

Sunstone Hotel Investors, Inc.  
Form 8-K  
January 25, 2013

**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): **January 25, 2013**

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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)

**001-32319**  
(Commission File Number)

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

**120 Vantis, Suite 350**  
**Aliso Viejo, California**

**92656**

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(Address of Principal Executive Offices)

(Zip Code)

**(949) 330-4000**

(Registrant's telephone number including area code)

**N/A**

(Former Name or Former Address, if Changed Since Last Report)

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:

- 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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**Item 2.01 Completion of Acquisition or Disposition of Assets**

On January 25, 2013, Sunstone Hotel Investors, Inc. (the Company) completed the sale of a four-hotel 1,222-room portfolio and a commercial laundry facility (collectively, the Portfolio), in Rochester, Minnesota, to an unaffiliated third party (the Buyer), for a gross price of \$230.0 million. The four hotels include the 660-room Kahler Grand, the 271-room Kahler Inn & Suites, the 202-room Marriott Rochester and the 89-room Residence Inn by Marriott Rochester. The Company has retained a \$25.0 million preferred equity investment in the four-hotel Portfolio that yields an 11% dividend. In addition, the Company has retained a \$14.0 million liability related to the Portfolio's pension plan, which could be triggered in certain circumstances, including termination of the pension plan. The Company has also provided a \$3.7 million working cash advance to the Buyer that will be repaid to the Company from the Portfolio's available cash flow. Concurrent with the Portfolio sale, the Company has defeased the outstanding \$26.7 million mortgage secured by the Kahler Grand for a total cost of approximately \$30.0 million, prepaid the \$0.4 million loan secured by the commercial laundry facility, and has written off \$51,000 in related deferred financing fees.

There are no material relationships between the Buyer and the Company or any of its affiliates, or any director or officer of the Company, or any associate of any such director or officer, other than in respect of the Portfolio sale.

**Item 2.02 Results of Operations and Financial Condition.**

On January 25, 2013, the Company issued a press release reporting its preliminary financial results for the three months and year ended December 31, 2012. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information furnished pursuant to this Item 2.02, including Exhibit 99.1, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 7.01 Regulation FD Disclosure**

On January 25, 2013, the Company issued a press release reporting the Portfolio sale and its preliminary earnings results for the three months and year ended December 31, 2012. A copy of that press release is attached to this Current Report on Form 8-K as Exhibit 99.1, and is incorporated by reference herein. The press release has also been posted in the investor relations/press releases section of the Company's website at [www.sunstonehotels.com](http://www.sunstonehotels.com).

The information furnished pursuant to this Item 7.01, including Exhibit 99.1, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 9.01**

**Financial Statements and Exhibits**

(b) The following pro forma financial statements are furnished herewith:

Unaudited Pro Forma Consolidated Balance Sheet as of September 30, 2012  
Notes to Unaudited Pro Forma Consolidated Balance Sheet as of September 30, 2012  
Unaudited Pro Forma Consolidated Statements of Operations for the Nine Months Ended September 30, 2012 and 2011  
Notes to Unaudited Pro Forma Consolidated Statements of Operations for the Nine Months Ended September 30, 2012 and 2011  
Unaudited Pro Forma Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009  
Notes to Unaudited Pro Forma Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009

(d) The following exhibits are furnished herewith:

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press release dated January 25, 2013

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**Unaudited Pro Forma Financial Information**

The Company's historical financial information as of and for the nine months ended September 30, 2012 and 2011 was derived from historical information originally reported in the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (the "SEC") on November 6, 2012. The Company's historical information for the years ended December 31, 2011, 2010 and 2009 was derived from its audited historical information originally reported in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2012.

The following unaudited pro forma financial information gives effect to the following transactions:

- The January 2013 sale of the Kahler Grand, the Kahler Inn & Suites, the Marriott Rochester, the Residence Inn by Marriott Rochester and a commercial laundry facility (the "Portfolio" sale), all located in Rochester, Minnesota for a gross sale price of \$230.0 million;
- The January 2013 defeasance of debt secured by the Kahler Grand, and prepayment of debt secured by the commercial laundry facility, along with the related write-off of \$51,000 in deferred financing fees; and
- The September 2012 sale of the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy and an office building next to the Marriott Troy, along with the August 2012 sale of the Marriott Del Mar (collectively, the "2012 Dispositions").

The unaudited pro forma consolidated balance sheet as of September 30, 2012 is presented as if the Portfolio sale and related repayment of debt in January 2013 had occurred on September 30, 2012. The unaudited pro forma consolidated statements of operations for the nine months ended September 30, 2012 and 2011 are presented as if the Portfolio sale and related repayment of debt in January 2013 had occurred on January 1, 2011. The unaudited pro forma consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009 are presented as if the Portfolio sale and related repayment of debt in January 2013 along with the 2012 Dispositions had occurred on January 1, 2009. In the opinion of the Company's management, all significant adjustments necessary to reflect the effects of the Portfolio sale and related repayment of debt along with the 2012 Dispositions transactions that can be factually supported within the SEC regulations covering the preparation of pro forma financial statements have been made.

The unaudited pro forma consolidated financial statements and related notes are presented for informational purposes only and do not purport to represent the Company's financial position or results of operations as if the transactions had occurred on the dates discussed above. They also do not project or forecast the Company's consolidated financial position or results of operations for any future date or period.

The unaudited pro forma financial statements should be read together with the Company's historical consolidated financial statements and related notes included in the Company's Quarterly Report on Form 10-Q for the nine months ended September 30, 2012 filed with the SEC on November 6, 2012, and the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on February 28, 2012. The pro forma adjustments are based on available information and upon assumptions that management believes are reasonable; however, the Company cannot assure you that actual results would not differ from the pro forma information and perhaps in material and adverse ways. No attempt has been made to update matters in the unaudited pro forma financials except to the extent expressly provided above.

## SUNSTONE HOTEL INVESTORS, INC.

## UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2012

*(In thousands, except share data)*

	Sunstone Hotels Investors, Inc. Historical	Portfolio Sale (A)	Repayment of Debt (B)	Sunstone Hotel Investors, Inc. Pro Forma
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 164,469	\$ 195,255	\$ (29,907)	\$ 329,817
Restricted cash	76,790		(730)	76,060
Accounts receivable, net	28,534	(2,756)		25,778
Inventories	2,664	(1,430)		1,234
Prepaid expenses	9,554	(461)		9,093
Total current assets	282,011	190,608	(30,637)	441,982
Investment in hotel properties, net	2,800,682	(115,326)		2,685,356
Other real estate, net	9,855	(9,667)		188
Deferred financing fees, net	12,865		(60)	12,805
Goodwill	13,088	(3,683)		9,405
Other assets, net	26,441	3,596		30,037
Total assets	\$ 3,144,942	\$ 65,528	\$ (30,697)	\$ 3,179,773
<b>LIABILITIES AND EQUITY</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 25,267	\$ (2,006)	\$	\$ 23,261
Accrued payroll and employee benefits	22,326			22,326
Due to Third-Party Managers	9,050	(5,386)		3,664
Dividends payable	7,437			7,437
Other current liabilities	37,829	(996)		36,833
Current portion of notes payable	77,579		(1,520)	76,059
Total current liabilities	179,488	(8,388)	(1,520)	169,580
Notes payable, less current portion	1,318,102		(26,209)	1,291,893
Capital lease obligations, less current portion	15,630			15,630
Other liabilities	14,789	14,000		28,789
Total liabilities	1,528,009	5,612	(27,729)	1,505,892
Commitments and contingencies				
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, liquidation preference of \$24.375 per share	100,000			100,000
Equity:				