

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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ALISO VIEJO, Calif., Nov. 11, 2013 /PRNewswire/ -- Sunstone Hotel Investors, Inc. (the "Company" or "Sunstone") (NYSE: [SHO](#)) today announced results for the third quarter ended September 30, 2013

## **Third Quarter 2013 Operational Results (as compared to Third Quarter 2012) <sup>(1)</sup>:**

- Comparable Hotel RevPAR increased 7.6% to \$152.24.
- Comparable Hotel EBITDA Margins increased 220 basis points to 30.6%.
- Adjusted EBITDA increased 16.2% to \$69.8 million.
- Adjusted FFO per diluted share increased 30.4% to \$0.30.
- Income available to common stockholders was \$11.6 million (vs. \$30.9 million in 2012).
- Income available to common stockholders per diluted share was \$0.07 (vs. \$0.23 in 2012).

Ken Cruse, Chief Executive Officer, stated, "As we previously announced, improving demand trends in the third quarter led to a 7.6% improvement in our Comparable RevPAR, while our

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continued focus on property-level efficiencies helped drive a 220 basis point expansion of our Hotel EBITDA Margins. As a result, our Adjusted FFO per diluted share increased by more than 30% as compared to the third quarter 2012. As reflected in our updated 2013 outlook, we estimate that the recent federal government shutdown will have an isolated impact on our fourth quarter Adjusted EBITDA. However, we expect this event to have no lasting effect on portfolio performance following the fourth quarter. More importantly, our portfolio's leading indicators point to continued growth in 2014. During the third quarter our operators set another record for same-store group bookings, and consequently our group pace for 2014 continues to strengthen. With record-level occupancies, our operators are well-positioned to increase average daily rate. Accordingly, we currently anticipate our negotiated corporate business to increase more than 7% portfolio-wide in 2014. We believe Sunstone-specific factors, including the inclusion of hotels acquired during 2013 and the completion of major renovation work on a number of our hotels during 2013, should help fuel strong relative growth in 2014."

Mr. Cruse continued, "We are pleased to announce our pending acquisition of the 802-room Hyatt Regency San Francisco. The hotel is located in the heart of San Francisco's Central Business District and is anticipated to benefit from San Francisco's favorable supply and demand dynamic as well as the over 3 million square feet of additional office space under construction within a five block radius of the hotel. Consistent with our stated strategy, we expect this all-equity acquisition to improve the quality, scale and growth rate of our portfolio, while continuing to gradually deleverage our balance sheet."

(1)

Comparable Hotel RevPAR and Comparable Hotel EBITDA Margin information presented reflect the Co

### SELECTED FINANCIAL DATA

(\$ in millions, except RevPAR, ADR and per share amounts)

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*(unaudited)*

**Three Months Ended September 30,**

**Nine Months Ended September 30,**

**2013**

**2012**

**% Change**

**2013**

**2012**

**% Change**

**Total Revenue**

**\$ 250.4**

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\$ 205.0

22.1%

\$ 679.9

\$ 596.1

14.1%

Comparable Hotel RevPAR

\$ 152.24

\$ 141.44

7.6%

\$ 144.83

\$ 139.31

4.0%

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Comparable Hotel Occupancy<sup>(1)</sup>

84.9%

81.4%

350 bps

80.8%

80.4%

40 bps

Comparable Hotel ADR<sup>(1)</sup>

\$ 179.32

\$ 173.76

3.2%

\$ 179.25

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\$ 173.27

3.5%

Comparable Hotel EBITDA Margin

30.6%

28.4%

220 bps

29.4%

28.6%

80 bps

Net income

\$ 15.8

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\$ 39.6

\$ 64.8

\$ 38.4

Income available to common stockholders

\$ 11.6

\$ 30.9

\$ 44.3

\$ 14.3

Income available to common stockholders per diluted share

\$ 0.07

\$ 0.23

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\$ 0.28

\$ 0.11

EBITDA

\$ 68.0

\$ 96.4

\$ 221.2

\$ 205.5

Adjusted EBITDA

\$ 69.8

\$ 60.1

\$ 178.5

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\$ 174.3

FFO

\$ 46.7

\$ 30.0

\$ 93.3

\$ 81.7

Adjusted FFO

\$ 48.0

\$ 31.6

\$ 110.7

\$ 87.4

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FFO per diluted share

\$ 0.29

\$ 0.22

\$ 0.59

\$ 0.66

Adjusted FFO per diluted share

\$ 0.30

\$ 0.23

\$ 0.70

\$ 0.70

(1)

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Comparable Hotel operating statistics include the effects of converting the Company's ten Marriott-managed hotels to Sunstone Hotel Investors' ownership.

Disclosure regarding the non-GAAP financial measures in this release is included on page 5. Reconciliations of non-GAAP financial measures to the most comparable GAAP measure for each of the periods presented are included on pages 10 through 14 of this release.

The Company's actual results for the quarter ended September 30, 2013 compare to its guidance originally provided on August 5, 2013 as follows:

## **Metric**

### **Quarter Ended**

**September 30, 2013**

### **Guidance (1)**

### **Quarter Ended**

**September 30, 2013**

### **Actual Results**

***(unaudited)***

**Performance**

**Relative to Prior**

**Guidance Midpoint**

Comparable Hotel RevPAR Growth (2)

**+5.0% - 7.0%**

7.6%

+1.6%

Net Income (\$ millions)

**\$14 - \$17**

\$16

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\$0

Adjusted EBITDA (\$ millions)

**\$66 - \$69**

\$70

\$2

Adjusted FFO (\$ millions)

**\$44 - \$47**

\$48

\$2

Adjusted FFO per diluted share

**\$0.27 - \$0.29**

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\$0.30

\$0.02

Diluted Weighted Average Shares Outstanding

**161,500,000**

161,373,000

(127,000)

(1)

Reflects guidance presented on August 5, 2013

(2)

Comparable Hotel RevPAR statistics include the effects of converting the Company's ten Marriott-managed hotels to Sunstone management.

### Recent Developments

On October 28, 2013, the Company entered into a purchase-and-sale agreement to acquire the 802-room Hyatt Regency San Francisco (the "Hotel") for an investment value of \$262.5 million

(  
\$327,000

/key). The gross purchase price equates to a 14.2x multiple on 2014 forecasted Hotel EBITDA of

\$18.5 million

and a 6.0% capitalization rate on 2014 forecasted hotel net operating income. During the Company's anticipated 2013 ownership period and due to normal seasonality, the Hotel is expected to generate between

\$(0.3) million and \$(0.1) million

of Hotel EBITDA and between

\$(0.5) million and \$(0.3) million

of hotel net operating loss. Hyatt will continue to operate the Hotel under an operating lease with economics that follow a typical management fee structure. The Company plans to fund the acquisition of the Hotel using proceeds from its issuance of common stock on November 1, 2013

. The forecast amounts are based on our assumptions of operating performance and the other matters described below. We cannot assure you that the forecasts will be achieved.

The Hotel is located in the heart of San Francisco's Central Business District and is part of the Embarcadero District of downtown San Francisco

, the fifth largest office market in the country. In addition to the 3.0 million square feet of office space currently at the Embarcadero Center, there is an additional 3.0 million square feet of office space under construction near the new Transbay Terminal within a few blocks of the Hotel. The Hotel's 444 square foot average guestroom and 67,000 square feet of meeting and banquet space position the Hotel to capitalize on the expansion of the Embarcadero District as the premiere branded hotel in the Embarcadero.

Key Highlights from this transaction include:

- The Hotel is located on Market Street, across the street from the Ferry Terminal Building and within the financial district of San Francisco. The Hotel is expected to benefit from several local office developments currently under construction, as well as the new downtown transportation hub that is also underway.

- We expect the San Francisco hotel market to experience continued strong demand growth due to rapidly expanding professional and business services employment and a strong

city-wide convention calendar.

- We expect the San Francisco market to face less than 1.0% growth in new hotel supply over the next four years as hotel development in the city generally remains unattractive due to high development costs.

- The Hotel will increase our 2013 pro forma portfolio Comparable RevPAR by approximately \$3.97, or 2.7%.

- The equity-funded acquisition will reduce our pro forma 2013 corporate leverage ratio (debt plus preferred equity to total capitalization) by approximately 7%, and will enhance our financial flexibility by increasing our pool of unencumbered hotels to 13.

- The addition of the Hotel will improve our portfolio's geographic distribution and brand diversification.

On November 1, 2013, the Company issued 20,000,000 shares of its common stock for estimated gross proceeds of \$271.2 million (the "Offering"). The Company will use a majority of these proceeds to purchase the Hotel, and will use the remaining proceeds for future acquisitions or general corporate purposes, including working capital and capital investment in the Company's portfolio.

### Balance Sheet/Liquidity Update

As of September 30, 2013, the Company had approximately \$184.4 million of cash and cash equivalents, including restricted cash of \$84.1 million

. Adjusting for the funds received from the Company's Offering and the funds used to purchase the Hyatt Regency San Francisco, the Company's pro forma cash balance as of September 30, 2013

was approximately

\$193.1 million

of cash and cash equivalents, including restricted cash of

\$84.1 million

.

As of September 30, 2013, the Company had total assets of \$3.3 billion, including \$3.0 billion of net investments in hotel properties, total consolidated debt of \$1.4 billion

and stockholders' equity of

\$1.6 billion

.

## Capital Improvements

The Company invested \$22.6 million into capital improvements of its portfolio during the third quarter of 2013. Year-to-date, the Company has completed significant renovations at the Hilton Times Square, Hyatt Chicago Magnificent Mile, Hyatt Regency Newport Beach and the Renaissance Westchester.

## 2013 Outlook

The Company is providing guidance at this time, but does not undertake to make updates for any developments in its business or changes in the operating environment. Achievement of the anticipated results is subject to risks and uncertainties, including those disclosed in the Company's filings with the Securities and Exchange Commission. The Company's guidance does not take into account the impact of any unannounced hotel acquisitions, dispositions, re-brandings, management changes, transition costs, prior-year property tax assessments and/or credits, debt repurchases or unannounced financings during 2013.

For the fourth quarter of 2013, the Company expects:

**Metric**

**Quarter Ended**

**December 31, 2013 Guidance**

**Equity Offering /**

**Acquisition of the**

**Hyatt Regency San Francisco (1)**

**Revised Quarter          Ended**

**December 31, 2013**

**□ Guidance (1)**

**Change to Prior**

**Guidance Midpoint**

Comparable Hotel RevPAR Growth (2)

**+3.0% - 4.0%**

**5% - 6%**

**+3.0% - 4.0%**

**-**

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Net Income (\$ millions)

**\$6 - \$10**

-

**\$6 - \$10**

-

Adjusted EBITDA (\$ millions)

**\$59 - \$63**

-

**\$59 - \$63**

-

Adjusted FFO (\$ millions)

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**\$36 - \$40**

-

**\$36 - \$40**

-

Adjusted FFO per diluted share

**\$0.22 - \$0.25**

**\$(0.02)**

**\$0.21 - \$0.23**

**\$(0.02)**

Diluted Weighted Average Shares Outstanding

**161,400,000**

**13,260,000**

**174,660,000**

**13,260,000**

(1)

Reflects November 1, 2013 equity issuance (weighted average) and the anticipated December 2013 acco

(2)

Comparable Hotel RevPAR statistics include the effects of converting the Company's ten Marriott-manag

For the full year 2013, the Company expects:

**Metric**

**Prior 2013 FY Guidance (1)**

**Equity Offering /**

**Acquisition of the**

**Hyatt Regency**

**□ San Francisco (2)**

**Revised 2013 FY**

**Guidance (2)**

**Change to Prior**

**Guidance Midpoint**

**Comparable Hotel RevPAR Growth (3)**

**+3.0% - 5.0%**

**10% - 12%**

**+3.5% - 5.5%**

**+0.5%**

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Net Income (\$ millions)

**\$73 - \$77**

-

**\$73 - \$77**

-

Adjusted EBITDA (\$ millions)

**\$238 - \$242**

-

**\$238 - \$242**

-

Adjusted FFO (\$ millions)

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**\$147 - \$151**

-

**\$147 - \$151**

-

Adjusted FFO per diluted share

**\$0.92 - \$0.95**

**\$(0.02)**

**\$0.90 - \$0.93**

**\$(0.02)**

Diluted Weighted Average Shares Outstanding

**159,100,000**

**3,340,000**

**162,440,000**

**3,340,000**

(1)

Reflects guidance presented on October 24, 2013.

(2)

Reflects November 1, 2013 equity issuance (weighted average) and the anticipated December 2013 acco

(3)

Comparable Hotel RevPAR statistics include the effects of converting the Company's ten Marriott-manage

Fourth quarter and full year 2013 guidance is based in part on the following assumptions:

- Announced transactions are included as of their actual or expected closing date.
- 4.60% Exchangeable Senior Notes redemption – January 21, 2013.

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- Rochester Portfolio disposition – January 25, 2013.
  - Series A preferred stock redemption – March 1, 2013.
  - Hilton New Orleans St. Charles acquisition – May 1, 2013.
  - Series C preferred stock redemption – May 31, 2013.
  - Boston Park Plaza acquisition – July 2, 2013.
  - 20.0 million common share equity offering – November 1, 2013.
  - Expected acquisition of the Hyatt Regency San Francisco – December 2, 2013.
- 
- Full year capital investment of \$115.0 million to \$120.0 million.
  - Approximately \$2.0 million to \$3.0 million of EBITDA disruption related to the government shutdown during the fourth quarter.
    - Hotel revenue disruption of approximately \$10.0 million related to renovation projects completed during the first and second quarters – no material renovation-related displacement is assumed during the remainder of 2013.
    - Full year renovation-related hotel RevPAR disruption of approximately 100 to 125 basis points.
    - Full year comparable hotel EBITDA margin expansion of approximately 25 to 75 basis points.
    - Full year and fourth quarter Comparable Hotel RevPAR and comparable hotel EBITDA margins exclude the Boston Park Plaza due to the addition of 12 rooms in September 2012, and an additional 100 rooms in January 2013.
  - Full year corporate overhead expense (excluding stock amortization and one-time expenses related to future acquisition closing costs) of approximately \$20.0 million to \$21.0 million.
  - Full year interest expense of approximately \$71.0 million to \$73.0 million, including \$3.0 million in amortization of deferred financing fees.
  - Full year preferred dividends of approximately \$15.0 million for the Series D cumulative redeemable preferred stock, the Series A cumulative redeemable preferred stock through the March 1, 2013 redemption date and the Series C preferred stock through the May 31, 2013 redemption date.

### Dividend Update

On November 8, 2013, the Company's Board of Directors declared a cash dividend of \$0.05 per share payable to its common stockholders. The Company's Board of Directors also

declared a cash dividend of \$0.50 per share payable to its Series D cumulative redeemable preferred stockholders. The dividends will be paid on or before January 15, 2014 to common and preferred stockholders of record on December 31, 2013.

Subject to certain limitations, the Company intends to make dividends on its stock in amounts equivalent to 100% of its annual taxable income. The Company expects to apply the majority of its remaining net operating loss carryforwards to reduce its taxable income in respect of 2013, which will reduce the level of common stock dividends declared for 2013. The level of any future dividends will be determined by the Company's Board of Directors after considering taxable income projections, expected capital requirements, risks affecting the Company's business and in context of the Company's leverage-reduction initiatives. As a result, any future common stock dividends may be comprised of cash only, or a combination of cash and stock, consistent with Internal Revenue Service guidelines.

### **Supplemental Disclosures**

Contemporaneous with this release, the Company has furnished a Form 8-K with unaudited financial information. This additional information is being provided as a supplement to information prepared in accordance with generally accepted accounting principles. The Company undertakes no obligation to update any of the information provided to conform to actual results or changes in the Company's portfolio, capital structure or future expectations.

### **Earnings Call**

The Company will host a conference call to discuss third quarter 2013 financial results on November 12, 2013, at 12:00 p.m. Eastern Time (9:00 a.m. Pacific Time). A live web cast of the call will be available via the Investor Relations section of the Company's

website. Alternatively, investors may dial 1-877-941-9205 (for domestic callers) or 1-480-629-9771 (for international callers). A replay of the web cast will also be archived on the website.

### **About Sunstone Hotel Investors, Inc.**

Sunstone Hotel Investors, Inc. is a lodging real estate investment trust ("REIT") that as of November 11, 2013

has interests in 28 hotels comprised of 12,942 rooms. Adjusting for the Company's expected acquisition of the Hyatt Regency San Francisco, the Company will have interests in 29 hotels comprised of 13,744 rooms. Sunstone's hotels are primarily in the upper upscale segment and are operated under nationally recognized brands, such as Marriott, Hilton, Hyatt, Fairmont and Sheraton. For further information, please visit Sunstone's website at

[www.sunstonehotels.com](http://www.sunstonehotels.com)

Sunstone's mission is to create meaningful value for our stockholders by becoming the premier hotel owner. Our values include transparency, trust, ethical conduct, communication and discipline. Our goal is to improve the quality and scale of our portfolio while gradually deleveraging our balance sheet. As demand for lodging generally fluctuates with the overall economy (we refer to these changes in demand as the lodging cycle), we seek to employ a balanced, cycle-appropriate corporate strategy that encompasses the following:

- Proactive portfolio management;
- Intensive asset management;
- Disciplined external growth; and
- Measured balance sheet improvement.

This press release contains forward-looking statements within the meaning of federal securities laws and regulations. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will" and other similar terms and phrases, including references to assumptions and forecasts of future results. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made. These risks include, but are not limited to: volatility in the debt or equity markets affecting our ability to acquire or sell hotel assets;

international, national and local economic and business conditions, including the likelihood of a U.S. recession; the ability to maintain sufficient liquidity and our access to capital markets; potential terrorist attacks, which would affect occupancy rates at our hotels and the demand for hotel products and services; operating risks associated with the hotel business; risks associated with the level of our indebtedness and our ability to meet covenants in our debt and equity agreements; relationships with property managers and franchisors; our ability to maintain our properties in a first-class manner, including meeting capital expenditure requirements; our ability to compete effectively in areas such as access, location, quality of accommodations and room rate structures; changes in travel patterns, taxes and government regulations, which influence or determine wages, prices, construction procedures and costs; our ability to identify, successfully compete for and complete acquisitions; the performance of hotels after they are acquired; necessary capital expenditures and our ability to fund them and complete them with minimum disruption; our ability to continue to satisfy complex rules in order for us to qualify as a REIT for federal income tax purposes; and other risks and uncertainties associated with our business described in the Company's filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. All forward-looking information in this release is as of November 11, 2013, and the Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

This release should be read in conjunction with the consolidated financial statements and notes thereto included in our most recent reports on Form 10-K and Form 10-Q. Copies of these reports are available on our website at [www.sunstonehotels.com](http://www.sunstonehotels.com) and through the SEC's Electronic Data Gathering Analysis and Retrieval System ("EDGAR") at [www.sec.gov](http://www.sec.gov)

### **Non-GAAP Financial Measures**

We present the following non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance: Earnings Before Interest Expense, Taxes, Depreciation and Amortization, or EBITDA; Adjusted EBITDA (as defined below); Funds From Operations, or FFO; Adjusted FFO (as defined below); and comparable hotel EBITDA and comparable hotel EBITDA margin. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. EBITDA, Adjusted EBITDA, FFO, Adjusted FFO, comparable hotel EBITDA and comparable hotel EBITDA margin as calculated by us, may not be comparable to other companies that do not define such terms exactly as the Company. These non-GAAP measures are used in addition to and in conjunction

with results presented in accordance with GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

EBITDA is a commonly used measure of performance in many industries. We believe EBITDA is useful to investors in evaluating our operating performance because this measure helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization) from our operating results. We also believe the use of EBITDA facilitates comparisons between us and other lodging REITs, hotel owners who are not REITs and other capital-intensive companies. In addition, certain covenants included in our indebtedness use EBITDA as a measure of financial compliance. We also use EBITDA as a measure in determining the value of hotel acquisitions and dispositions.

Historically, we have adjusted EBITDA when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful information to investors regarding our operating performance and that the presentation of Adjusted EBITDA, when combined with the primary GAAP presentation of net income, is beneficial to an investor's complete understanding of our operating performance.

We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified non-cash items such as real estate depreciation and amortization, amortization of lease intangibles, any real estate impairment loss and any gain or loss on sale of real estate assets, all of which are based on historical cost accounting and may be of lesser significance in evaluating our current performance. We believe the use of FFO facilitates comparisons between us and other lodging REITs.

We also present Adjusted FFO when evaluating our operating performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance, and may facilitate comparisons of operating performance between periods and our peer companies.

We adjust EBITDA and FFO for the following items, which may occur in any period, and refer to these measures as either Adjusted EBITDA or Adjusted FFO:

- *Amortization of favorable and unfavorable contracts*: we exclude the non-cash amortization of the favorable management contract asset and the unfavorable tenant lease liability recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the favorable tenant lease asset recorded in conjunction with our acquisition of the Hilton New Orleans St. Charles, and the unfavorable tenant lease liabilities recorded in conjunction with our acquisition of the Boston Park Plaza. The amortization of favorable and unfavorable contracts does not reflect the underlying performance of our hotels.

- *Ground rent adjustments*: we exclude the non-cash expense incurred from straightlining our ground lease obligations as this expense does not reflect the underlying performance of our hotels.

- *Gains or losses from debt transactions*: we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired because, like interest expense, their removal helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure.

- *Acquisition costs*: under GAAP, costs associated with completed acquisitions are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the Company.

- *Consolidated partnership adjustments*: we deduct the non-controlling partner's pro rata share of any EBITDA or FFO adjustments related to our consolidated Hilton San Diego Bayfront partnership.

- *Cumulative effect of a change in accounting principle*: infrequently, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments because they do not reflect our actual performance for that period.

- *Impairment losses*: we exclude the effect of impairment losses because we believe that including them in Adjusted EBITDA and Adjusted FFO is not consistent with reflecting the ongoing performance of our remaining assets.

- *Other adjustments*: we exclude other adjustments such as lawsuit settlement costs (or the reversal of these costs), prior year property tax assessments and/or credits, management company transition costs, and departmental closing costs, including severance, because we do not believe these costs reflect our actual performance and/or the ongoing operations of our hotels.

In addition, to derive Adjusted EBITDA we exclude the non-cash expense incurred with the amortization of deferred stock compensation as this expense does not reflect the underlying performance of our hotels. We also include an adjustment for the cash ground lease expense

recorded on the Hyatt Chicago Magnificent Mile's building lease. Upon acquisition of this hotel, we determined that the building lease was a capital lease, and, therefore, we include a portion of the capital lease payment each month in interest expense. We include an adjustment for ground lease expense on capital leases in order to more accurately reflect the operating performance of the Hyatt Chicago Magnificent Mile. We also exclude the effect of gains and losses on the disposition of depreciable assets because we believe that including them in Adjusted EBITDA is not consistent with reflecting the ongoing performance of our assets. In addition, material gains or losses from the depreciated value of the disposed assets could be less important to investors given that the depreciated asset value often does not reflect its market value.

To derive Adjusted FFO, we also exclude the non-cash gains or losses on our derivatives, as well as the original issuance costs associated with the redemption of preferred stock and any federal and state taxes associated with the application of net operating loss carryforwards. We believe that these items are not reflective of our ongoing finance costs.

In presenting comparable hotel EBITDA and comparable hotel EBITDA margins, the revenue and expense items associated with BuyEfficient and other miscellaneous non-hotel items have been excluded. We believe the calculation of comparable hotel EBITDA results in a more accurate presentation of the hotel EBITDA margins for the Company's 27 comparable hotels, and that these non-GAAP financial measures are useful to investors in evaluating our property-level operating performance. Our 27 comparable hotels include all hotels held for investment as of September 30, 2013 except the Boston Park Plaza, and also include prior ownership results as applicable in 2012 and 2013 for the Hilton New Orleans St. Charles acquired in May 2013, along with prior ownership results as applicable in 2012 for the Hyatt Chicago Magnificent Mile acquired in June 2012 and the Hilton Garden Inn Chicago Downtown/Magnificent Mile acquired in July 2012

Our presentation of Comparable Hotel RevPAR, Comparable Hotel Occupancy and Comparable Hotel ADR include the effects of converting the operating statistics for the Company's ten Marriott-managed hotels from a 13-period basis as reported in 2012 to a standard 12-month calendar basis.

Reconciliations of net income to EBITDA, Adjusted EBITDA, FFO and Adjusted FFO are set forth on page 10. Reconciliations and the components of comparable hotel EBITDA and

comparable hotel EBITDA margin are set forth on pages 13 and 14.

For Additional Information: Bryan Giglia Sunstone Hotel Investors, Inc. (949) 382-3036

## **Hyatt Regency San Francisco**

### **Property-Level EBITDA Reconciliation**

*(Unaudited, \$ in thousands)*

**Plus:**

**Equals:**

**Hotel**

**Less:**

**Equals:**

**Total**

**Revenues**

**Net Income /**

**(Loss)**

**Depreciation**

**Hotel**

**EBITDA**

**EBITDA**

**Margin**

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## FF&E Reserve

## Hotel Net Operating

## Income / (Loss)

## FFO

## Contribution (5)

Sunstone 2013 Expected Ownership Period (1)

\$ 5,100

\$ (1,300)

\$ 1,100

\$ (200)

-3.9%

\$ (153)

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\$ (353)

\$ (200)

Full Year 2013 (2)

\$ 86,400

\$ 3,000

\$ 13,800

\$ 16,800

19.4%

\$ (2,592)

\$ 14,208

\$ 16,800

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### Forecast Full Year 2014 (3)

\$ 90,700

\$ 4,700

\$ 13,800

\$ 18,500

20.4%

\$ (2,721)

\$ 15,779

\$ 18,500

### 2014 EBITDA Multiple / Cap Rate (4)

14.2x

6.0%

(1)

Sunstone 2013 Expected Ownership Period for the Hyatt Regency San Francisco reflects forecast results

(2)

Full Year 2013 for the Hyatt Regency San Francisco reflects actual prior ownership results from January

(3)

Full Year 2014 reflects current forecast.

(4)

EBITDA Multiple calculated as Hotel EBITDA divided by Gross Purchase Price. Cap Rate calculated as

(5)

FFO Contribution calculated as Hotel EBITDA less Interest Expense. Due to the Hyatt Regency San Francisco

**Hyatt Regency San Francisco**

**Property-Level Operating Statistics**

*(Unaudited)*

**ADR**

**Occupancy**

**RevPAR**

**2013**

**2012**

**Variance**

**2013**

**2012**

**Variance**

**2013**

**2012**

**Variance**

December 2013 and 2012 (1)

\$ 215.02

\$ 198.92

8.1%

67.2%

71.6%

-6.1%

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 144.49

\$ 142.43

1.5%

Full Year 2013 and 2012 (2)

\$ 244.26

\$ 226.07

8.0%

85.5%

82.5%

3.6%

\$ 208.84

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 186.51

12.0%

(1)

December 2013 reflects forecast results for Sunstone's expected ownership period for the Hyatt Regency

(2)

Full Year 2013 for the Hyatt Regency San Francisco reflects actual prior ownership results from January

**Sunstone Hotel Investors, Inc.**

**Consolidated Balance Sheets**

*(In thousands, except share data)*

**September 30,**

**December 31,**

**2013**

**2012**

**(unaudited)**

**Assets**

Current assets:

Cash and cash equivalents

\$ 100,225

\$ 157,217

Restricted cash

84,139

78,394

Accounts receivable, net

41,223

27,498

Inventories

1,288

1,377

Prepaid expenses

10,815

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

10,739

Assets held for sale, net

-

132,335

Total current assets

237,690

407,560

Investment in hotel properties, net

2,977,049

2,681,877

Deferred financing fees, net

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

9,955

11,931

Goodwill

9,405

9,405

Other assets, net

21,587

25,902

## **Total assets**

\$ 3,255,686

\$ 3,136,675

## Liabilities and Equity

Current liabilities:

Accounts payable and accrued expenses

\$ 25,806

\$ 22,646

Accrued payroll and employee benefits

28,650

26,738

Dividends payable

10,444

7,437

Other current liabilities

36,097

30,963

Current portion of notes payable

23,351

76,723

Notes payable of assets held for sale

-

27,270

Liabilities of assets held for sale

-

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

8,228

Total current liabilities

124,348

200,005

Notes payable, less current portion

1,387,006

1,286,666

Capital lease obligations, less current portion

15,594

15,621

Other liabilities



# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

Equity:

Stockholders' equity:

Preferred stock, \$0.01 par value, 100,000,000 shares authorized.

8.0% Series A Cumulative Redeemable Preferred Stock at September 30, 2012, stated 7,050,000 shares

-

176,250

8.0% Series D Cumulative Redeemable Preferred Stock at September 30, 2012 and December 31, 2012

115,000

115,000

Common stock, \$0.01 par value, 100,000,000 shares authorized, 135,230 shares outstanding at September 30, 2012 and 135,230 shares outstanding at December 31, 2012

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,609

1,352

Additional paid in capital

1,796,656

1,493,397

Retained earnings

219,837

158,376

Cumulative dividends

(500,001)

(475,144)

Accumulated other comprehensive loss

-

(5,335)

Total stockholders' equity

1,633,101

1,463,896

Non-controlling interest in consolidated joint ventures

55,736

55,417

Total equity

1,688,837

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,519,313

### Total liabilities and equity

\$ 3,255,686

\$ 3,136,675

### 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, □

**2013**

**2012**

**2013**

**2012**

▣ **Revenues** ▣

Room

\$ 181,708

\$ 147,405

\$ 482,591

\$ 415,329

Food and beverage

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

53,080

44,007

155,550

143,010

Other operating

15,582

13,629

41,788

37,778

**□ Total revenues □**

250,370

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

205,041

679,929

596,117

## □ Operating expenses □

Room

46,347

38,062

124,338

107,019

Food and beverage

37,913

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

32,888

108,067

99,770

Other operating

4,284

4,151

12,413

11,774

Advertising and promotion

12,261

10,280

34,766

30,374

Repairs and maintenance

9,394

7,721

26,043

22,797

Utilities

7,895

6,943

20,207

18,839

Franchise costs

8,770

7,957

24,019

21,421

Property tax, ground lease and insurance

20,435

17,405

58,200

50,243

Property general and administrative

27,067

22,891

75,961

68,412

Corporate overhead

6,586

6,114

20,116

18,887

Depreciation and amortization

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

35,050

34,381

101,241

96,568

### □ Total operating expenses□

216,002

188,793

605,371

546,104

### □ Operating income□

34,368

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

16,248

74,558

50,013

Interest and other income

727

18

2,078

155

Interest expense

(18,854)

(19,312)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(53,540)

(58,100)

Loss on extinguishment of debt

-

-

(44)

(191)

**□ Income (loss) before income taxes and discontinued operations □**

16,241

(3,046)

23,052

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(8,123)

Income tax provision

(424)

-

(6,710)

-

**Income (loss) from continuing operations**

15,817

(3,046)

16,342

(8,123)

Income from discontinued operations

-

42,602

48,410

46,566

□ **Net income** □

15,817

39,556

64,752

38,443

Income from consolidated joint venture attributable to non-controlling interest

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(1,768)

(827)

(3,291)

(1,694)

Distributions to non-controlling interest

(8)

(8)

(24)

(24)

Dividends paid on unvested restricted stock compensation

(101)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

(101)

-

Preferred stock dividends and redemption charges

(2,300)

(7,437)

(16,713)

(22,311)

Undistributed income allocated to unvested restricted stock compensation

(30)

(352)

(295)

(162)

**Income available to common stockholders**

\$ 11,610

\$ 30,932

\$ 44,328

\$ 14,252

**Basic and diluted per share amounts:**

Income (loss) from continuing operations available (attributable) to common stockholders

\$ 0.07

\$ (0.09)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ (0.02)

\$ (0.26)

Income from discontinued operations

-

0.32

0.30

0.37

Basic and diluted income available (loss attributable) to common stockholders per common share

\$ 0.07

\$ 0.23

\$ 0.28

\$ 0.11

**Basic and diluted weighted average common shares outstanding**

160,856

135,236

157,628

124,271

**Dividends declared per common share**

\$ 0.05

\$ -

\$ 0.05

\$ -

**Sunstone Hotel Investors, Inc.**

**Reconciliation of Net Income to Non-GAAP Financial Measures**

*(Unaudited and in thousands, except per share amounts)*

**Reconciliation of Net Income to EBITDA and Adjusted EBITDA**

**Three Months Ended**

**Nine Months Ended**

**September 30,**

**September 30,**

**2013**

**2012**

**2013**

**2012**

**Net income**

\$ 15,817

\$ 39,556

\$ 64,752

\$ 38,443

**Operations held for investment:**

Depreciation and amortization

35,050

34,381

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

101,241

96,568

Amortization of lease intangibles

1,028

1,028

3,084

3,084

Interest expense

18,854

19,312

53,540

58,100

Income tax provision

424

-

6,710

-

**Non-controlling interests:**

Income from consolidated joint venture attributable to non-controlling interest

(1,768)

(827)

(3,291)

(1,694)

Depreciation and amortization

(811)

(1,422)

(3,149)

(4,261)

Interest expense

(590)

(622)

(1,759)

(1,872)

**Discontinued operations:**

Depreciation and amortization

-

3,125

-

10,982

Amortization of lease intangibles

-

-

-

14

Interest expense

-

1,832

99

6,103

**EBITDA**

68,004

96,363

221,227

205,467

**Operations held for investment:**

Amortization of deferred stock compensation

1,262

812

3,578

2,654

Amortization of favorable and unfavorable contracts, net

46

92

275

92

Non-cash straightline lease expense

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

513

694

1,548

2,083

Capital lease obligation interest - cash ground rent

(351)

(351)

(1,053)

(468)

(Gain) loss on sale of assets, net

-

33

(5)

22

Loss on extinguishment of debt

-

-

44

191

Closing costs - completed acquisitions

446

590

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,283

1,965

Lawsuit settlement costs, net

-

-

358

158

Prior year property tax and CAM adjustments, net

-

(440)

106

621

Hotel laundry closing costs

-

424

-

424

**Non-controlling interests:**

Non-cash straightline lease expense

(113)

(113)

(338)

(339)

Prior year property tax adjustments, net

-

63

-

(202)

**Discontinued operations:**

Gain on sale of assets, net

-

(38,115)

(51,620)

(38,292)

Loss on extinguishment of debt

-

-

3,115

-

Lawsuit settlement costs reversal

-

-

-

(48)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,803

(36,311)

(42,709)

(31,139)

### **Adjusted EBITDA**

\$ 69,807

\$ 60,052

\$ 178,518

\$ 174,328

### **Reconciliation of Net Income to FFO and Adjusted FFO**

#### **Net income**

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 15,817

\$ 39,556

\$ 64,752

\$ 38,443

Preferred stock dividends and redemption charges

(2,300)

(7,437)

(16,713)

(22,311)

### **Operations held for investment:**

Real estate depreciation and amortization

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

34,694

34,082

100,197

95,663

Amortization of lease intangibles

1,028

1,028

3,084

3,084

(Gain) loss on sale of assets, net

-

33

(5)

22

**Non-controlling interests:**

Income from consolidated joint venture attributable to non-controlling interest

(1,768)

(827)

(3,291)

(1,694)

Real estate depreciation and amortization

(811)

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(1,422)

(3,149)

(4,261)

## Discontinued operations:

Real estate depreciation and amortization

-

3,125

-

10,982

Amortization of lease intangibles

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

-

14

Gain on sale of assets, net

-

(38,115)

(51,620)

(38,292)

**FFO**

46,660

30,023

93,255

81,650

**Operations held for investment:**

Amortization of favorable and unfavorable contracts, net

46

92

275

92

Non-cash straightline lease expense

513

694

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,548

2,083

Write-off of deferred financing fees

-

-

-

3

Non-cash interest related to (gain) loss on derivatives, net

(12)

96

(429)

595

Loss on extinguishment of debt

-

-

44

191

Closing costs - completed acquisitions

446

590

1,283

1,965

Lawsuit settlement costs, net

-

-

358

158

Prior year property tax and CAM adjustments, net

-

(440)

106

621

Hotel laundry closing costs

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

424

-

424

Income tax provision

424

-

6,710

-

Preferred stock redemption charges

-

-

4,770

-

**Non-controlling interests:**

Non-cash straightline lease expense

(113)

(113)

(338)

(339)

Non-cash interest related to loss on derivative

(1)

-

(2)

(1)

Prior year property tax adjustments, net

-

63

-

(202)

**Discontinued operations:**

Loss on extinguishment of debt

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

3,115

-

Write-off of deferred financing fees

-

185

-

185

Lawsuit settlement costs reversal

-

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

(48)

1,303

1,591

17,440

5,727

## **Adjusted FFO**

\$ 47,963

\$ 31,614

\$ 110,695

\$ 87,377

**FFO per diluted share**

\$ 0.29

\$ 0.22

\$ 0.59

\$ 0.66

**Adjusted FFO per diluted share**

\$ 0.30

\$ 0.23

\$ 0.70

\$ 0.70

**Basic weighted average shares outstanding**

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

160,856

135,236

157,628

124,271

Shares associated with unvested restricted stock awards

517

318

404

235

**Diluted weighted average shares outstanding**

161,373

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

135,554

158,032

124,506

**Sunstone Hotel Investors, Inc.**

**Reconciliation of Net Income to Non-GAAP Financial Measures**

**Guidance for Fourth Quarter 2013**

*(Unaudited and in thousands except per share amounts)*

**Reconciliation of Net Income to Adjusted EBITDA**

**Quarter Ended**

**December 31, 2013**

**Low**

**High**

**Net income**

\$ 5,500

\$ 9,500

Depreciation and amortization

35,100

35,100

Amortization of lease intangibles

1,000

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,000

Interest expense

18,800

18,800

Non-controlling interests

(3,400)

(3,400)

Amortization of deferred stock compensation

1,200

1,200

Income tax provision

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

1,000

1,000

Capital lease obligation interest - cash ground rent

(400)

(400)

Non-cash straightline lease expense

600

600

## **Adjusted EBITDA**

\$ 59,400

\$ 63,400

## Reconciliation of Net Income to Adjusted FFO

### Net income

\$ 5,500

\$ 9,500

Preferred stock dividends

(2,300)

(2,300)

Real estate depreciation and amortization

33,500

33,500

Non-controlling interests

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(2,900)

(2,900)

Amortization of lease intangibles

1,000

1,000

Income tax provision

1,000

1,000

Non-cash straightline lease expense

600

600

**Adjusted FFO**

\$ 36,400

\$ 40,400

**Adjusted FFO per diluted share**

\$ 0.21

\$ 0.23

**Diluted weighted average shares outstanding**

174,660

174,660

**Sunstone Hotel Investors, Inc.**

**Reconciliation of Net Income to Non-GAAP Financial Measures**

**Guidance for Full Year 2013**

*(Unaudited and in thousands except per share amounts)*

**Reconciliation of Net Income to Adjusted EBITDA**

**Year Ended**

**December 31, 2013**

**Low**

**High**

**Net income**

\$ 72,500

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 76,700

Depreciation and amortization

136,000

136,000

Amortization of lease intangibles

4,000

4,000

Interest expense

71,700

71,700

Non-controlling interests

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(11,600)

(11,800)

Amortization of deferred stock compensation

4,700

4,700

Income tax provision

7,800

7,800

Capital lease obligation interest - cash ground rent

(1,400)

(1,400)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

Non-cash straightline lease expense

2,800

2,800

Gain on sale of assets

(51,600)

(51,600)

Loss on extinguishment of debt

3,100

3,100

**Adjusted EBITDA**

\$ 238,000

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 242,000

### Reconciliation of Net Income to Adjusted FFO

#### Net income

\$ 72,500

\$ 76,700

Preferred stock dividends

(15,400)

(15,400)

Real estate depreciation and amortization

133,700

133,700

Non-controlling interests

(9,900)

(10,100)

Amortization of lease intangibles

4,000

4,000

Income tax provision

7,800

7,800

Non-cash straightline lease expense

2,800

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

2,800

Gain on sale of assets

(51,600)

(51,600)

Loss on extinguishment of debt

3,100

3,100

### **Adjusted FFO**

\$ 147,000

\$ 151,000

### **Adjusted FFO per diluted share**

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 0.90

\$ 0.93

### **Diluted weighted average shares outstanding**

162,440

162,440

**Sunstone Hotel Investors, Inc.**

### **Comparable Hotel EBITDA and Margins**

*(Unaudited and in thousands except hotels and rooms)*

**Three Months Ended September 30, 2013**

**Three Months Ended September 30, 2012**

**Actual (1)**

**Non-Comparable Hotel (2)**

**Comparable (3)**

**Actual (4)**

**Prior Ownership Adjustments (5)**

**Pro Forma Comparable (6)**

**Non-Comparable Hotel (2)**

**Comparable (3)**

Number of Hotels

28

(1)

27

26

2

28

(1)

27

Number of Rooms

12,942

(1,053)

11,889

11,639

1,303

12,942

(1,053)

11,889

**Hotel EBITDA Margin (7)**

**30.8%**

**33.7%**

**30.6%**

**28.6%**

**30.6%**

**28.8%**

**30.3%**

**28.6%**

**Hotel EBITDA Margin adjusted for prior year property tax and CAM adjustments, net (8)**

**30.8%**

**30.6%**

**28.4%**

**28.6%**

**28.4%**

Hotel Revenues

Room revenue

\$ 181,708

\$ (15,299)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

\$ 166,409

\$ 147,405

\$ 17,121

\$ 164,526

\$ (14,105)

\$ 150,421

Food and beverage revenue

53,080

(3,678)

49,402

44,007

2,957

46,964

(2,854)

44,110

Other operating revenue

13,799

(961)

12,838

12,036

974

13,010

(769)

12,241

**Total Hotel Revenues**

248,587

(19,938)

228,649

203,448

21,052

224,500

(17,728)

206,772

Hotel Expenses

Room expense

46,347

(4,332)

42,015

38,062

4,747

42,809

(3,949)

38,860

Food and beverage expense

37,913

(2,714)

35,199

32,888

2,380

35,268

(2,296)

32,972

Other hotel expense

61,815

(4,177)

57,638

53,060

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

4,957

58,017

(3,952)

54,065

General and administrative expense

25,882

(2,001)

23,881

21,292

2,525

23,817

(2,167)

21,650

**Total Hotel Expenses**

171,957

(13,224)

158,733

145,302

14,609

159,911

(12,364)

147,547

**Hotel EBITDA**

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

**76,630**

**(6,714)**

**69,916**

**58,146**

**6,443**

**64,589**

**(5,364)**

**59,225**

Prior year property tax and CAM adjustments, net

-

-

-

(440)

-

(440)

-

(440)

**Hotel EBITDA adjusted for prior year property tax and CAM adjustments, net**

**76,630**

**(6,714)**

**69,916**

**57,706**

**6,443**

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

**64,149**

**(5,364)**

**58,785**

Non-hotel operating income

610

-

610

516

-

516

-

516

Amortization of lease intangibles

(1,028)

-

(1,028)

(1,028)

-

(1,028)

-

(1,028)

Amortization of favorable and unfavorable contracts, net

(46)

-

(46)

(92)

-

(92)

-

(92)

Non-cash straightline lease expense

(513)

-

(513)

(694)

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

(694)

-

(694)

Capital lease obligation interest - cash ground rent

351

-

351

351

-

351

-

351

Management company transition costs

-

-

-

(32)

-

(32)

-

(32)

Prior year property tax and CAM adjustments, net

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

-

-

440

-

440

-

440

Hotel laundry closing costs

-

-

-

(424)

-

(424)

-

(424)

Corporate overhead

(6,586)

-

(6,586)

(6,114)

-

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(6,114)

-

(6,114)

Depreciation and amortization

(35,050)

2,833

(32,217)

(34,381)

(2,384)

(36,765)

1,849

(34,916)

**Operating Income**

34,368

(3,881)

30,487

16,248

4,059

20,307

(3,515)

16,792

Interest and other income

727

-

727

18

-

18

-

18

Interest expense

(18,854)

1,338

(17,516)

(19,312)

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(1,337)

(20,649)

1,337

(19,312)

Income tax provision

(424)

-

(424)

-

-

-

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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-

Income from discontinued operations

-

-

-

42,602

-

42,602

-

42,602

**Net Income**

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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\$ 15,817

\$ (2,543)

\$ 13,274

\$ 39,556

\$ 2,722

\$ 42,278

\$ (2,178)

\$ 40,100

(1)

Actual represents the Company's ownership results for the 28 hotels held for investment as of September

(2)

Non-Comparable Hotel represents the Company's ownership results and prior ownership results for the

(3)

Comparable represents the Company's ownership results, prior ownership results and the Company's p

(4)

Actual represents the Company's ownership results for the 26 hotels held for investment as of September

(5)

Prior Ownership Adjustments represent prior ownership results for the Hilton Garden Inn Chicago Down

(6)

Pro Forma Comparable represents the Company's ownership results, prior ownership results and the C

(7)

Hotel EBITDA Margin is calculated as Hotel EBITDA divided by Total Hotel Revenues.

(8)

Hotel EBITDA Margin for the three months ended September 30, 2012 includes the additional benefit of

**Sunstone Hotel Investors, Inc.**

**Comparable Hotel EBITDA and Margins**

*(Unaudited and in thousands except hotels and rooms)*

**Nine Months Ended September 30, 2013**

**Nine Months Ended September 30, 2012**

**Actual (1)**

**Prior Ownership Adjustments (2)**

**Pro Forma Comparable (3)**

**Non-Comparable Hotel (4)**

**Comparable (5)**

**Actual (6)**

**Prior Ownership Adjustments (7)**

**Pro Forma Comparable (3)**

**Non-Comparable Hotel (4)**

**Comparable (5)**

Number of Hotels

28

28

(1)

27

26

2

28

(1)

27

Number of Rooms

12,942

12,942

(1,053)

11,889

11,639

1,303

12,942

(1,053)

11,889

**Hotel EBITDA Margin (8)**

**29.4%**

**25.9%**

**29.2%**

**27.4%**

**29.4%**

**28.8%**

**27.0%**

**28.6%**

**26.7%**

**28.7%**

**Hotel EBITDA Margin adjusted for prior year property tax and CAM adjustments, net (9)**

**29.4%**

**29.2%**

**29.4%**

**28.7%**

**28.5%**

**28.6%**

Hotel Revenues

Room revenue

\$ 482,591

\$ 28,961

\$ 511,552

\$ (39,617)

\$ 471,935

\$ 415,329

\$ 61,798

\$ 477,127

\$ (38,041)

\$ 439,086

Food and beverage revenue

155,550

7,422

162,972

(11,023)

151,949

143,010

12,028

155,038

(9,746)

145,292

Other operating revenue

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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36,829

1,619

38,448

(2,275)

36,173

33,257

3,898

37,155

(2,273)

34,882

### **Total Hotel Revenues**

674,970

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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38,002

712,972

(52,915)

660,057

591,596

77,724

669,320

(50,060)

619,260

Hotel Expenses

Room expense

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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124,338

8,624

132,962

(12,091)

120,871

107,019

16,827

123,846

(10,956)

112,890

Food and beverage expense

108,067

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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5,256

113,323

(7,922)

105,401

99,770

8,882

108,652

(7,387)

101,265

Other hotel expense

171,981

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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9,688

181,669

(12,283)

169,386

150,666

21,940

172,606

(12,071)

160,535

General and administrative expense

72,174

4,584

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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76,758

(6,117)

70,641

64,033

9,080

73,113

(6,283)

66,830

### **Total Hotel Expenses**

476,560

28,152

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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504,712

(38,413)

466,299

421,488

56,729

478,217

(36,697)

441,520

### **Hotel EBITDA**

**198,410**

**9,850**

**208,260**

**(14,502)**

**193,758**

**170,108**

**20,995**

**191,103**

**(13,363)**

**177,740**

Prior year property tax and CAM adjustments, net

106

-

106

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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-

106

(496)

-

(496)

-

(496)

**Hotel EBITDA adjusted for prior year property tax and CAM adjustments, net**

**198,516**

**9,850**

**208,366**

**(14,502)**

**193,864**

**169,612**

**20,995**

**190,607**

**(13,363)**

**177,244**

Non-hotel operating income

1,359

-

1,359

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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1,359

1,216

-

1,216

-

1,216

Amortization of lease intangibles

(3,084)

-

(3,084)

-

(3,084)

(3,084)

-

(3,084)

-

(3,084)

Amortization of favorable and unfavorable contracts, net

(275)

-

(275)

-

(275)

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

(92)

-

(92)

-

(92)

Non-cash straightline lease expense

(1,548)

-

(1,548)

-

(1,548)

(2,083)

-

(2,083)

-

(2,083)

Capital lease obligation interest - cash ground rent

1,053

-

1,053

-

1,053

468

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

585

1,053

-

1,053

Hotel laundry closing costs

-

-

-

-

-

(424)

-

(424)

-

(424)

Management company transition costs

-

-

-

-

-

(641)

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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(641)

-

(641)

Prior year property tax and CAM adjustments, net

(106)

-

(106)

-

(106)

496

-

496

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

496

Corporate overhead

(20,116)

-

(20,116)

-

(20,116)

(18,887)

-

(18,887)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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-

(18,887)

Depreciation and amortization

(101,241)

(4,412)

(105,653)

6,531

(99,122)

(96,568)

(12,683)

(109,251)

5,547

(103,704)

Impairment loss

-

-

-

-

-

-

-

-

-

-

**Operating Income**

74,558

5,438

79,996

(7,971)

72,025

50,013

8,897

58,910

(7,816)

51,094

Interest and other income

2,078

-

2,078

-

2,078

155

-

155

-

155

Interest expense

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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(53,540)

(2,647)

(56,187)

3,985

(52,202)

(58,100)

(4,569)

(62,669)

3,984

(58,685)

Loss on extinguishment of debt

(44)

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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-

(44)

-

(44)

(191)

-

(191)

-

(191)

Income tax provision

(6,710)

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

-

(6,710)

-

(6,710)

-

-

-

-

-

Income from discontinued operations

48,410

-

# Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

---

48,410

-

48,410

46,566

-

46,566

-

46,566

## **Net Income**

\$ 64,752

\$ 2,791

## Sunstone Hotel Investors Reports Results For Third Quarter 2013

Written by Australian Business

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\$ 67,543

\$ (3,986)

\$ 63,557

\$ 38,443

\$ 4,328

\$ 42,771

\$ (3,832)

\$ 38,939

(1)

Actual represents the Company's ownership results for the 28 hotels held for investment as of September

(2)

Prior Ownership Adjustments represent prior ownership results for the Hilton New Orleans St. Charles a

(3)

Pro Forma Comparable represents the Company's ownership results, prior ownership results and the C

(4)

Non-Comparable Hotel represents the Company's ownership results and prior ownership results for the

(5)

Comparable represents the Company's ownership results, prior ownership results and the Company's p

(6)

Actual represents the Company's ownership results for the 26 hotels held for investment as of September

(7)

Prior Ownership Adjustments represent prior ownership results for the Hyatt Chicago Magnificent Mile a

(8)

Hotel EBITDA Margin is calculated as Hotel EBITDA divided by Total Hotel Revenues.

(9)

Hotel EBITDA Margin for the nine months ended September 30, 2013 includes the additional expense o

SOURCE Sunstone Hotel Investors, Inc.

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