

Sunstone Hotel Investors, Inc.
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

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)
200 Spectrum Center Drive, 21st Floor Irvine, California (Address of Principal Executive Offices)	92618 (Zip Code)

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

120 Vantis, Suite 350
Aliso Viejo, California 92656
(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

228,247,062 shares of Common Stock, \$0.01 par value, as of November 1, 2018

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended September 30, 2018

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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, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 650,691	\$ 488,002
Restricted cash	68,794	71,309
Accounts receivable, net	44,330	34,219
Inventories	1,055	1,323
Prepaid expenses	11,790	10,464
Assets held for sale, net	33,312	122,807
Total current assets	809,972	728,124
Investment in hotel properties, net	3,073,622	3,106,066
Deferred financing costs, net	524	1,305
Other assets, net	34,495	22,317
Total assets	\$ 3,918,613	\$ 3,857,812
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,844	\$ 31,810
Accrued payroll and employee benefits	21,196	26,687
Dividends and distributions payable	14,620	133,894
Other current liabilities	47,390	44,502
Current portion of notes payable, net	5,913	5,477
Liabilities of assets held for sale	3,459	189
Total current liabilities	127,422	242,559
Notes payable, less current portion, net	972,814	977,282
Capital lease obligations, less current portion	26,956	26,804
Other liabilities	30,981	28,989
Total liabilities	1,158,173	1,275,634
Commitments and contingencies (Note 11)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized:		

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6.95% Series E Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, stated at liquidation preference of \$25.00 per share	115,000	115,000
6.45% Series F Cumulative Redeemable Preferred Stock, 3,000,000 shares issued and outstanding at September 30, 2018 and December 31, 2017, stated at liquidation preference of \$25.00 per share	75,000	75,000
Common stock, \$0.01 par value, 500,000,000 shares authorized, 228,247,062 shares issued and outstanding at September 30, 2018 and 225,321,660 shares issued and outstanding at December 31, 2017	2,282	2,253
Additional paid in capital	2,726,523	2,679,221
Retained earnings	1,106,391	932,277
Cumulative dividends and distributions	(1,313,741)	(1,270,013)
Total stockholders' equity	2,711,455	2,533,738
Noncontrolling interest in consolidated joint venture	48,985	48,440
Total equity	2,760,440	2,582,178
Total liabilities and equity	\$ 3,918,613	\$ 3,857,812

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Room	\$ 207,657	\$ 215,768	\$ 608,237	\$ 629,788
Food and beverage	63,911	68,821	217,469	222,943
Other operating	17,740	19,320	52,495	50,717
Total revenues	289,308	303,909	878,201	903,448
OPERATING EXPENSES				
Room	53,928	54,433	159,923	160,282
Food and beverage	46,260	49,262	147,299	150,768
Other operating	4,190	4,256	12,488	12,120
Advertising and promotion	13,593	14,953	41,815	44,810
Repairs and maintenance	10,530	12,882	32,484	34,645
Utilities	8,084	8,331	22,533	22,844
Franchise costs	9,167	9,431	26,981	27,367
Property tax, ground lease and insurance	20,369	21,399	63,658	63,477
Other property-level expenses	31,580	34,511	101,005	105,015
Corporate overhead	7,360	7,233	22,056	21,585
Depreciation and amortization	36,159	39,719	110,181	120,051
Impairment loss	—	34,427	1,394	34,427
Total operating expenses	241,220	290,837	741,817	797,391
Operating income	48,088	13,072	136,384	106,057
Interest and other income	2,592	1,027	7,049	2,597
Interest expense	(11,549)	(17,008)	(31,609)	(41,341)
Loss on extinguishment of debt	—	—	—	(4)
Gain on sale of assets	53,128	—	68,787	45,474
Income (loss) before income taxes and discontinued operations	92,259	(2,909)	180,611	112,783
Income tax (provision) benefit, net	(673)	12,991	692	12,541
Income from continuing operations	91,586	10,082	181,303	125,324
Income from discontinued operations	—	7,000	—	7,000
NET INCOME	91,586	17,082	181,303	132,324
Income from consolidated joint venture attributable to noncontrolling interest	(2,376)	(2,169)	(7,189)	(6,344)
Preferred stock dividends	(3,208)	(3,208)	(9,622)	(9,622)
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 86,002	\$ 11,705	\$ 164,492	\$ 116,358
Basic and diluted per share amounts:	\$ 0.38	\$ 0.02	\$ 0.73	\$ 0.49

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Income from continuing operations attributable to common stockholders				
Income from discontinued operations	—	0.03	—	0.03
Basic and diluted income attributable to common stockholders per common share	\$ 0.38	\$ 0.05	\$ 0.73	\$ 0.52
Basic and diluted weighted average common shares outstanding	227,068	224,142	225,538	221,140
Distributions declared per common share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share and per share data)

Preferred Stock				Common Stock					Cumulative
Series E		Series F		Number of		Additional	Retained	Dividends and	
Number	Amount	Number	Amount	Shares	Amount	Paid in Capital	Earnings	Distributions	
of		of							
Shares		Shares							
600,000	\$ 115,000	3,000,000	\$ 75,000	225,321,660	\$ 2,253	\$ 2,679,221	\$ 932,277	\$ (1,270,013)	
—	—	—	—	2,590,854	26	44,315	—	—	
—	—	—	—	334,548	3	2,987	—	—	
—	—	—	—	—	—	—	—	(34,106)	
—	—	—	—	—	—	—	—	(5,994)	
—	—	—	—	—	—	—	—	(3,628)	
—	—	—	—	—	—	—	—	—	
—	—	—	—	—	—	—	174,114	—	
600,000	\$ 115,000	3,000,000	\$ 75,000	228,247,062	\$ 2,282	\$ 2,726,523	\$ 1,106,391	\$ (1,313,741)	

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,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 181,303	\$ 132,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	682	503
Gain on sale of assets, net	(68,740)	(52,736)
Loss on extinguishment of debt	—	4
Noncash interest on derivatives and capital lease obligations, net	(4,995)	4,883
Depreciation	108,744	118,069
Amortization of franchise fees and other intangibles	1,468	2,386
Amortization of deferred financing costs	2,240	1,734
Amortization of deferred stock compensation	6,938	6,188
Impairment loss	1,394	34,427
(Gain) loss on hurricane-related damage	(1,100)	201
Deferred income taxes, net	(1,100)	(13,628)
Changes in operating assets and liabilities:		
Accounts receivable	(10,450)	(5,541)
Inventories	73	71
Prepaid expenses and other assets	750	(13)
Accounts payable and other liabilities	6,928	4,387
Accrued payroll and employee benefits	(4,599)	(2,883)
Net cash provided by operating activities	219,536	230,376
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of assets	231,083	150,171
Disposition deposit	3,000	—