

Sunstone Hotel Investors, Inc.
Form 10-Q
November 06, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 001-32319

Sunstone Hotel Investors, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

20-1296886
(I.R.S. Employer
Identification Number)

120 Vantis, Suite 350
Aliso Viejo, California
(Address of Principal Executive Offices)

92656
(Zip Code)

Registrant's telephone number, including area code: **(949) 330-4000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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136,777,430 shares of Common Stock, \$0.01 par value, as of November 1, 2012

Table of Contents

SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended September 30, 2012

TABLE OF CONTENTS

		Page
	<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements:</u>	
	<u>Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011</u>	1
	<u>Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	2
	<u>Consolidated Statement of Equity as of September 30, 2012 (unaudited) and December 31, 2011</u>	3
	<u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	4
	<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
<u>Item 4.</u>	<u>Controls and Procedures</u>	47
	<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	48
<u>Item 1A.</u>	<u>Risk Factors</u>	48
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	48
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	48
<u>Item 5.</u>	<u>Other Information</u>	48
		4

<u>Item 6.</u>	<u>Exhibits</u>	49
<u>SIGNATURES</u>		50

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SUNSTONE HOTEL INVESTORS, INC.****CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)*

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,469	\$ 149,852
Restricted cash	76,790	55,778
Accounts receivable, net	28,534	31,182
Inventories	2,664	2,517
Prepaid expenses	9,554	10,008
Assets held for sale, net		144,479
Total current assets	282,011	393,816
Investment in hotel properties, net	2,800,682	2,650,258
Other real estate, net	9,855	9,754
Deferred financing fees, net	12,865	14,421
Goodwill	13,088	13,088
Other assets, net	26,441	19,903
Total assets	\$ 3,144,942	\$ 3,101,240
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,267	\$ 26,310
Accrued payroll and employee benefits	22,326	20,727
Due to Third-Party Managers	9,050	9,039
Dividends payable	7,437	7,437
Other current liabilities	37,829	25,979
Current portion of notes payable	77,579	51,279
Notes payable of assets held for sale		124,543
Liabilities of assets held for sale		3,354
Total current liabilities	179,488	268,668
Notes payable, less current portion	1,318,102	1,394,655
Capital lease obligations, less current portion	15,630	
Other liabilities	14,789	12,623
Total liabilities	1,528,009	1,675,946
Commitments and contingencies <i>(Note 14)</i>		
	100,000	100,000

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Preferred stock, Series C Cumulative Convertible Redeemable Preferred Stock, \$0.01 par value, 4,102,564 shares authorized, issued and outstanding at September 30, 2012 and December 31, 2011, liquidation preference of \$24.375 per share			
Equity:			
Stockholders' equity:			
Preferred stock, \$0.01 par value, 100,000,000 shares authorized.			
8.0% Series A Cumulative Redeemable Preferred Stock, 7,050,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, stated at liquidation preference of \$25.00 per share		176,250	176,250
8.0% Series D Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at September 30, 2012 and December 31, 2011, stated at liquidation preference of \$25.00 per share		115,000	115,000
Common stock, \$0.01 par value, 500,000,000 shares authorized, 135,237,438 shares issued and outstanding at September 30, 2012 and 117,265,090 shares issued and outstanding at December 31, 2011		1,352	1,173
Additional paid in capital		1,492,528	1,312,566
Retained earnings		147,329	110,580
Cumulative dividends		(467,707)	(445,396)
Accumulated other comprehensive loss		(4,740)	(4,916)
Total stockholders' equity		1,460,012	1,265,257
Non-controlling interest in consolidated joint ventures		56,921	60,037
Total equity		1,516,933	1,325,294
Total liabilities and equity	\$	3,144,942	\$ 3,101,240

See accompanying notes to consolidated financial statements.

Table of Contents**SUNSTONE HOTEL INVESTORS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)***(In thousands, except per share data)*

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES				
Room	\$ 156,725	\$ 139,824	\$ 443,022	\$ 380,826
Food and beverage	46,191	40,920	148,574	124,838
Other operating	18,163	16,743	51,243	45,454
Total revenues	221,079	197,487	642,839	551,118
OPERATING EXPENSES				
Room	39,911	35,325	112,566	96,160
Food and beverage	34,616	32,366	104,426	93,165
Other operating	6,986	6,506	20,074	18,112
Advertising and promotion	10,740	9,669	31,760	27,250
Repairs and maintenance	8,299	7,775	24,561	22,094
Utilities	7,686	7,867	21,039	20,914
Franchise costs	8,306	7,282	22,443	19,046
Property tax, ground lease and insurance	18,102	16,484	52,237	43,641
Property general and administrative	24,493	22,881	73,202	64,595
Corporate overhead	6,148	6,852	18,975	20,771
Depreciation and amortization	36,529	32,490	102,899	88,241
Impairment loss		10,862		10,862
Total operating expenses	201,816	196,359	584,182	524,851
Operating income	19,263	1,128	58,657	26,267
Equity in earnings of unconsolidated joint ventures				21
Interest and other income	18	1,543	155	2,970
Interest expense	(19,709)	(20,021)	(59,309)	(55,449)
Loss on extinguishment of debt			(191)	
Gain on remeasurement of equity interests				69,230
Income (loss) from continuing operations	(428)	(17,350)	(688)	43,039
Income from discontinued operations	39,984	797	39,131	30,672
NET INCOME (LOSS)	39,556	(16,553)	38,443	73,711
(Income) loss from consolidated joint venture attributable to non-controlling interest	(827)	31	(1,694)	(213)
Distributions to non-controlling interest	(8)	(8)	(24)	(22)
Preferred stock dividends	(7,437)	(7,437)	(22,311)	(19,884)
Undistributed income allocated to unvested restricted stock compensation	(352)		(162)	(638)

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INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS	\$	30,932	\$	(23,967)	\$	14,252	\$	52,954
COMPREHENSIVE INCOME (LOSS)	\$	39,615	\$	(16,553)	\$	38,619	\$	73,711

Basic per share amounts: