Sunstone Hotel Investors, Inc.
Form 10-Q
August 07, 2013
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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 June 30, 2013

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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

162,870,635 shares of Common Stock, $0.01 par value, as of August 1, 2013

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended June 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SUNSTONE HOTEL INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 123,217	$ 157,217
Cash proceeds held by accommodator	72,287	
Restricted cash	76,711	78,394
Accounts receivable, net	34,463	27,498
Inventories	1,200	1,377
Prepaid expenses	6,280	10,739
Assets held for sale, net		132,335
Total current assets	314,158	407,560
Investment in hotel properties, net	2,740,949	2,681,877
Deferred financing fees, net	10,453	11,931
Goodwill	9,405	9,405
Other assets, net	42,191	25,902
Total assets	$ 3,117,156	$ 3,136,675
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 24,156	$ 22,646
Accrued payroll and employee benefits	22,417	26,738
Dividends payable	2,300	7,437
Other current liabilities	33,356	30,963
Current portion of notes payable	20,571	76,723
Notes payable of assets held for sale		27,270
Liabilities of assets held for sale		8,228
Total current liabilities	102,800	200,005
Notes payable, less current portion	1,275,626	1,286,666
Capital lease obligations, less current portion	15,603	15,621
Other liabilities	38,955	15,070
Total liabilities	1,432,984	1,517,362
Commitments and contingencies *(Note 12)*		
Preferred stock, Series C Cumulative Convertible Redeemable Preferred Stock, $0.01 par value, 4,102,564 shares authorized, zero shares issued and outstanding at June 30, 2013 and		100,000

4,102,564 shares issued and outstanding at December 31, 2012, 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, zero shares issued and outstanding at June 30, 2013 and 7,050,000 shares issued and outstanding at December 31, 2012, stated at liquidation preference of $25.00 per share		176,250
8.0% Series D Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at June 30, 2013 and December 31, 2012, stated at liquidation preference of $25.00 per share	115,000	115,000
Common stock, $0.01 par value, 500,000,000 shares authorized, 160,855,950 shares issued and outstanding at June 30, 2013 and 135,237,438 shares issued and outstanding at December 31, 2012	1,609	1,352
Additional paid in capital	1,795,295	1,493,397
Retained earnings	205,788	158,376
Cumulative dividends	(489,558)	(475,144)
Accumulated other comprehensive loss		(5,335)
Total stockholders equity	1,628,134	1,463,896
Non-controlling interest in consolidated joint ventures	56,038	55,417
Total equity	1,684,172	1,519,313
Total liabilities and equity	$ 3,117,156	$ 3,136,675

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
REVENUES				
Room	$ 168,260	$ 148,302	$ 300,883	$ 267,924
Food and beverage	52,842	52,168	102,470	99,003
Other operating	13,536	12,372	26,206	24,149
Total revenues	234,638	212,842	429,559	391,076
OPERATING EXPENSES				
Room	40,537	35,521	77,991	68,956
Food and beverage	35,058	34,032	70,154	66,882
Other operating	3,887	3,729	8,129	7,624
Advertising and promotion	11,240	10,193	22,505	20,094
Repairs and maintenance	8,275	7,593	16,649	15,076
Utilities	6,129	5,892	12,312	11,897
Franchise costs	8,771	7,493	15,249	13,464
Property tax, ground lease and insurance	19,297	17,284	37,765	32,837
Property general and administrative	25,288	23,611	48,894	45,521
Corporate overhead	7,359	7,575	13,530	12,773
Depreciation and amortization	32,175	31,305	66,191	62,187
Total operating expenses	198,016	184,228	389,369	357,311
Operating income	36,622	28,614	40,190	33,765
Interest and other income	788	74	1,351	137
Interest expense	(17,272)	(19,429)	(34,686)	(38,788)
Loss on extinguishment of debt			(44)	(191)
Income (loss) before income taxes and discontinued operations	20,138	9,259	6,811	(5,077)
Income tax provision	(129)		(6,286)	
Income (loss) from continuing operations	20,009	9,259	525	(5,077)
Income from discontinued operations		2,596	48,410	3,964
NET INCOME (LOSS)	20,009	11,855	48,935	(1,113)
Income from consolidated joint venture attributable to non-controlling interest	(1,226)	(307)	(1,523)	(867)
Distributions to non-controlling interest	(8)	(8)	(16)	(16)
Preferred stock dividends and redemption charge	(3,510)	(7,437)	(14,413)	(14,874)
Undistributed income allocated to unvested restricted stock compensation	(126)	(47)	(264)	

INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS	$	15,139	$	4,056	$	32,719	$	(16,870)
COMPREHENSIVE INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS	$	15,139	$	11,972	$	32,719	$	(996)
Basic and diluted per share amounts:								
Income (loss) from continuing operations available (attributable) to common stockholders	$	0.09	$	0.01	$	(0.10)	$	(0.18)
Income from discontinued operations		0.00		0.02		0.31		0.04
Basic and diluted income available (loss attributable) to common stockholders per common share	$	0.09	$	0.03	$	0.21	$	(0.14)
Basic and diluted weighted average common shares outstanding		160,843		120,029		155,987		118,728
Dividends declared per common share	$		$		$		$	

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share data)

	Preferred Stock Series A Number of Shares	Preferred Stock Series A Amount	Preferred Stock Series D Number of Shares	Preferred Stock Series D Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Non-Controlling Interest in Consolidated Joint Ventures	Total
Balance at December 31, 2012	7,050,000	$ 176,250	4,600,000	$ 115,000	135,237,438	$ 1,352	$ 1,493,397	$ 158,376	$ (475,144)	$ (5,335)	$ 55,417	$ 1,519,313
Net proceeds from sale of common stock, (unaudited)					25,300,000	253	294,622					294,875
Vesting of restricted common stock (unaudited)					318,512	4	2,505					2,509
Redemption of Series A and Series C preferred stock (unaudited)	(7,050,000)	(176,250)					4,771		(4,771)			(176,250)
Distributions to non-controlling interest (unaudited)											(902)	(902)
Series A preferred dividends at $0.50 per share through redemption date (unaudited)									(2,350)			(2,350)
Series C preferred dividends at $0.786 per share through redemption date (unaudited)									(2,693)			(2,693)
Series D preferred dividends and dividends payable at $1.00 per share year to date (unaudited)									(4,600)			(4,600)

Net income (unaudited)						47,412			1,523	48,935
Pension liability adjustment (unaudited)								5,335		5,335
Balance at June 30, 2013 (unaudited)	$ 4,600,000	$ 115,000	160,855,950	$ 1,609	$ 1,795,295	$ 205,788	$ (489,558)	$	$ 56,038	$ 1,684,172

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 48,935	$ (1,113)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense (recovery)	96	(55)
Gain on sales of hotel properties and other assets, net	(51,625)	(188)
Loss on extinguishment of debt	3,159	191
(Gain) loss on derivatives, net	(417)	499
Depreciation	62,055	62,854
Amortization of franchise fees and other intangibles	6,421	9,260
Amortization and write-off of deferred financing fees	1,485	1,932
Amortization of loan discounts	3	524
Amortization of deferred stock compensation	2,316	1,842
Changes in operating assets and liabilities:		
Restricted cash	(8,875)	(2,364)
Accounts receivable	(5,560)	(3,405)
Inventories	1,628	(44)
Prepaid expenses and other assets	8,149	2,945
Accounts payable and other liabilities	12,697	9,733
Accrued payroll and employee benefits	(6,414)	(2,059)
Discontinued operations	432	(684)
Net cash provided by operating activities	74,485	79,868
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of hotel properties and other assets	195,621	11
Cash proceeds held by accommodator	(72,287)	
Restricted cash replacement reserve	11,054	(5,177)
Acquisitions of hotel properties and other assets	(59,137)	(29,694)
Acquisition deposits	(20,000)	(3,000)
Renovations and additions to hotel properties and other assets	(69,089)	(48,483)
Payment for interest rate derivative	(12)	
Net cash used in investing activities	(13,850)	(86,343)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of preferred stock	(276,250)	
Proceeds from common stock offering	295,251	126,533
Payment of common stock offering costs	(376)	(431)
Proceeds from credit facility	30,000	15,000
Payments on notes payable and credit facility	(124,465)	(63,024)
Payment for costs related to extinguishment of notes payable	(3,108)	(70)
Payments of deferred financing costs	(5)	
Dividends paid	(14,780)	(14,874)
Distributions to non-controlling interest	(902)	(3,327)
Net cash (used in) provided by financing activities	(94,635)	59,807
Net increase (decrease) in cash and cash equivalents	(34,000)	53,332
Cash and cash equivalents, beginning of period	157,217	149,198
Cash and cash equivalents, end of period	$ 123,217	$ 202,530

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	$	34,858	$	40,371
Cash paid for income taxes		5,115	$	
NONCASH INVESTING ACTIVITY				
Accounts payable related to renovations and additions to hotel properties and other assets	$	5,093	$	6,210
Amortization of deferred stock compensation construction activities	$	193	$	148
NONCASH FINANCING ACTIVITY				
Issuance of common stock in connection with acquisition of hotel property	$		$	51,160
Dividends payable	$	2,300	$	7,437

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Sunstone Hotel Investors, Inc. (the Company) was incorporated in Maryland on June 28, 2004 in anticipation of an initial public offering of common stock, which was consummated on October 26, 2004. The Company, through its 100% controlling interest in Sunstone Hotel Partnership, LLC (the Operating Partnership), of which the Company is the sole managing member, and the subsidiaries of the Operating Partnership, including Sunstone Hotel TRS Lessee, Inc. (the TRS Lessee) and its subsidiaries, is currently engaged in acquiring, owning, asset managing and renovating hotel properties. The Company may also sell certain hotel properties from time to time. The Company operates as a real estate investment trust (REIT) for federal income tax purposes.

As a REIT, certain tax laws limit the amount of non-qualifying income the Company can earn, including income derived directly from the operation of hotels. As a result, the Company leases all of its hotels to its TRS Lessee, which in turn enters into long-term management agreements with third parties to manage the operations of the Company s hotels. As of June 30, 2013, the Company had interests in 27 hotels (the 27 hotels) held for investment. The Company s third-party managers included subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. (collectively, Marriott), managers of 10 of the Company s 27 hotels; a subsidiary of Interstate Hotels & Resorts, Inc., manager of six of the Company s 27 hotels; Highgate Hotels L.P. and an affiliate, manager of three of the Company s 27 hotels; Davidson Hotels & Resorts and Hilton Worldwide, each a manager of two of the Company s 27 hotels; and Crestline Hotels & Resorts, Dimension Development Company, Fairmont Hotels & Resorts (U.S.) and Hyatt Corporation, each a manager of one of the Company s 27 hotels. In addition, as of June 30, 2012, the Company owned BuyEfficient, LLC (BuyEfficient), an electronic purchasing platform that allows members to procure food, operating supplies, furniture, fixtures and equipment.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of June 30, 2013 and December 31, 2012, and for the three and six months ended June 30, 2013 and 2012, include the accounts of the Company, the Operating Partnership, the TRS Lessee and their subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company consolidates subsidiaries when it has the ability to direct the activities that most significantly impact the economic performance of the entity. The Company also evaluates its subsidiaries to determine if they should be considered variable interest entities (VIEs). Typically, the entity that has the power to direct the activities that most significantly impact economic performance would consolidate the VIE. The Company considers an entity a VIE if equity investors own an interest therein that does not have the characteristics of a controlling financial interest or if such investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In accordance with the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company reviewed its subsidiaries to determine if (i) they should be considered VIEs, and (ii) whether the Company should change its consolidation determination based on changes in the characteristics of these entities.

Non-controlling interests at both June 30, 2013 and December 31, 2012 represent the outside equity interests in various consolidated affiliates of the Company.

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission. In the Company s opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. These financial statements should be read in conjunction with the financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission on February 25, 2013.

Certain prior year amounts have been reclassified in the consolidated financial statements in order to conform to the current year presentation.

The Company has evaluated subsequent events through the date of issuance of these financial statements.

Use of Estimates

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

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Reporting Periods

The results the Company reports in its consolidated statements of operations and comprehensive income (loss) are based on results reported to the Company by its hotel managers. Prior to 2013, Marriott used a fiscal year ending on the Friday closest to December 31 and reported twelve weeks of operations each for the first three quarters of the year, and sixteen or seventeen weeks of operations for the fourth quarter of the year. Beginning in 2013, Marriott switched its reporting to a standard monthly calendar; however, Marriott s 2013 calendar contains an additional three days, December 29, 2012 through December 31, 2012. The Company and its other hotel managers use a standard monthly calendar to report their financial information. The Company has elected to adopt quarterly close periods of March 31, June 30 and September 30, and an annual year end of December 31. As a result, the Company s 2013 results of operations for the Marriott-managed hotels are reported on a calendar basis; however, the 2012 results of operations for the Marriott-managed hotels include results from December 31 through March 23 for the first quarter, March 24 through June 15 for the second quarter, June 16 through September 7 for the third quarter, and September 8 through December 28 for the fourth quarter.

Fair Value of Financial Instruments

As of June 30, 2013 and December 31, 2012, the carrying amount of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

The Company follows the requirements of the Fair Value Measurements and Disclosure Topic of the FASB ASC, which establishes a framework for measuring fair value and disclosing fair value measurements by establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2	Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Unobservable inputs reflecting the Company s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

As discussed in Note 5, at June 30, 2013, the Company held two interest rate cap agreements and one interest rate swap agreement to manage its exposure to the interest rate risks related to its floating debt. The Company records interest rate protection agreements on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in the consolidated statements of operations and comprehensive income (loss) as they are not designated as hedges. In accordance with the Fair Value Measurements and Disclosure Topic of the FASB ASC, the Company estimates the fair value of its interest rate protection agreements based on quotes obtained from the counterparties, which are based upon the consideration that would be required to terminate the agreements. The Company has valued the derivative interest rate cap agreements using Level 2 measurements as an asset of $0.1 million and $48,000 as of June 30, 2013 and December 31, 2012, respectively. The interest rate cap agreements are included in other assets, net, on the accompanying consolidated balance sheets. The Company has valued the derivative interest rate swap agreement using Level 2 measurements as a liability of $1.3 million and $1.6 million as of June 30, 2013 and December 31, 2012, respectively. The interest rate swap agreement is included in other liabilities on the accompanying consolidated balance sheets.

On an annual basis and periodically when indicators of impairment exist, the Company analyzes the carrying values of its hotel properties and other assets using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its hotel properties and other assets taking into account each property s expected cash flow from operations, holding period and estimated proceeds from the disposition of the property. The factors addressed in determining estimated proceeds from disposition included anticipated operating cash flow in the year of disposition and terminal capitalization rate. The Company did not identify any properties or other assets with indicators of impairment during the six months ended June 30, 2013 and 2012.

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On an annual basis and periodically when indicators of impairment exist, the Company also analyzes the carrying value of its goodwill using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its reporting units. The Company did not identify any properties with indicators of goodwill impairment during the three and six months ended June 30, 2013 and 2012.

As of June 30, 2013 and December 31, 2012, 68.1% and 69.6%, respectively, of the Company s outstanding debt included in continuing operations had fixed interest rates, including the effect of an interest rate swap agreement. The Company s carrying value of its debt secured by properties not classified as discontinued operations totaled $1.3 billion and $1.4 billion as of June 30, 2013 and December 31, 2012, respectively. Using Level 3 measurements, including the Company s weighted average cost of debt ranging from 5.0% to 5.5%, the Company estimates that the fair market value of its debt included in continuing operations totaled $1.3 billion as of both June 30, 2013 and December 31, 2012.

The following table presents the Company s assets measured at fair value on a recurring and non-recurring basis at June 30, 2013 and December 31, 2012 (in thousands):

	Total	Fair Value Measurements at Reporting Date		
		Level 1	Level 2	Level 3
June 30, 2013 (unaudited):				
Interest rate cap derivative agreements	$ 105	$	$ 105	$
Life insurance policy	1,582		1,582	
Total assets at June 30, 2013	$ 1,687	$	$ 1,687	$
December 31, 2012:				
Interest rate cap derivative agreements	$ 48	$	$ 48	$
Life insurance policy	1,494		1,494	
Total assets at December 31, 2012	$ 1,542	$	$ 1,542	$

The following table presents the Company s liabilities measured at fair value on a recurring and non-recurring basis at June 30, 2013 and December 31, 2012 (in thousands):

	Total	Fair Value Measurements at Reporting Date		
		Level 1	Level 2	Level 3
June 30, 2013 (unaudited):				
Interest rate swap derivative agreement	$ 1,264	$	$ 1,264	$
Retirement benefit agreement	1,582		1,582	
Total liabilities at June 30, 2013	$ 2,846	$	$ 2,846	$
December 31, 2012:				
Interest rate swap derivative agreement	$ 1,636	$	$ 1,636	$
Retirement benefit agreement	1,494		1,494	
Total liabilities at December 31, 2012	$ 3,130	$	$ 3,130	$

Accounts Receivable

Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. Accounts receivable also includes, among other things, receivables from customers who utilize purchase volume rebates through BuyEfficient, as well as tenants who lease space in the Company s hotels. The Company maintains an allowance for doubtful accounts sufficient to cover potential credit losses. The Company s accounts receivable at both June 30, 2013 and December 31, 2012 includes an allowance for doubtful accounts of $0.2 million.

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Acquisitions of Hotel Properties and Other Entities

Accounting for the acquisition of a hotel property or other entity as a purchase transaction requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The most difficult estimations of individual fair values are those involving long-lived assets, such as property, equipment, intangible assets and any capital lease obligations that are assumed as part of the acquisition of a leasehold interest. During 2012 and the first six months of 2013, the Company used all available information to make these fair value determinations, and engaged an independent valuation specialist to assist in the fair value determination of the long-lived assets acquired and the liabilities assumed in the Company s purchases of the Hilton New Orleans St. Charles, the Hyatt Chicago Magnificent Mile and the Hilton Garden Inn Chicago Downtown/Magnificent Mile. Due to the inherent subjectivity in determining the estimated fair value of long-lived assets, the Company believes that the recording of acquired assets and liabilities is a critical accounting policy.

Assets Held for Sale

The Company considers a hotel or other asset held for sale if it is probable that the sale will be completed within twelve months. A sale is determined to be probable once the buyer completes its due diligence of the asset, there is an executed purchase and sale agreement between the Company and the buyer, and the Company has received a substantial non-refundable deposit. The Company tests hotels or other assets held for sale for impairment each reporting period, and records them at the lower of their carrying amounts or fair value less costs to sell. Once a hotel or other asset is designated as held for sale, depreciation is ceased and the hotel or other asset is included in discontinued operations. As of June 30, 2013, we had no hotels or other assets held for sale. As of December 31, 2012, the Company classified four hotels and a commercial laundry facility as held for sale due to their sale in January 2013.

Deferred Financing Fees

Deferred financing fees consist of loan fees and other financing costs related to the Company s outstanding indebtedness and credit facility commitments, and are amortized to interest expense over the terms of the related debt or commitment. Upon repayment or refinancing of the underlying debt, any related unamortized deferred financing fee is charged to interest expense. Upon any loan modification, any related unamortized deferred financing fee is amortized over the remaining terms of the modified loan.

The Company paid deferred financing fees of $5,000 during the three and six months ended June 30, 2013 related to the purchase of an interest rate cap derivative agreement on the Hilton San Diego Bayfront mortgage. The Company did not incur or pay any deferred financing fees during either the three or six months ended June 30, 2012.

Total amortization and write-off of deferred financing fees for the three and six months ended June 30, 2013 and 2012 was as follows (in thousands):

	Three Months Ended June 30, 2013	**Three Months Ended June 30, 2012**	**Six Months Ended June 30, 2013**	**Six Months Ended June 30, 2012**

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations:				
Amortization of deferred financing fees	$ 725	$ 939	$ 1,483	$ 1,882
Write-off of deferred financing fees		3		3
Total deferred financing fees continuing operations	725	942	1,483	1,885
Discontinued operations:				
Amortization of deferred financing fees		23	2	47
Write-off of deferred financing fees				
Total deferred financing fees discontinued operations		23	2	47
Total amortization of deferred financing fees	$ 725	$ 965	$ 1,485	$ 1,932

Earnings Per Share

The Company applies the two-class method when computing its earnings per share as required by the Earnings Per Share Topic of the FASB ASC, which requires the net income per share for each class of stock (common stock and convertible preferred stock) to be calculated assuming 100% of the Company s net income is distributed as dividends to each class of stock based on their contractual rights. To the extent the Company has undistributed earnings in any calendar quarter, the Company will follow the two-class method of computing earnings per share.

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The Company follows the requirements of the Earnings Per Share Topic of the FASB ASC, which states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. For the three and six months ended June 30, 2013, undistributed earnings representing nonforfeitable dividends of $0.1 million and $0.3 million, respectively were allocated to the participating securities. For the three and six months ended June 30, 2012, undistributed earnings representing nonforfeitable dividends of $47,000 and zero, respectively, were allocated to the participating securities.

In accordance with the Earnings Per Share Topic of the FASB ASC, basic earnings available (loss attributable) to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted earnings available (loss attributable) to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential common shares considered outstanding during the period, as long as the inclusion of such awards is not anti-dilutive. Potential common shares consist of unvested restricted stock awards and the incremental common shares issuable upon the exercise of stock options, using the more dilutive of either the two-class method or the treasury stock method.

The following table sets forth the computation of basic and diluted earnings (loss) per common share (in thousands, except per share data):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Numerator:				
Net income (loss)	$ 20,009	$ 11,855	$ 48,935	$ (1,113)
Income from consolidated joint venture attributable to non-controlling interest	(1,226)	(307)	(1,523)	(867)
Distributions to non-controlling interest	(8)	(8)	(16)	(16)
Preferred stock dividends and redemption charge	(3,510)	(7,437)	(14,413)	(14,874)
Undistributed income allocated to unvested restricted stock compensation	(126)	(47)	(264)	
Numerator for basic and diluted earnings available (loss attributable) to common stockholders	$ 15,139	$ 4,056	$ 32,719	$ (16,870)
Denominator:				
Weighted average basic and diluted common shares outstanding	160,843	120,029	155,987	118,728
Basic and diluted earnings available (loss attributable) to common stockholders per common share	$ 0.09	$ 0.03	$ 0.21	$ (0.14)

The Company s unvested restricted shares associated with its long-term incentive plan and shares associated with common stock options have been excluded from the above calculation of earnings (loss) per share for the three and six months ended June 30, 2013 and 2012, as their inclusion would have been anti-dilutive. Prior to their redemption in May 2013, the shares of the Company s Series C Cumulative Convertible Redeemable Preferred Stock (Series C preferred stock) issuable upon conversion were excluded from the above calculation of earnings (loss) per share for the three and six months ended June 30, 2013 and 2012, as their inclusion would have been anti-dilutive.

Goodwill

The Company follows the requirements of the Intangibles Goodwill and Other Topic of the FASB ASC, which states that goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. As a result, the carrying value of goodwill allocated to the hotel properties and other assets is reviewed at least annually for impairment. In addition, when facts and circumstances suggest that the Company s goodwill may be impaired, an interim evaluation of goodwill is prepared. Such review entails comparing the carrying value of the individual hotel property or other asset (the reporting unit) including the allocated goodwill to the fair value determined for that reporting unit (see Fair Value of Financial Instruments for detail on the Company s valuation methodology). If the aggregate carrying value of the reporting unit exceeds the fair value, the goodwill of the reporting unit is impaired to the extent of the difference between the fair value and the aggregate carrying value, not to exceed the carrying amount of the allocated goodwill. The Company s annual impairment evaluation is performed each year as of December 31.

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Non-Controlling Interests

The Company s financial statements include entities in which the Company has a controlling financial interest. Non-controlling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Such non-controlling interests are reported on the consolidated balance sheets within equity, separately from the Company s equity. On the consolidated statements of operations and comprehensive income (loss), revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Company and non-controlling interests. Income or loss is allocated to non-controlling interests based on their weighted average ownership percentage for the applicable period. The consolidated statements of equity include beginning balances, activity for the period and ending balances for each component of shareholders equity, non-controlling interests and total equity.

At both June 30, 2013 and December 31, 2012, the non-controlling interest reported in the Company s financial statements includes Hilton Worldwide s 25.0% ownership in the Hilton San Diego Bayfront. In addition, the Company is the sole common stockholder of the captive REIT that owns the Doubletree Guest Suites Times Square; however, there are also preferred investors in the captive REIT whose preferred dividends less administrative fees for the three and six months ended June 30, 2013 and 2012 are represented as distributions to non-controlling interests on the Company s statements of operations and comprehensive income (loss).

Segment Reporting

The Company reports its consolidated financial statements in accordance with the Segment Reporting Topic of the FASB ASC. Currently, the Company operates in one segment, operations held for investment.

Stock Based Compensation

Compensation expense related to awards of restricted shares and performance shares are measured at fair value on the date of grant and amortized over the relevant requisite service period or derived service period.

3. Investment in Hotel Properties

Investment in hotel properties, net consisted of the following (in thousands):

		June 30, 2013 (unaudited)		December 31, 2012
Land	$	264,637	$	260,939

Buildings and improvements		2,655,644		2,541,024
Furniture, fixtures and equipment		366,536		329,770
Intangibles		167,723		167,467
Franchise fees		1,346		1,261
Construction in process		19,822		48,388
		3,475,708		3,348,849
Accumulated depreciation and amortization		(734,759)		(666,972)
	$	2,740,949	$	2,681,877

In May 2013, the Company purchased the 250-room Hilton New Orleans St. Charles for a net purchase price of $59.1 million, including $0.2 million of proration credits. The acquisition was funded with $53.2 million of proceeds generated by the Company s January 2013 sale of four hotels and a commercial laundry facility located in Rochester, Minnesota (see Note 4), as well as with proceeds received from the Company s February 2013 issuance of common stock. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties and hotel working capital assets and liabilities. The Company recognized acquisition-related costs of $0.2 million and $0.3 million for the three and six months ended June 30, 2013, respectively, which are included in corporate overhead on the Company s consolidated statements of operations and comprehensive income (loss). The results of operations for the Hilton New Orleans St. Charles have been included in the Company s consolidated statements of operations and comprehensive income (loss) from the acquisition date of May 1, 2013 through the second quarter ended June 30, 2013.

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The fair values of the assets acquired and liabilities assumed at the date of acquisition for the Hilton New Orleans St. Charles were allocated based on an independent third-party analysis. The following table summarizes the fair values of assets acquired and liabilities assumed in this acquisition (in thousands):

Assets:		
Investment in hotel properties (1)	$	59,001
Cash		5
Accounts receivable		48
Prepaid expenses		322
Total assets acquired		59,376
Liabilities:		
Accrued payroll and employee benefits		38
Other current liabilities		196
Total liabilities acquired		234
Total cash paid for acquisition	$	59,142

(1) Investment in hotel properties was allocated to land ($3.7 million), buildings and improvements ($53.5 million), furniture, fixtures and equipment ($1.4 million), intangibles ($0.3 million) related to an above-market in-place lease agreement, and franchise fees ($0.1 million) related to a franchise agreement. Details of the intangibles and the franchise agreement are as follows (in thousands):

		June 30, 2013 (unaudited)	Expected Life
Value at acquisition:			
Above market lease agreement	$	27	46 months
In-place lease agreement		228	46 months
Franchise agreement		85	15 years
Total intangibles and franchise fees related to the 2013 acquisition		340	
Accumulated amortization		(10)	
	$	330	

During the three and six months ended June 30, 2013, the Company recorded amortization expense related to its Hilton New Orleans St. Charles intangibles as follows (in thousands):

		Three Months Ended June 30, 2013 (unaudited)		Six Months Ended June 30, 2013 (unaudited)
Above market lease agreement	$	(1)	$	(1)
In-place lease agreement		10		10
Franchise agreement		1		1
	$	10	$	10

The Company acquired one hotel during the six months ended June 30, 2013, and two hotels during 2012: the Hilton New Orleans St. Charles in May 2013; the Hyatt Chicago Magnificent Mile in June 2012; and the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012. Acquired properties are included in the Company s results of operations and comprehensive income (loss) from the date of acquisition. The following unaudited pro forma results of operations reflect the Company s results as if the acquisitions of the Hilton New Orleans St. Charles in May 2013, the Hyatt Chicago Magnificent Mile in June 2012 and the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012 had occurred on January 1, 2012. In the Company s opinion, all significant adjustments necessary to reflect the effects of the acquisitions have been made (in thousands, except per share data):

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	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Revenues	$ 235,984	$ 226,686	$ 434,584	$ 415,416
Income available (loss attributable) to common stockholders from continuing operations	$ 15,587	$ 6,269	$ 34,067	$ (16,918)
Income (loss) per diluted share available (attributable) to common stockholders from continuing operations	$ 0.10	$ 0.03	$ (0.09)	$ (0.17)

For both the three and six months ended June 30, 2013, the Company has included $1.9 million of revenue and net income of $0.3 million in its consolidated statements of operations and comprehensive income (loss) related to the Company s May 2013 acquisition. For both the three and six months ended June 30, 2012, the Company has included $2.7 million of revenue and a net loss of $0.9 million in its consolidated statements of operations and comprehensive income (loss) related to the Company s 2012 acquisition.

4. Discontinued Operations

In January 2013, the Company sold a four-hotel, 1,222-room portfolio (the Rochester Hotels) and a commercial laundry facility (together with the Rochester Hotels, the Rochester Portfolio) in Rochester, Minnesota, to an unaffiliated third party, for net proceeds of $195.6 million, of which $145.7 million was deposited with an accommodator in order to facilitate potential tax-deferred exchanges. The Rochester 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 recognized a net gain on the sale of $51.6 million. The Company retained a $25.0 million preferred equity investment (the Preferred Equity Investment) in the Rochester Hotels that yields an 11% dividend, resulting in a deferred gain on the sale of $25.0 million. The $25.0 million gain will be deferred until the Preferred Equity Investment is redeemed. The Preferred Equity Investment is recorded at face value on the Company s consolidated balance sheet net of the deferred gain, resulting in a net book value of zero on the Company s consolidated balance sheet as of June 30, 2013. During the three and six months ended June 30, 2013, the Company recognized $0.7 million and $1.2 million, respectively, in dividends on the Preferred Equity Investment, which is included in interest and other income on the Company s consolidated statements of operations and comprehensive income (loss). The Company also provided a $3.7 million working cash advance to the buyer, resulting in a deferred gain on the sale of $3.7 million. The $3.7 million gain will be deferred until the Company is repaid from the Rochester Portfolio s available cash flow. The working cash advance is recorded at face value on the Company s consolidated balance sheet net of the deferred gain, resulting in a net book value of zero on the Company s consolidated balance sheet as of June 30, 2013. In addition, the Company retained a liability not to exceed $14.0 million related to the Rochester Portfolio s pension plan, which could be triggered in certain circumstances, including termination of the pension plan. The $14.0 million pension plan liability is included in other liabilities on the Company s consolidated balance sheet as of June 30, 2013. The recognition of the $14.0 million pension plan liability reduced the Company s gain on the sale of the Rochester Portfolio. The $14.0 million gain will be recognized, if at all, when and to the extent the Company is released from any potential liability related to the Rochester Portfolio s pension plan. Concurrent with the Rochester Portfolio sale, the Company extinguished the outstanding $26.7 million mortgage secured by the Kahler Grand for a total cost of $29.8 million, prepaid the $0.4 million loan secured by the commercial laundry facility, and recorded a loss on extinguishment of debt of $3.1 million which is included in discontinued operations. The Company reclassified the Rochester Portfolio s results of operations for January 2013 and the six months ended June 30, 2012, to discontinued operations on its consolidated statements of operations and comprehensive income (loss).

Prior to the sale of the Rochester Portfolio, pension liability adjustments related to the Rochester Portfolio s defined benefit retirement plan were recorded as other comprehensive income (loss). The following table details the activity in accumulated other comprehensive loss in January 2013 due to the sale of the Rochester Portfolio (in thousands):

	One Month Ended January 31, 2013 (unaudited)	Affected Line in the Company s Statements of Operations and Comprehensive Income (Loss)
Beginning balance of accumulated other comprehensive loss	$ (5,335)	
Sale of Rochester Portfolio pension liability adjustment	5,335	Income from discontinued operations
Ending balance of accumulated other comprehensive loss	$	

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During 2012, the Company sold four hotels and an office building adjacent to one of the sold hotels. In August 2012, the Company sold the Marriott Del Mar located in San Diego, California for net proceeds of $17.7 million, including the assumption of the existing mortgage secured by the hotel which totaled $47.1 million on the date of sale, and recognized a gain on the sale of $25.5 million. In addition, the Company wrote off $48,000 in deferred financing fees in conjunction with the buyer s assumption of the debt secured by the hotel. The Company reclassified the hotel s results of operations for the first eight months of 2012 to discontinued operations on its consolidated statements of operations and comprehensive income (loss).

In September 2012, the Company sold a portfolio of assets that included the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy (located in Minneapolis, Minnesota, San Diego, California, and Troy, Michigan, respectively) and an office building adjacent to the Marriott Troy for net proceeds of $28.6 million, including the assumptions of three separate mortgages secured by the hotels totaling $75.6 million, as well as a $2.2 million liability for deferred management fees payable to the Marriott Troy s third-party manager. The Company recognized a gain on the sale of $12.7 million. In addition, the Company wrote off $0.1 million in deferred financing fees in conjunction with the buyer s assumption of the debt secured by the three hotels. The Company reclassified the results of operations for the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy and the office building to discontinued operations for the first nine months of 2012 on its consolidated statements of operations and comprehensive income (loss).

In March 2012, the Company recorded additional gain of $0.2 million on the sale of the Royal Palm Miami Beach, which the Company sold in April 2011. The $0.2 million gain was comprised of reimbursements to the Company for certain transaction related invoices, and is included in discontinued operations on the Company s consolidated statements of operations and comprehensive income (loss).

The following table sets forth the discontinued operations for the three and six months ended June 30, 2013 and 2012 for the four hotels and the commercial laundry facility sold in 2013, as well as the four hotels and the office building sold in 2012 and the Royal Palm Miami Beach sold in 2011 (in thousands):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Operating revenues	$	$ 29,133	$ 3,690	$ 56,120
Operating expenses		(20,427)	(3,686)	(40,205)
Interest expense		(2,127)	(99)	(4,271)
Depreciation and amortization expense		(3,983)		(7,857)
Loss on extinguishment of debt			(3,115)	
Gain on sale of hotels and other assets, net			51,620	177
Income from discontinued operations	$	$ 2,596	$ 48,410	$ 3,964

5. Interest Rate Derivative Agreements

At June 30, 2013 and December 31, 2012, the Company held two interest rate cap agreements and one interest rate swap agreement to manage its exposure to the interest rate risks related to its floating rate debt. The first interest rate cap agreement is on the Hilton San Diego Bayfront mortgage, which mortgage bears an interest rate of 3-month LIBOR plus 325 basis points. In April 2013, the Company purchased a new interest rate cap agreement on the Hilton San Diego Bayfront mortgage for a cost of $12,000 which extended the maturity date from April 2013 to

April 2015. The new interest rate cap agreement on the Hilton San Diego Bayfront continues to cap the 3-month LIBOR rate at 3.75%. The notional amount of the related debt capped totaled $117.0 million at June 30, 2013 and $120.0 million at December 31, 2012. The second interest rate cap agreement is on the Doubletree Guest Suites Times Square mortgage, which mortgage bears an interest rate of 3-month LIBOR plus 325 basis points. The Doubletree Guest Suites Times Square cap agreement caps the 3-month LIBOR rate at 4.0% until October 2015. The notional amount of the related debt capped totaled $180.0 million at June 30, 2013.

The interest rate swap agreement is on the JW Marriott New Orleans mortgage. The interest rate swap agreement caps the LIBOR interest rate on the underlying debt at a total interest rate of 5.45%, and the maturity date is in September 2015. The notional amount of the related debt totaled $40.2 million as of June 30, 2013.

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None of the interest rate derivative agreements qualify for effective hedge accounting treatment. Accordingly, changes in the fair value of the Company s interest rate derivative agreements during the three and six months ended June 30, 2013 resulted in net gains of $0.3 million and $0.4 million, respectively, which have been reflected as decreases in interest expense for the three and six months ended June 30, 2013. Changes in the fair value of the Company s interest rate derivative agreements during the three and six months ended June 30, 2012 resulted in net losses of $0.4 million and $0.5 million, respectively, which have been reflected as increases in interest expense for the three and six months ended June 30, 2012. As of June 30, 2013 and December 31, 2012, the fair values of the interest rate cap agreements totaled an asset of $0.1 million and $48,000, respectively. The interest rate cap agreements are included in other assets, net on the Company s consolidated balance sheets. The fair value of the interest rate swap agreement was a liability of $1.3 million and $1.6 million as of June 30, 2013 and December 31, 2012, respectively, and is included in other liabilities on the Company s consolidated balance sheets.

6. Other Assets

Other assets, net consisted of the following (in thousands):

		June 30, 2013 (unaudited)		December 31, 2012
Acquisition deposits	$	20,000	$	
Property and equipment, net		2,542		2,529
Land held for development		188		188
Intangibles, net		7,577		7,877
Dividends receivable		229		
Interest rate cap derivative agreements		105		48
Cash trap receivables		4,443		8,208
Other receivables		4,115		4,130
Other		2,992		2,922
	$	42,191	$	25,902

During the first six months of 2013, the Company paid refundable deposits totaling $20.0 million towards the July 2013 acquisition of the Boston Park Plaza (see Note 13).

Property and equipment, net consisted of the following (in thousands):

		June 30, 2013 (unaudited)		December 31, 2012
Cost basis	$	10,554	$	10,153
Accumulated depreciation		(8,012)		(7,624)
Property and equipment, net	$	2,542	$	2,529

The Company s other assets, net as of June 30, 2013 and December 31, 2012, include BuyEfficient s intangible assets totaling $7.6 million and $7.9 million, respectively, net of accumulated amortization related to certain trademarks, customer and supplier relationships and intellectual property related to internally developed software. These intangibles are amortized using the straightline method over their useful lives ranging between seven to 20 years. Accumulated amortization totaled $1.5 million and $1.2 million at June 30, 2013 and December 31, 2012, respectively. Amortization expense totaled $0.1 million for both the three months ended June 30, 2013 and 2012, and $0.3 million for both the six months ended June 30, 2013 and 2012.

The Company s other assets, net as of June 30, 2013 include $0.2 million in dividends to be received for the month of June on the Preferred Equity Investment. During the three and six months ended June 30, 2013, the Company recognized a total of $0.7 million and $1.2 million, respectively, in dividends on the Preferred Equity Investment, which are included in interest and other income on the Company s consolidated statements of operations and comprehensive income (loss).

In conjunction with the Company s third quarter 2012 sales of the Marriott Del Mar, the Hilton Del Mar and the Marriott Troy, the mortgages secured by these hotels were assumed by the buyers of the hotels. These mortgages contain cash trap provisions that were triggered in prior years due to the decline in the performance of the three hotels. Once triggered, substantially all of the excess cash flow from operations generated by the three hotels was deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of the lenders. Cash was distributed to the Company only after certain items were paid, including deposits into leasing and maintenance reserve accounts and the payment of debt service, insurance, taxes, operating expenses, and extraordinary capital expenditures and leasing expenses. During the three and six months ended June 30, 2013, a total of $3.8 million was returned to the Company related to the mortgages secured by the Marriott Del Mar and the Marriott Troy. The remaining $4.4 million continues to be held by the lender associated with the mortgage secured by the Hilton Del Mar. The remaining cash will be returned to the Company once the lender releases the cash to the buyer, which is expected to occur within the near term.

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7. Notes Payable

Notes payable consisted of the following (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Notes payable requiring payments of interest and principal, with fixed rates ranging from 4.97% to 6.60%; maturing at dates ranging from May 2015 through May 2021. The notes are collateralized by first deeds of trust on 13 hotel properties at both June 30, 2013, and December 31, 2012.	$ 883,085	$ 890,668
Note payable requiring payments of interest and principal, bearing a blended rate of 3-month LIBOR plus 325 basis points; maturing in April 2016. The note is collateralized by a first deed of trust on one hotel property.	233,112	234,724
Note payable requiring payments of interest only through October 2013, and interest and principal thereafter, with a blended interest rate of 3-month LIBOR plus 325 basis points; maturing in October 2018. The note is collateralized by a first deed of trust on one hotel property.	180,000	180,000
Senior Notes, with a fixed interest rate of 4.60%, maturing in July 2027. Repurchased and redeemed in January 2013. The notes were guaranteed by the Company and certain of its subsidiaries.		58,000
	1,296,197	1,363,392
Less: discount on Senior Notes		(3)
	1,296,197	1,363,389
Less: current portion	(20,571)	(76,723)
	$ 1,275,626	$ 1,286,666

In January 2013, the Company validly tendered, accepted and repurchased $42.0 million of the Senior Notes, and redeemed the remaining $16.0 million of the Senior Notes. The Company funded the total $58.0 million in Senior Note repurchases and redemptions with available cash, leaving no future amounts outstanding related to the Senior Notes.

Concurrent with the Rochester Portfolio sale in January 2013, the Company extinguished the outstanding $26.7 million mortgage secured by the Kahler Grand for a total cost of $29.8 million, prepaid the $0.4 million loan secured by the commercial laundry facility, and recorded a loss on extinguishment of debt of $3.1 million which is included in discontinued operations.

In February 2012, the Company used its existing cash to repurchase $4.5 million in aggregate principal amount of the Senior Notes for $4.57 million. After the repurchase, such Senior Notes were cancelled. The Company wrote off $47,000 in deferred financing fees and $0.1 million of the Senior Notes discount, and recognized a loss of $0.2 million on this early extinguishment of debt.

In April 2012, the Company used existing cash to repay the remaining balance on its $32.2 million non-recourse mortgage secured by the Renaissance Long Beach, which was scheduled to mature in July 2012. The Company wrote off $3,000 in deferred financing fees in connection with the repayment of this debt.

In August 2012, the buyer of the Marriott Del Mar assumed the $47.1 million existing mortgage secured by the hotel, and the Company wrote off $48,000 in related deferred financing fees.

In September 2012, the buyer of the portfolio that included the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy and an office building adjacent to the Marriott Troy assumed $75.6 million in existing mortgages secured by the three hotels in the portfolio, and the Company wrote off $0.1 million in related deferred financing fees.

In September 2012, the Company amended and restated its $150.0 million senior unsecured revolving credit facility, which was scheduled to mature in November 2013. The pricing on the amended revolving credit facility was reduced and the 1% LIBOR floor was eliminated. The maturity of the credit facility was extended by two years to November 2015 with an option to extend to November 2016. The amended credit facility s interest rate is based on a pricing grid with a range of 175 to 350 basis points, which represents a reduction from the previous grid that ranged from 325 to 425 basis points over LIBOR depending on the Company s leverage ratio. The credit facility also includes an accordion option that allows the Company to request additional lender commitments up to a total of $350.0 million. The Company paid $1.3 million in deferred financing fees in conjunction with this amendment, which will be amortized over the term of the amended credit facility.

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Total interest incurred and expensed on the notes payable was as follows (in thousands):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Interest expense	$ 16,807	$ 17,806	$ 33,617	$ 35,880
(Gain) loss on derivatives	(260)	423	(417)	499
Accretion of Senior Notes		258	3	524
Amortization of deferred financing fees	725	939	1,483	1,882
Write-off of deferred financing fees		3		3
	$ 17,272	$ 19,429	$ 34,686	$ 38,788

8. Other Current Liabilities and Other Liabilities

Other current liabilities consisted of the following (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Property, sales and use taxes payable	$ 16,434	$ 13,254
Income tax payable	125	125
Accrued interest	3,744	4,901
Advance deposits	8,362	6,938
Management fees payable	837	2,346
Other	3,854	3,399
	$ 33,356	$ 30,963

Other liabilities consisted of the following (in thousands):

	June 30, 2013 (unaudited)	December 31, 2012
Deferred gain on sale of asset	$ 14,000	$
Interest rate swap derivative agreement	1,264	1,636
Income tax payable	1,456	
Deferred revenue	7,057	1,089
Deferred rent	10,868	9,459
Deferred incentive management fees	1,470	
Other	2,840	2,886
	$ 38,955	$ 15,070

In conjunction with the Rochester Portfolio sale, the Company retained a $14.0 million liability related to the Rochester Portfolio s pension plan, which could be triggered in certain circumstances, including termination of the pension plan. Accordingly, the Company has deferred $14.0 million of gain on the sale of the Rochester Portfolio, which $14.0 million in gain will be recognized, if at all, when and to the extent the

Company is released from any potential liability related to the Rochester Portfolio s pension plan.

The Company s other liabilities include a long-term income tax payable of $1.5 million. Based on the Company s ongoing evaluations of its uncertain tax positions related to the year ended December 31, 2012, and as a result of its recent resolution of outstanding issues with the IRS, the Company adjusted for an unrecognized tax benefit of $1.5 million during the first quarter of 2013, which is included in the Company s consolidated statement of operations and comprehensive income (loss).

In June 2013, the Company received a $6.5 million incentive from Hyatt Franchising L.L.C. for rebranding the Company s Hyatt Chicago Magnificent Mile from a Wyndham to a Hyatt. The Company is amortizing this incentive on a straightline basis over the remaining 25-year term of its franchise agreement with Hyatt. The Company includes the $0.3 million portion of the incentive to be recognized during the next 12 months in accounts payable and accrued expenses, and includes the long-term portion of $6.2 million in other liabilities in its consolidated balance sheets.

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The Company s other liabilities also include deferred incentive management fees of $1.4 million related to one of its hotels that is currently undergoing a major room renovation. Per the Company s management agreement with the hotel s third-party manager, payment of the incentive management fees will be deferred until such time as the hotel s adjusted cash flow, as defined in the management agreement, surpasses a certain threshold.

9. Series C Cumulative Convertible Redeemable Preferred Stock

In May 2013, the Company redeemed all 4,102,564 shares of its Series C preferred stock for an aggregate redemption price of $101.1 million, including $1.1 million in accrued dividends. In accordance with the FASB s Emerging Issues Task Force Topic D-42, an additional redemption charge of $0.1 million was recognized related to the original issuance costs of the Series C preferred stock, which were previously included in additional paid in capital. The Company redeemed the Series C preferred shares using cash received from its February 2013 common stock offering. After the redemption date, the Company has no outstanding shares of Series C preferred stock, and all rights of the holders of such shares were terminated.

10. Stockholders Equity

Series A Cumulative Redeemable Preferred Stock

In March 2013, the Company redeemed all 7,050,000 shares of its 8.0% Series A Cumulative Redeemable Preferred Stock (Series A preferred stock) for an aggregate redemption price of $178.6 million, including $2.3 million in accrued dividends. In accordance with the FASB s Emerging Issues Task Force Topic D-42, an additional redemption charge of $4.6 million was recognized related to the original issuance costs of the Series A preferred stock, which were previously included in additional paid in capital. The Company redeemed the Series A preferred shares using cash received from its February 2013 common stock offering. After the redemption date, the Company has no outstanding shares of Series A preferred stock, and all rights of the holders of such shares were terminated. Because the redemption of the Series A preferred stock is a redemption in full, trading of the Series A preferred stock on the New York Stock Exchange ceased after the redemption date.

Series D Cumulative Redeemable Preferred Stock

The Company s 4,600,000 shares of 8.0% Series D Cumulative Redeemable Preferred Stock (Series D preferred stock) have a liquidation preference of $25.00 per share. On or after April 6, 2016, the Series D preferred stock will be redeemable at the Company s option, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. Upon the occurrence of a change of control of the Company, (i) the Company may, at its option, redeem the Series D preferred stock in whole or in part and within 120 days after the first date on which such change of control occurred, by paying $25.00 per share, plus any accrued and unpaid dividends to, but not including, the redemption date, and (ii) holders of Series D preferred stock will have the right (unless, prior to the change of control conversion date, the Company has provided or provides notice of its election to redeem the Series D preferred stock) to convert some or all of their shares of Series D preferred stock into shares of the Company s common stock. Holders of Series D preferred stock generally have no voting rights. However, if the Company is in arrears on dividends on the Series D preferred stock for six or more quarterly periods, whether or not consecutive, holders of the Series D preferred stock will be entitled to vote at its next annual meeting and each subsequent annual meeting of stockholders for the election of two additional directors to serve on the Company s board of directors until all unpaid dividends and the dividend for the then-current period with respect to the Series D preferred stock have been paid or declared and a sum sufficient for the payment thereof set aside for payment. The Series D preferred stock has no maturity date and the Company is not required to redeem the Series D preferred stock at any time, unless the Company decides, at its option, to exercise its redemption right or, under circumstances where the holders of Series D preferred stock decide to convert the Series D preferred stock. If the Company does not exercise its right to redeem the Series D preferred stock upon a change of control, holders of the Series D preferred stock 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 cap of 22,571,280 common shares.

Common Stock

In February 2013, the Company issued 25,300,000 shares of its common stock, including the underwriters over-allotment of 3,300,000 shares, for net proceeds of approximately $294.9 million. The Company used $279.7 million of these proceeds to redeem all of its Series A preferred stock in March 2013, and its Series C preferred stock in May 2013, including accrued interest, and used an additional $6.0 million towards the acquisition of the Hilton New Orleans St. Charles. The Company will use the remaining proceeds for potential future acquisitions, capital investment in the Company s portfolio and other general corporate purposes, including working capital.

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In June 2012, the Company issued 5,454,164 shares of its common stock to the seller of the Wyndham Chicago (which the Company rebranded the Hyatt Chicago Magnificent Mile) in connection with the Company s acquisition of the hotel. The Company incurred offering costs of $0.1 million related to this transaction.

In June 2012, the Company issued 12,143,273 shares of its common stock for net proceeds of approximately $126.2 million. The Company used a portion of these proceeds to fund the purchase of the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012, and will use the remaining proceeds for potential future acquisitions, capital investment in the Company s portfolio, including the renovation of the Hyatt Chicago Magnificent Mile, and other general corporate purposes, including working capital.

11. Long-Term Incentive Plan

Stock Grants

Restricted shares granted pursuant to the Company s Long-Term Incentive Plan (LTIP) generally vest over periods from three to five years from the date of grant. In August 2011, the Company granted both time-based and performance-based shares to Kenneth E. Cruse upon Mr. Cruse s appointment as the Company s Chief Executive Officer. The time-based shares, representing 60.0% of the total shares granted, will vest on a pro-rata basis commencing on the third anniversary of the grant date, and will vest in equal amounts on each of the third, fourth and fifth anniversary of the grant date. The remaining 40.0% of the total shares granted to Mr. Cruse are subject to performance- or market-based, cliff vesting on the fifth anniversary of the grant date, depending on the satisfaction of the following measures: the Company s total stockholder return (TSR); the Company s TSR relative to companies in the NAREIT Equity Index; and the ratio of the Company s total net debt to the Company s adjusted EBITDA.

The Company s compensation expense related to these restricted shares and performance awards for the three and six months ended June 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Compensation expense, including forfeitures	$ 1,838	$ 1,311	$ 3,440	$ 2,751

The Company s total compensation expense differs from the vesting of restricted common stock amount presented in the Company s consolidated statement of equity due to the fact that the Company withholds and uses a portion of its restricted shares granted pursuant to its LTIP for purposes of remitting withholding and payroll taxes in connection with the release of restricted common shares to plan participants (net-settle). In addition, the Company capitalizes all restricted shares granted to certain of those employees who work on the design and construction of its hotels. The Company s total compensation expense in relation to its vesting of restricted common stock presented in the Company s consolidated statement of equity for the six months ended June 30, 2013 is as follows (in thousands):

		Six Months Ended June 30, 2013 (unaudited)
Total compensation expense, including forfeitures	$	3,440
Net-settle adjustment		(1,124)
Amortization related to shares issued to design and construction employees		193
Vesting of restricted stock presented on statement of equity	$	2,509

12. Commitments and Contingencies

Management Agreements

Management agreements with the Company s third-party hotel managers require the Company to pay between 2% and 3.5% of total revenue of the managed hotels to the third-party managers each month as a basic management fee. Total basic management fees incurred by the Company during the three and six months ended June 30, 2013 and 2012 were included in the Company s consolidated statements of operations and comprehensive income (loss) as follows (in thousands):

		Three Months Ended June 30, 2013 (unaudited)		Three Months Ended June 30, 2012 (unaudited)		Six Months Ended June 30, 2013 (unaudited)		Six Months Ended June 30, 2012 (unaudited)
Continuing operations property general and administrative expense, and corporate overhead expense	$	6,463	$	5,791	$	11,818	$	10,686
Discontinued operations				616		65		1,182
	$	6,463	$	6,407	$	11,883	$	11,868

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In addition to basic management fees, provided that certain operating thresholds are met, the Company may also be required to pay incentive management fees to certain of its third-party managers. Total incentive management fees incurred by the Company during the three and six months ended June 30, 2013 and 2012 were included in the Company s consolidated statements of operations and comprehensive income (loss) as follows (in thousands):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Continuing operations property general and administrative expense	$ 682	$ 884	$ 1,486	$ 1,560
Discontinued operations		201		358
	$ 682	$ 1,085	$ 1,486	$ 1,918

License and Franchise Agreements

The Company has entered into license and franchise agreements related to certain of its hotel properties. The license and franchise agreements require the Company to, among other things, pay monthly fees that are calculated based on specified percentages of certain revenues. The license and franchise agreements generally contain specific standards for, and restrictions and limitations on, the operation and maintenance of the hotels which are established by the franchisors to maintain uniformity in the system created by each such franchisor. Such standards generally regulate the appearance of the hotel, quality and type of goods and services offered, signage and protection of trademarks. Compliance with such standards may from time to time require the Company to make significant expenditures for capital improvements.

Total license and franchise costs incurred by the Company during the three and six months ended June 30, 2013 and 2012 were included in the Company s consolidated statements of operations and comprehensive income (loss) as follows (in thousands):

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Continuing operations franchise costs	$ 8,771	$ 7,493	$ 15,249	$ 13,464
Discontinued operations		936	73	1,697
	$ 8,771	$ 8,429	$ 15,322	$ 15,161

Total license and franchise costs included royalties of $2.9 million and $2.6 million, respectively, for the three months ended June 30, 2013 and 2012, and $5.0 million and $4.7 million, respectively, for the six months ended June 30, 2013 and 2012. The remaining costs included advertising, reservation and priority club assessments.

Renovation and Construction Commitments

At June 30, 2013, the Company had various contracts outstanding with third parties in connection with the renovation of certain of its hotel properties aimed at maintaining the appearance and quality of its hotels. The remaining commitments under these contracts at June 30, 2013 totaled $26.3 million.

Capital Leases

The Hyatt Chicago Magnificent Mile is subject to a building lease which expires in December 2097. The Company evaluated the terms of the lease agreement and determined the lease to be a capital lease pursuant to the Leases Topic of the FASB ASC. Upon acquisition of the hotel in June 2012, the Company recorded a capital asset related to its leasehold interest of $58.8 million to buildings and improvements, based upon the estimated fair value of the right to use the leased property for the then remaining term of 85.6 years, and a capital lease obligation of $15.6 million, based upon the fair value of the remaining rent payments. In addition to minimum rent, the capital lease is subject to percentage rent equal to 4.0% of the hotel s gross room revenues over a certain threshold.