

Sunstone Hotel Investors, Inc.  
Form 10-Q  
November 02, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from                      to

Commission file number 001-32319

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Sunstone Hotel Investors, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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Maryland (State or Other Jurisdiction of Incorporation or Organization)	20-1296886 (I.R.S. Employer Identification Number)
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120 Vantis, Suite 350 Aliso Viejo, California (Address of Principal Executive Offices)	92656 (Zip Code)
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Registrant's telephone number, including area code: (949) 330-4000

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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

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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.

216,509,093 shares of Common Stock, \$0.01 par value, as of October 28, 2016

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended September 30, 2016

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## SUNSTONE HOTEL INVESTORS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 367,117	\$ 499,067
Restricted cash	67,248	76,180
Accounts receivable, net	46,260	32,024
Inventories	1,365	1,395
Prepaid expenses	10,973	10,879
Total current assets	492,963	619,545
Investment in hotel properties, net	3,234,814	3,229,010
Deferred financing fees, net	2,593	4,310
Other assets, net	9,091	10,386
Total assets	\$ 3,739,461	\$ 3,863,251
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,020	\$ 30,193
Accrued payroll and employee benefits	22,486	28,023
Dividends and distributions payable	14,033	265,124
Other current liabilities	44,372	41,877
Current portion of notes payable, net	251,276	85,776
Total current liabilities	369,187	450,993
Notes payable, less current portion, net	748,767	1,010,819
Capital lease obligations, less current portion	15,574	15,575
Other liabilities	42,677	34,744
Total liabilities	1,176,205	1,512,131
Commitments and contingencies (Note 11)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized:		
8.0% Series D Cumulative Redeemable Preferred Stock, zero shares issued and outstanding at September 30, 2016 and 4,600,000 shares issued	—	115,000

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and outstanding at December 31, 2015, stated at liquidation preference of \$25.00 per share		
6.95% Series E Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at September 30, 2016 and zero shares issued and outstanding at December 31, 2015, stated at liquidation preference of \$25.00 per share	115,000	—
6.45% Series F Cumulative Redeemable Preferred Stock, 3,000,000 shares issued and outstanding at September 30, 2016 and zero shares issued and outstanding at December 31, 2015, stated at liquidation preference of \$25.00 per share	75,000	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 216,509,093 shares issued and outstanding at September 30, 2016 and 207,604,391 shares issued and outstanding at December 31, 2015	2,165	2,076
Additional paid in capital	2,540,782	2,458,889
Retained earnings	753,725	652,704
Cumulative dividends and distributions	(973,105)	(927,868)
Total stockholders' equity	2,513,567	2,300,801
Noncontrolling interest in consolidated joint venture	49,689	50,319
Total equity	2,563,256	2,351,120
Total liabilities and equity	\$ 3,739,461	\$ 3,863,251

See accompanying notes to consolidated financial statements.

## SUNSTONE HOTEL INVESTORS, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
<b>REVENUES</b>				
Room	\$ 217,672	\$ 233,787	\$ 629,145	\$ 666,756
Food and beverage	68,899	68,371	221,431	219,820
Other operating	16,733	22,437	49,180	61,671
Total revenues	303,304	324,595	899,756	948,247
<b>OPERATING EXPENSES</b>				
Room	54,624	58,332	160,185	169,742
Food and beverage	49,174	50,381	154,042	153,412
Other operating	4,328	5,605	12,516	16,073
Advertising and promotion	15,015	15,325	45,285	46,252
Repairs and maintenance	10,876	11,859	33,139	34,798
Utilities	8,252	9,374	23,114	26,736
Franchise costs	9,408	10,591	27,402	30,009
Property tax, ground lease and insurance	20,944	25,649	61,941	72,413
Property general and administrative	35,003	37,828	107,698	109,384
Corporate overhead	6,392	6,046	19,918	27,222
Depreciation and amortization	40,442	41,331	121,169	122,911
Total operating expenses	254,458	272,321	766,409	808,952
Operating income	48,846	52,274	133,347	139,295
Interest and other income	283	576	1,127	3,350
Interest expense	(11,136)	(16,405)	(47,018)	(51,020)
Loss on extinguishment of debt	—	—	(259)	(2)
Gain on sale of assets	—	11,682	18,223	11,682
Income before income taxes and discontinued operations	37,993	48,127	105,420	103,305
Income tax benefit (provision)	1,434	(938)	959	(1,256)
Income from continuing operations	39,427	47,189	106,379	102,049
Income from discontinued operations, net of tax	—	15,895	—	15,895
<b>NET INCOME</b>	<b>39,427</b>	<b>63,084</b>	<b>106,379</b>	<b>117,944</b>
Income from consolidated joint ventures attributable to noncontrolling interests	(2,053)	(1,982)	(5,358)	(6,643)
Preferred stock dividends and redemption charge	(3,207)	(2,300)	(12,756)	(6,900)
<b>INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 34,167</b>	<b>\$ 58,802</b>	<b>\$ 88,265</b>	<b>\$ 104,401</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 39,427</b>	<b>\$ 63,084</b>	<b>\$ 106,379</b>	<b>\$ 117,944</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON</b>	<b>\$ 34,167</b>	<b>\$ 58,802</b>	<b>\$ 88,265</b>	<b>\$ 104,401</b>



STOCKHOLDERS

Basic and diluted per share amounts:

Income from continuing operations attributable to common stockholders	\$	0.16	\$	0.20	\$	0.41	\$	0.42
Income from discontinued operations, net of tax		—		0.08		—		0.08
Basic and diluted income attributable to common stockholders per common share	\$	0.16	\$	0.28	\$	0.41	\$	0.50
Basic and diluted weighted average common shares outstanding		215,413		207,604		214,565		207,264
Distributions declared per common share	\$	0.05	\$	0.05	\$	0.15	\$	0.15

See accompanying notes to consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share data)

Stock	Series E		Series F		Common Stock			Additional Paid in Capital	Retained Earnings	Cumulative Dividends and Distributions
	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount			
	\$ 115,000	—	\$ —	—	\$ —	207,604,391	\$ 2,076	\$ 2,458,889	\$ 652,704	\$ (927,000)
	(115,000)	—	—	—	—	—	—	4,052	—	(4,052)
	—	4,600,000	115,000	3,000,000	75,000	—	—	(6,640)	—	—
	—	—	—	—	—	1,482,621	15	5,732	—	—
	—	—	—	—	—	7,422,081	74	78,749	—	—
	—	—	—	—	—	—	—	—	—	(32,400)
	—	—	—	—	—	—	—	—	—	(2,420)
	—	—	—	—	—	—	—	—	—	(4,460)
	—	—	—	—	—	—	—	—	—	(1,810)

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—	—	—	—	—	—	—	—	101,021	—
\$ —	4,600,000	\$ 115,000	3,000,000	\$ 75,000	216,509,093	\$ 2,165	\$ 2,540,782	\$ 753,725	\$ (973,

See accompanying notes to consolidated financial statements.

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## SUNSTONE HOTEL INVESTORS, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 106,379	\$ 117,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	493	115
Gain on sale of assets, net	(18,226)	(27,708)
Loss on extinguishment of debt	259	2
Gain on redemption of note receivable	—	(939)
Loss on derivatives, net	7,810	12
Depreciation	118,764	119,811
Amortization of franchise fees and other intangibles	2,936	6,048
Amortization of deferred financing fees	1,648	2,472
Amortization of deferred stock compensation	5,616	8,106