9,804	8,245	4,643	1,055	47.4 %	12.8	%
Total	\$434,761	\$319,241	\$383,632	\$317,505	\$51,129	\$ 1,736	13.3 %	0.5	%
<b>Expenses:</b>									
Room	\$90,972	\$68,797	\$80,435	\$66,346	\$10,537	\$ 2,451	13.1 %	3.7	%
Food and beverage	14,790	9,916	12,277	9,695	2,513	221	20.5 %	2.3	%
Other hotel operating expenses	121,473	87,864	106,721	86,229	14,752	1,635	13.8 %	1.9	%
Total	\$227,235	\$166,577	\$199,433	\$162,270	\$27,802	\$ 4,307	13.9 %	2.7	%
<b>Operational Statistics:</b>									
Occupancy	79.0	% 79.0	% 79.9	% 80.2	% n/a	n/a	(98 )	bps (120 )	bps
ADR	\$154.22	\$154.99	\$147.03	\$152.43	\$7.19	\$ 2.56	4.9 %	1.7	%
RevPAR	\$121.77	\$122.40	\$117.53	\$122.20	\$4.24	\$ 0.20	3.6 %	0.2	%

Revenue. The \$51.1 million increase in total portfolio revenues for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of incremental revenues of \$69.4 million generated as a result of the 2017/2018 Acquisitions and an increase in same-store revenues of \$1.7 million, partially offset by a decline in

revenues of \$20.0 million related to properties sold after December 31, 2016.

The 3.6% increase in RevPAR for the total portfolio for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of an increase in same-store RevPAR of 0.2%, the purchase of higher RevPAR hotel properties with the 2017/2018 Acquisitions, which produced an aggregate RevPAR of \$127.79 for the nine months ended September 30, 2018, and the sale of lower RevPAR hotels since September 30, 2017, which produced an aggregate RevPAR of \$92.22 for the nine months ended September 30, 2017.

Expenses. The \$27.8 million increase in total portfolio expenses for the nine months ended September 30, 2018 compared to the same period of 2017 is the result of incremental expenses of \$35.2 million due to the 2017/2018 Acquisitions and an increase in same-store expenses of \$4.3 million, partially offset by a decline in expenses of \$11.7 million related to properties sold after December 31, 2016. The increase in total portfolio and same-store expenses for the nine months ended

September 30, 2018 compared to the same period of 2017 were primarily driven by increased labor costs and sales and marketing expenses, such as travel agent commissions. We anticipate that labor costs are likely to continue to grow particularly in certain markets with more supply growth or lower unemployment rates.

Property taxes, insurance and other. The increase in property taxes, insurance and other of \$4.9 million for the nine months ended September 30, 2018 compared to the same period of 2017 is primarily due to an increase in property taxes related to the 2017/2018 Acquisitions.

Management fees. The increase in management fees of \$1.0 million for the nine months ended September 30, 2018 compared to the same period of 2017 is primarily due to the increase in revenue from the 2017/2018 Acquisitions.

Depreciation and amortization. Depreciation and amortization expenses increased \$13.1 million, or 21.1%, in the nine months ended September 30, 2018, primarily due to incremental depreciation expense associated with the 2017/2018 Acquisitions.

Corporate, general and administrative. Corporate general and administrative expenses increased by \$2.1 million, or 13.9%, during the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017, primarily due to increases in stock-based compensation and incentive compensation costs. The increase in stock-based compensation expense related primarily to the modification of grants to our former Chief Financial Officer who retired on March 31, 2018.

Gain on disposal of assets, net. Gain on disposal of assets, net decreased \$1.4 million for the nine months ended September 30, 2018 compared to the same period of 2017 primarily due to the sale of eight hotels during the nine months ended September 30, 2018 for a net gain of \$42.6 million compared to the sale of twelve hotels during the nine months ended September 30, 2017 for a net gain of \$44.3 million, including the recognition of the remaining \$15.0 million of deferred gain during the nine months ended September 30, 2017 related to the repayment of the HIT Loan.

Other income, net. Other income, net increased by \$2.7 million during the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017. In April 2018, we reached a settlement agreement related to a third-party-caused industrial disaster that occurred in a prior period and affected several of our coastal properties. As a result, we received a net recovery of \$2.0 million during the nine months ended September 30, 2018 that we recorded as Other income. We also had an increase in Investment in real estate loans, net that resulted in additional interest income during the nine months ended September 30, 2018 of approximately \$0.8 million.

#### Non-GAAP Financial Measures

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

of any trend as compared to a comparable measure prescribed by GAAP such as net income (loss).

#### FFO and AFFO

As defined by Nareit, FFO represents net income or loss (computed in accordance with GAAP), excluding preferred dividends, gains (or losses) from sales of real property, impairment losses on real estate assets, items classified by GAAP as extraordinary, the cumulative effect of changes in accounting principles, plus depreciation and amortization related to real estate assets, and adjustments for unconsolidated partnerships and joint ventures. AFFO represents FFO excluding amortization of deferred financing costs, franchise fees, equity-based compensation expense, debt transaction costs, premiums on redemption of preferred shares, losses from net casualties, non-cash interest income and non-cash income tax related adjustments to our deferred tax asset. Unless otherwise indicated, we present FFO and AFFO applicable to our common shares

and common units. We present FFO and AFFO because we consider FFO and AFFO an important supplemental measure of our operational performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO and AFFO when reporting their results. FFO and AFFO are intended to exclude GAAP historical cost depreciation and amortization, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO and AFFO exclude depreciation and amortization related to real estate assets, gains and losses from real property dispositions and impairment losses on real estate assets, FFO and AFFO provide performance measures that, when compared year over year, reflect the effect to operations from trends in occupancy, guestroom rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. Our computation of FFO differs slightly from the computation of Nareit-defined FFO related to the reporting of corporate depreciation and amortization expense. Our computation of FFO may also differ from the methodology for calculating FFO used by other equity REITs and, accordingly, may not be comparable to such other REITs. FFO and AFFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. Where indicated in this Quarterly Report on Form 10-Q, FFO is based on our computation of FFO and not the computation of Nareit-defined FFO unless otherwise noted.

The following is a reconciliation of our GAAP net income to FFO and AFFO for the three and nine months ended September 30, 2018 and 2017 (in thousands, except per share/unit amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 38,001	\$ 22,445	\$ 85,369	\$ 89,734
Preferred dividends	(3,710 )	(4,200 )	(12,962 )	(12,600 )
Premium on redemption of preferred stock	—	—	(3,277 )	—
Net income applicable to common shares and common units	34,291	18,245	69,130	77,134
Real estate-related depreciation	24,828	23,484	74,786	61,766
Amortization of lease-related intangible assets, net	255	—	617	—
Gain on disposal of assets, net	(24,826 )	(7,725 )	(42,114 )	(43,531 )
FFO applicable to common shares and common units	34,548	34,004	102,419	95,369
Amortization of deferred financing costs	497	539	1,495	1,553
Amortization of franchise fees	113	110	355	286
Equity-based compensation	1,319	1,489	5,367	4,483
Hotel property acquisition costs	—	—	—	354
Debt transaction costs	48	23	265	180
Premium on redemption of preferred stock	—	—	3,277	—
Non-cash interest income	(517 )	—	(1,528 )	—
Casualty losses (recoveries), net	118	488	(1,950 )	387
AFFO applicable to common shares and common units	\$ 36,126	\$ 36,653	\$ 109,700	\$ 102,612
Weighted average diluted common shares/common units <sup>(1)</sup>	104,230	104,149	104,343	99,062
FFO per common share/common unit	\$ 0.33	\$ 0.33	\$ 0.98	\$ 0.96
AFFO per common share/common unit	\$ 0.35	\$ 0.35	\$ 1.05	\$ 1.04

<sup>(1)</sup> Includes common units in the Operating Partnership held by limited partners (other than us and our subsidiaries) because the common units are redeemable for cash or, at our election, shares of our common stock.



## EBITDA, EBITDAre and Adjusted EBITDAre

### EBITDA

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

### EBITDAre and Adjusted EBITDAre

In September 2017, Nareit proposed a standardized performance measure, called EBITDAre, which is based on EBITDA and is expected to provide additional relevant information about REITs as real estate companies in support of growing interest among generalist investors. The conclusion was reached that, while dedicated REIT investors have long been accustomed to utilizing the industry's supplemental measures such as FFO and net operating income ("NOI") to evaluate the investment quality of REITs as real estate companies, it would be helpful to generalist investors for REITs as real estate companies to also present EBITDAre as a more widely known and understood supplemental measure of performance. EBITDAre is intended to be a supplemental non-GAAP performance measure that is independent of a company's capital structure and will provide a uniform basis to measure the enterprise value of a company compared to other REITs.

Nareit recommended that companies report EBITDAre in all financial reports for periods beginning after December 31, 2017. We have adopted Nareit's presentation of EBITDAre for this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2018.

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

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

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The following is a reconciliation of our GAAP net income to EBITDA, EBITDAre and Adjusted EBITDAre for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$38,001	\$22,445	\$85,369	\$89,734
Depreciation and amortization	24,941	23,594	75,141	62,052
Amortization of lease-related intangible assets, net	255	—	617	—
Interest expense	10,848	7,768	30,579	21,486
Interest income	(92 )	(20 )	(161 )	(89 )
Income tax (benefit) expense	(532 )	(231 )	(120 )	613
EBITDA	73,421	53,556	191,425	173,796
Gain on disposal of assets, net	(24,826 )	(7,725 )	(42,114 )	(43,531 )
EBITDAre	48,595	45,831	149,311	130,265
Equity-based compensation	1,319	1,489	5,367	4,483
Hotel property acquisition costs	—	—	—	354
Debt transaction costs	48	23	265	180
Non-cash interest income	(517 )	—	(1,528 )	—
Casualty losses (recoveries), net	118	488	(1,950 )	387
Adjusted EBITDAre	\$49,563	\$47,831	\$151,465	\$135,669

## Liquidity and Capital Resources

### Liquidity Requirements

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

To satisfy the requirements for qualification as a REIT, we must meet a number of organizational and operational requirements, including that we distribute annually at least 90% of our REIT taxable income to our stockholders, determined without regard to the deduction for dividends paid and excluding any net capital gains. We intend to distribute a sufficient amount of our taxable income to maintain our status as a REIT and to avoid tax on undistributed income. Therefore, if sufficient funds are not available to us from hotel dispositions, our 2016 Unsecured Credit Facility and additional mortgage and other loans, we will need to raise capital to grow our business and invest in additional hotel properties.

We expect to satisfy our liquidity requirements with cash provided by operations, working capital, short-term borrowings under our 2016 Unsecured Credit Facility, borrowings of term debt, repayment of notes receivable, the strategic sale of hotels and the release of restricted cash upon satisfaction of certain requirements. In addition, we may fund the purchase price of hotel acquisitions, hotel development costs, and cost of required capital improvements by borrowing under our 2016 Unsecured Credit Facility, assuming mortgage debt from the seller on acquired hotels, issuing securities (including common units issued by our Operating Partnership), or incurring mortgage or other types



of debt. Further, we may seek to meet our liquidity requirements by raising capital through public or private offerings of our equity or debt securities. However, certain factors may have an adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties, borrowing restrictions imposed by lenders, volatility in the equity and debt capital markets and other market conditions. We will continue to analyze which sources of capital are most advantageous to us at any particular point in time, but financing may not be consistently available to us on terms that are attractive, or at all. We believe that our

cash provided by operations, working capital, borrowings available under our various credit facilities and other sources of funds available to us will be sufficient to meet our ongoing liquidity requirements for at least the next 12 months.

We are a mezzanine lender on three construction loans to fund up to an aggregate of \$29.6 million for the development of three hotel properties. The three real estate loans closed in the fourth quarter of 2017 and each has a stated interest rate of 8.0% and an initial term of approximately three years. As of September 30, 2018, we have funded the full amount of \$29.6 million.

#### Outstanding Indebtedness

At October 22, 2018, we had borrowed \$195.0 million on our 2016 Unsecured Credit Facility, which included borrowings of \$150.0 million on our \$150 Million Term Loan and \$45.0 million on our \$300 Million Revolver. Additionally, we had \$225.0 million outstanding on our 2017 Term Loan and \$225.0 million outstanding on our 2018 Term Loan. Each of the credit facilities were supported by the 47 hotel properties included in the credit facility borrowing base. In addition, we have one other hotel with a total of 150 guestrooms unencumbered by mortgage debt that is available to be used as collateral for future loans.

On February 15, 2018, our Operating Partnership, as borrower, the Company, as parent guarantor, and each party executing the term loan documentation as a subsidiary guarantor, entered into a new \$225.0 million unsecured term loan (the "2018 Term Loan"). The 2018 Term Loan has an accordion feature that allows us to increase the total commitments by \$150.0 million prior to the maturity date of February 14, 2025, subject to certain conditions. At closing, we drew \$140.0 million of the \$225.0 million available under the 2018 Term Loan and used the proceeds to pay off and replace the 2015 Term Loan (as defined in "Note 4 - Debt" to the Condensed Consolidated Financial Statements). On May 16, 2018, we drew the remaining \$85.0 million available under the 2018 Term Loan and used the proceeds to pay down the \$300 Million Revolver. See "Note 4 - Debt" to the Condensed Consolidated Financial Statements for additional information.

At September 30, 2018, we have scheduled debt principal amortization payments during the next 12 months totaling \$6.2 million and debt maturities during the next 12 months totaling \$106.3 million. Although we believe that we will have the capacity to satisfy these debt maturities and pay these scheduled principal debt payments or that we will be able to fund them using draws under our \$300 Million Revolver, there can be no assurances that our credit facility will be available to repay such amortizing debt as draws under our credit facility are subject to meeting certain financial covenants. At September 30, 2018, we were in compliance with all of our covenants under the 2016 Unsecured Credit Facility.

On April 2, 2018, we repaid four mortgage loans with Western Alliance Bank totaling \$23.9 million. There were no prepayment penalties associated with the repayment of these loans.

We intend to secure or assume term loan financing or use our \$300 Million Revolver, together with other sources of financing, for use in debt repayments, funding future acquisitions, hotel development costs, and capital improvements. We may not succeed in obtaining new financing on favorable terms, or at all, and we cannot predict the size or terms of future financings. Our failure to obtain new financing could adversely affect our ability to grow our business.

We intend to maintain a prudent capital structure and, while the ratio will vary from time to time, we generally intend to limit our ratio of indebtedness to EBITDA to no more than 6.5x. For purposes of calculating this ratio, we exclude preferred stock from indebtedness.

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

See "Note 4 - Debt" to the Condensed Consolidated Financial Statements for additional information concerning our financial arrangements.

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A summary of our gross debt at September 30, 2018 is as follows (dollars in thousands):

Lender	Interest Rate	Amortization Period (Years)	Maturity Date	Number of Encumbered Properties	Principal Amount Outstanding
\$450 Million Senior Unsecured Credit Facility					
Deutsche Bank AG New York Branch, as Administrative Agent					
\$300 Million Revolver	4.06% Variable	n/a	March 31, 2020	n/a	\$ 65,000
\$150 Million Term Loan	4.01% Variable	(1)n/a	March 31, 2021	n/a	150,000
Total Senior Unsecured Credit Facility					215,000
Unsecured Term Loans					
KeyBank National Association, as Administrative Agent					
Term Loan	4.01% Variable	n/a	November 25, 2022	n/a	225,000
KeyBank National Association, as Administrative Agent					
Term Loan	4.31% Variable	n/a	February, 14, 2025	n/a	225,000
Secured Mortgage Indebtedness					
Voya (formerly ING Life Insurance and Annuity)					
	5.18% Fixed	20	March 1, 2019	2	(2)38,985
	5.18% Fixed	20	March 1, 2019	3	(2)31,253
	5.18% Fixed	20	March 1, 2019	2	(2)22,535
	5.18% Fixed	20	March 1, 2019	1	(2)15,270
MetaBank	4.44% Fixed	25	July 1, 2027	3	47,640
KeyBank National Association					
	4.46% Fixed	30	February 1, 2023	4	26,503
	4.52% Fixed	30	April 1, 2023	3	20,555
	4.30% Fixed	30	April 1, 2023	4	19,888
	4.95% Fixed	30	August 1, 2023	2	35,586
Bank of the Cascades					
	4.26% Variable	25	December 19, 2024	1	(3)8,823
	4.30% Fixed	25	December 19, 2024	—	(3)8,823
Compass Bank	4.66% Variable	25	May 6, 2020	3	22,306
U.S. Bank, NA	6.13% Fixed	25	November 11, 2021	1	10,795
Total Mortgage Loans					308,962
Total Debt					29
					\$ 973,962

(1) Our interest rate swap fixed a portion of the interest rate on this loan. See "Note 5 - Derivative Financial Instruments and Hedging" to the Condensed Consolidated Financial Statements.

The four Voya mortgage loans are cross-defaulted and cross-collateralized. The four loans were modified on April (2)27, 2018 resulting in reallocation of principal balances between the loans and release of the mortgage on one property.

(3)The Bank of Cascades mortgage loans are secured by the same collateral and cross-defaulted.

#### Equity Transactions

On January 1, 2018, the performance-based restricted stock awards granted on March 3, 2015 vested. Based on our percentile ranking within the SNL U.S. REIT Hotel Index for the measurement period, the executive officers earned twice the number of shares granted. The executive officers were also entitled to dividends as if the additional shares had been outstanding throughout the measurement period. As a result of this vesting, we issued a total of 309,010 shares to our executive officers and paid dividends totaling \$0.5 million.

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

The Company's former Chief Financial Officer retired on March 31, 2018. In connection with his retirement, the Company recorded \$1.0 million of additional stock-based compensation expense during the nine months ended September 30, 2018 related to the modification of certain stock award agreements.

## Capital Expenditures

During the nine months ended September 30, 2018, we funded \$49.5 million in capital expenditures. We anticipate spending an estimated \$10.0 million to \$15.0 million on capital expenditures in the remainder of 2018. We expect to fund these expenditures through a combination of cash provided by operations, working capital, borrowings under our \$300 Million Revolver, or other potential sources of capital, to the extent available to us.

## Cash Flows

	For the Nine Months Ended September 30,		
	2018	2017	Change
	(in thousands)		
Net cash provided by operating activities	\$128,960	\$116,566	\$12,394
Net cash used in investing activities	(44,391 )	(312,539 )	268,148
Net cash (used in) provided by financing activities	(58,476 )	217,782	(276,258)
Net change in cash, cash equivalents and restricted cash	\$26,093	\$21,809	\$4,284

The increase in net cash provided by operating activities of \$12.4 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 primarily resulted from an increase in net income, after adjusting for non-cash items, of \$9.5 million and changes in net working capital of \$2.9 million due to timing.

The decrease in net cash used in investing activities of \$268.1 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 is primarily due to a reduction in acquisitions of hotel properties of \$353.7 million and a reduction in hotel development costs of \$3.7 million, partially offset by a decrease in receipts of principal payments on real estate loans of \$32.5 million, a decrease in proceeds from asset dispositions of \$17.3 million, an increase in the funding of real estate loans of \$15.2 million and an increase in capital expenditures of \$24.3 million.

The decrease in net cash from financing activities of \$276.3 million for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017 is primarily due to the redemption of preferred shares of \$85.0 million during the nine months ended September 30, 2018, proceeds from common stock offerings of \$163.6 million during the nine months ended September 30, 2017, a decrease in net borrowings of \$19.1 million and an increase in dividends of \$6.6 million.

## Contractual Obligations

The following table outlines the timing of required payments related to our long-term debt and other contractual obligations at September 30, 2018 (in thousands):

	Payments Due By Period				
	Total	Less than One Year	One to Three Years	Four to Five Years	More than Five Years
Debt obligations <sup>(1)</sup>	\$973,962	\$112,483	\$255,439	\$224,071	\$381,969
Currently projected interest <sup>(2)</sup>	191,511	39,724	70,610	48,336	32,841
Operating lease obligations <sup>(3)</sup>	86,337	1,810	3,761	3,067	77,699
Purchase obligations <sup>(4)</sup>	17,575	17,575	—	—	—
Total	\$1,269,385	\$171,592	\$329,810	\$275,474	\$492,509

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- (1) Amounts shown include amortization of principal and debt maturities.
- (2) Interest payments on our variable rate debt have been estimated using the interest rates in effect at September 30, 2018, after giving effect to our interest rate swaps.
- (3) Amounts consist primarily of non-cancelable ground lease and corporate office lease obligations.
- (4) This amount represents purchase orders and executed contracts for development or renovation projects at our hotel properties.

Critical Accounting Policies

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



Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

At September 30, 2018, we were party to five interest rate derivative agreements pursuant to which we receive variable-rate payments in exchange for making fixed-rate payments (dollars in thousands):

Contract date	Effective Date	Expiration Date	Notional Amount September 30, 2018
September 5, 2013	January 2, 2014	October 1, 2018	\$ 75,000
October 2, 2017	January 29, 2018	January 31, 2023	100,000
October 2, 2017	January 29, 2018	January 31, 2023	100,000
June 11, 2018	September 28, 2018	September 30, 2024	75,000
June 11, 2018	December 31, 2018	December 31, 2025	125,000
			\$ 475,000

At September 30, 2018, considering our interest rate derivative agreements that are currently effective, \$627.8 million, or 64.5%, of our debt had fixed interest rates and \$346.1 million, or 35.5%, had variable interest rates. At December 31, 2017, after giving effect to our interest rate derivative agreements, \$386.3 million, or 44.2%, of our debt had fixed interest rates and \$486.8 million, or 55.8%, had variable interest rates. Assuming no increase in the level of our variable rate debt outstanding at September 30, 2018 and after consideration of expiring and newly effective interest rate swaps during the remainder of 2018, if interest rates increased by 1.0%, then our interest cost would increase by approximately \$3.0 million per year.

As our fixed-rate debts mature, they will become subject to interest rate risk. In addition, as our variable-rate debts mature, lenders may impose interest rate floors on new financing arrangements because of the low interest rates experienced during the past few years. At September 30, 2018, we have scheduled debt principal amortization payments during the next 12 months totaling \$6.2 million and debt maturities during the next 12 months totaling \$106.3 million.

Item 4. Controls and Procedures.

Controls and Procedures

Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2018. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2018, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6.

Exhibits.

The following exhibits are filed as part of this report:

Exhibit

Number	Description of Exhibit
<u>31.1</u> †	<u>Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u> †	<u>Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u> ††	<u>Certification of Chief Executive Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u> ††	<u>Certification of Chief Financial Officer of Summit Hotel Properties, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document <sup>(1)</sup>
101.SCH	XBRL Taxonomy Extension Schema Document <sup>(1)</sup>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document <sup>(1)</sup>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document <sup>(1)</sup>
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document <sup>(1)</sup>
101.PRE	XBRL Taxonomy Presentation Linkbase Document <sup>(1)</sup>

† - Filed herewith  
†† - Furnished herewith  
(1) - Submitted electronically herewith

SIGNATURES

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

SUMMIT HOTEL PROPERTIES, INC. (registrant)

Date: October 30, 2018 By: /s/ Jonathan P. Stanner

Jonathan P. Stanner

Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial officer)