Sunstone Hotel Investors, Inc.
Form 10-Q
August 05, 2009
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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, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 001-32319

Sunstone Hotel Investors, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**20-1296886**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
903 Calle Amanecer, Suite 100 San Clemente, California	**92673**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (949) 369-4000

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

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

75,170,261 shares of Common Stock, $0.01 par value, as of August 3, 2009

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended June 30, 2009

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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, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 195,073	$ 176,898
Restricted cash	44,925	40,536
Accounts receivable, net	29,475	34,198
Due from affiliates	92	109
Inventories	2,553	2,781
Prepaid expenses	6,436	7,245
Investment in hotel properties of discontinued operations, net	7,745	78,646
Investment in hotel property of operations held for non-sale disposition, net	29,303	
Other current assets of discontinued operations, net	870	2,000
Other current assets of operations held for non-sale disposition, net	3,620	2,790
Total current assets	320,092	345,203
Investment in hotel properties, net	2,190,619	2,282,963
Investment in hotel property of operations held for non-sale disposition, net		91,202
Other real estate, net	14,176	14,640
Investments in unconsolidated joint ventures	26,693	28,770
Deferred financing costs, net	9,153	11,291
Goodwill	8,659	13,404
Other assets, net	12,833	18,138
Total assets	$ 2,582,225	$ 2,805,611
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,936	$ 17,104
Accrued payroll and employee benefits	7,382	7,472
Due to Interstate SHP	14,876	16,088
Dividends payable	5,138	12,499
Other current liabilities	27,722	30,194
Current portion of notes payable	18,668	13,002
Current portion of note payable of operations held for non-sale disposition	65,000	
Other current liabilities of discontinued operations	564	2,980
Other current liabilities of operations held for non-sale disposition	2,504	2,120
Total current liabilities	162,790	101,459
Notes payable, less current portion	1,431,149	1,618,256
Note payable, less current portion of operations held for non-sale disposition		65,000
Other liabilities	6,562	6,388

Total liabilities	1,600,501	1,791,103
Commitments and contingencies *(Note 13)*		
Preferred stock, Series C Cumulative Convertible Redeemable Preferred Stock, $0.01 par value, 4,102,564 shares authorized, issued and outstanding at June 30, 2009 and December 31, 2008, liquidation preference of $24.375 per share	99,796	99,696
Stockholders equity:		
Preferred stock, $0.01 par value, 100,000,000 shares authorized. 8.0% Series A Cumulative Redeemable Preferred Stock, 7,050,000 shares issued and outstanding at June 30, 2009 and December 31, 2008, stated at liquidation preference of $25.00 per share	176,250	176,250
Common stock, $0.01 par value, 500,000,000 shares authorized, 73,841,451 shares issued and outstanding at June 30, 2009 and 47,864,654 shares issued and outstanding at December 31, 2008	738	479
Additional paid in capital	959,157	829,274
Retained earnings	136,964	260,659
Cumulative dividends	(387,253)	(347,922)
Accumulated other comprehensive loss	(3,928)	(3,928)
Total stockholders equity	881,928	914,812
Total liabilities and stockholders equity	$ 2,582,225	$ 2,805,611

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
REVENUES				
Room	$ 120,325	$ 157,589	$ 235,898	$ 294,272
Food and beverage	48,173	62,882	97,046	118,838
Other operating	14,303	14,736	27,772	29,720
Total revenues of operations held for non-sale disposition	4,013	6,644	7,703	12,247
Total revenues	186,814	241,851	368,419	455,077
OPERATING EXPENSES				
Room	28,614	33,038	55,760	63,807
Food and beverage	34,871	42,984	69,793	84,566
Other operating	7,066	8,159	14,779	16,502
Advertising and promotion	10,841	11,975	22,136	23,776
Repairs and maintenance	7,849	8,485	15,796	16,881
Utilities	6,995	8,188	15,179	16,532
Franchise costs	6,759	8,788	13,081	15,785
Property tax, ground lease, and insurance	12,784	12,818	24,127	25,704
Property general and administrative	21,129	25,472	42,421	49,932
Corporate overhead	4,849	5,244	10,608	11,929
Depreciation and amortization	27,377	26,602	54,492	53,932
Total operating expenses of operations held for non-sale disposition	4,660	5,786	9,350	11,512
Goodwill and other impairment losses	66,977		70,693	
Impairment loss of operations held for non-sale disposition	60,046		60,046	
Total operating expenses	300,817	197,539	478,261	390,858
Operating income (loss)	(114,003)	44,312	(109,842)	64,219
Equity in net losses of unconsolidated joint ventures	(584)	(56)	(2,101)	(1,522)
Interest and other income	254	1,101	876	1,679
Interest expense	(23,116)	(24,429)	(46,748)	(48,761)
Interest expense of operations held for non-sale disposition	(1,011)	(1,012)	(2,012)	(2,024)
Gain on extinguishment of debt	26,559		54,579	
Income (loss) from continuing operations	(111,901)	19,916	(105,248)	13,591
Income (loss) from discontinued operations	(18,304)	48,439	(18,447)	54,957
NET INCOME (LOSS)	(130,205)	68,355	(123,695)	68,548
Dividends paid on unvested restricted stock compensation		(224)	(447)	(463)
Preferred stock dividends and accretion	(5,188)	(5,232)	(10,375)	(10,464)
		(433)		(172)

Undistributed income allocated to unvested restricted stock compensation								
Undistributed income allocated to Series C preferred stock				(2,772)				(1,101)
INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS	$	(135,393)	$	59,694	$	(134,517)	$	56,348
Basic per share amounts:								
Income (loss) from continuing operations available (attributable) to common stockholders	$	(1.92)	$	0.19	$	(2.05)	$	0.02
Income (loss) from discontinued operations		(0.31)		0.84		(0.33)		0.94
Basic income available (loss attributable) to common stockholders per common share	$	(2.23)	$	1.03	$	(2.38)	$	0.96
Diluted per share amounts:								
Income (loss) from continuing operations available (attributable) to common stockholders	$	(1.92)	$	0.19	$	(2.05)	$	0.02
Income (loss) from discontinued operations		(0.31)		0.83		(0.33)		0.94
Diluted income available (loss attributable) to common stockholders per common share	$	(2.23)	$	1.02	$	(2.38)	$	0.96
Weighted average common shares outstanding:								
Basic		60,845		58,186		56,549		58,452
Diluted		60,845		58,276		56,549		58,546
Dividends declared per common share	$		$	0.35	$		$	0.70

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Preferred Stock Number of Shares	Preferred Stock Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2008	7,050,000	$ 176,250	47,864,654	$ 479	$ 829,274	$ 260,659	$ (347,922)	$ (3,928)	$ 914,812
Net proceeds from sale of common stock (unaudited)			20,700,000	207	98,491				98,698
Vesting of restricted common stock (unaudited)			227,640	2	2,486				2,488
Common stock dividends at $0.60 per share year to date (unaudited)			5,049,157	50	29,006		(29,056)		
Series A preferred dividends and dividends payable at $1.00 per share year to date (unaudited)							(7,050)		(7,050)
Series C preferred dividends and dividends payable at $0.786 per share year to date (unaudited)							(3,225)		(3,225)
Accretion of discount on Series C preferred stock (unaudited)					(100)				(100)
Net loss and comprehensive loss (unaudited)						(123,695)			(123,695)
Balance at June 30, 2009 (unaudited)	7,050,000	$ 176,250	73,841,451	$ 738	$ 959,157	$ 136,964	$ (387,253)	$ (3,928)	$ 881,928

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, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (123,695)	$ 68,548
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	230	255
(Gain) loss on sale of hotel properties and other assets	12,716	(42,108)
Gain on extinguishment of debt	(54,579)	
Depreciation	58,261	59,086
Amortization of deferred franchise fees and other intangibles	215	2,061
Amortization of deferred financing costs	1,204	838
Amortization of loan discounts	1,339	1,725
Amortization of deferred stock compensation	2,348	2,138
Goodwill and other impairment losses	135,657	
Equity in net losses of unconsolidated joint ventures	2,101	1,522
Changes in operating assets and liabilities:		
Restricted cash	(3,943)	(3,855)
Accounts receivable	5,337	1,560
Due from affiliates	17	854
Inventories	455	200
Prepaid expenses and other assets	2,379	4,148
Accounts payable and other liabilities	(2,638)	(377)
Accrued payroll and employee benefits	(780)	(7,646)
Due to Interstate SHP	(1,212)	(1,451)
Discontinued operations	173	698
Operations held for non-sale disposition	(925)	(938)
Net cash provided by operating activities	34,660	87,258
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of hotel properties and other assets	56,289	358,761
Cash proceeds held by accommodator		(361,017)
Restricted cash replacement reserve	(515)	8,514
Cash received from unconsolidated joint ventures		5,107
Acquisitions of hotel properties		25
Renovations and additions to hotel properties and other real estate	(26,059)	(59,696)
Net cash provided by (used in) investing activities	29,715	(48,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from common stock offering	103,500	
Payment of common stock offering costs	(4,802)	
Payment for repurchases of outstanding common stock		(11,827)
Proceeds from notes payable	60,000	40,000
Payments on notes payable	(66,781)	(44,048)
Payments for repurchases of notes payable and costs	(117,377)	
Payments of deferred financing costs	(3,104)	(10)
Dividends paid	(17,636)	(51,779)

Net cash used in financing activities			(46,200)		(67,664)
Net increase (decrease) in cash and cash equivalents			18,175		(28,712)
Cash and cash equivalents, beginning of period			176,898		64,967
Cash and cash equivalents, end of period		$	195,073	$	36,255
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Cash paid for interest		$	49,995	$	49,255
NONCASH INVESTING ACTIVITY					
Amortization of deferred stock compensation	construction activities	$	124	$	332
Amortization of deferred stock compensation	unconsolidated joint venture	$	16	$	64
NONCASH FINANCING ACTIVITY					
Issuance of stock dividend		$	29,056	$	
Dividends payable		$	5,138	$	25,775

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, 2009, the Company owned 41 hotels, and its third-party managers included Sunstone Hotel Properties, Inc., a division of Interstate Hotels & Resorts, Inc. (Interstate SHP), manager of 23 of the Company s hotels; subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. (collectively, Marriott), managers of 13 of the Company s hotels; and Hyatt Corporation (Hyatt), Fairmont Hotels & Resorts (U.S.) (Fairmont), Hilton Hotels Corporation (Hilton) and Starwood Hotels & Resorts Worldwide, Inc. (Starwood), collectively manager of five of the Company s hotels. In addition to its wholly owned hotels, the Company has a 38% equity interest in a joint venture that owns one hotel.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of June 30, 2009 and December 31, 2008, and for the three and six months ended June 30, 2009 and 2008, 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 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, 2008, filed with the Securities and Exchange Commission on February 12, 2009. Certain prior period amounts have been reclassified to conform to the current presentation, including changes resulting from the adoptions of FSP APB 14-1 (defined below) and FSP EITF 03-6-1 (defined below), as well as from the reclassification of the W San Diego Hotel to operations held for non-sale disposition discussed later in this Note 2.

The Company has evaluated subsequent events through the date of issuance of these financial statements, August 5, 2009.

Adjustment of Previously Issued Financial Statements

In May 2008, the Financial Accounting Standards Board (FASB) issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion* (FSP APB 14-1). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s non-convertible debt borrowing rate at the time of issuance. As a result, the liability component is recorded at a discount reflecting its below market interest rate. The liability component is subsequently accreted to its par value over its expected life based on a rate of interest that reflects the issuer s non-convertible debt borrowing rate at the time of issuance, and is reflected in the results of operations as interest expense. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required and early adoption was prohibited. The Operating Partnership s 4.60% exchangeable senior notes due 2027 (the Senior Notes) are within the scope of FSP APB 14-1. This change in methodology affects the Company s calculations of net income and earnings per share as the interest rate increases to 6.5% based on the Company s non-convertible debt borrowing rate at the time of issuance. This change in methodology does not increase the Company s cash interest payments.

On January 1, 2009, the Company adopted FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in FASB Statement No. 128,

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Earnings per Share (FAS 128). In accordance with FSP EITF 03-6-1, 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. Upon adoption, all prior-period earnings per share data presented were adjusted retrospectively.

In June 2009, the Company elected to cease the subsidization of debt service on the non-recourse mortgage for its W San Diego Hotel, or the hotel, which resulted in a default under the mortgage. As a consequence of the significant and continuing deterioration in demand for luxury lodging and the introduction of numerous new competitive hotels in the San Diego market, the Company believes the value of the hotel is now significantly less than the principal amount of the mortgage. Prior to electing this default, the Company made several attempts to work with the special servicer handling the W San Diego Hotel s loan to amend the terms of the mortgage to provide for a reduction in current interest payments. The special servicer declined the Company s proposed modifications. At this point, the Company does not expect further negotiation with the special servicer, and the Company is prepared to convey the hotel to the lender in lieu of repayment of the debt. In conjunction with this default, the Company has reclassified the assets, liabilities and results of operations of the W San Diego Hotel to operations held for non-sale disposition on its balance sheets, statements of operations and statements of cash flows.

As a result of the adoptions of FSP APB 14-1 and FSP EITF 03-6-1 on January 1, 2009 and the reclassification of the W San Diego Hotel to operations held for non-sale disposition, the Company has restated its December 31, 2008 consolidated balance sheet, as well as its statement of operations for the three and six months ended June 30, 2008, as follows (in thousands, except per share data):

		Adjustments		
	As previously reported (1)	FSP APB 14-1	FSP EITF 03-6-1	As adjusted
As of December 31, 2008:				
Notes payable, less current portion	$ 1,634,763	$ (16,507)	$	$ 1,618,256
Additional paid in capital	$ 807,475	$ 21,799	$	$ 829,274
Retained earnings	$ 265,951	$ (5,292)	$	$ 260,659
For the three months ended June 30, 2008:				
Interest expense	$ 23,566	$ 863	$	$ 24,429
Net income	$ 69,218	$ (863)	$	$ 68,355
Net income per share basic	$ 1.05	$ (0.02)	$	$ 1.03
Net income per share diluted	$ 1.05	$ (0.02)	$ (0.01)	$ 1.02
For the six months ended June 30, 2008:				
Interest expense	$ 47,036	$ 1,725	$	$ 48,761
Net income	$ 70,273	$ (1,725)	$	$ 68,548
Net income per share basic and diluted	$ 1.00	$ (0.03)	$ (0.01)	$ 0.96

(1) The amounts shown in the As previously reported column have been adjusted to reflect the reclassification of the W San Diego Hotel to operations held for non-sale disposition.

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.

Reporting Periods

The results the Company reports in its consolidated statements of operations are based on results reported to the Company by its hotel managers. These hotel managers use different reporting periods. Marriott uses a fiscal year ending on the Friday closest to December 31 and reports twelve weeks of operations for each of the first three quarters of the year, and sixteen or seventeen weeks of operations for the fourth quarter of the year. The Company s other hotel managers report operations on a standard monthly calendar. 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 2009 results of operations for the Marriott-managed hotels include results from January 3 through March 27 for the first quarter, March 28 through June 19 for the second quarter, June 20 through September 11 for the third quarter, and September 12 through January 1 for the fourth quarter. The Company s 2008 results of operations for the Marriott- managed hotels include results from December 29 through March 21 for the first quarter, March 22 through June 13 for the second quarter, June 14 through September 5 for the third quarter, and September 6 through January 2 for the fourth quarter.

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Fair Value of Financial Instruments

As of June 30, 2009 and December 31, 2008, the carrying amount of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

Effective January 1, 2008, the Company adopted FASB Statement No. 157, *Fair Value Measurements* (FAS 157) for financial assets and liabilities, and effective January 1, 2009, the Company adopted FAS 157 for all nonfinancial assets and liabilities. FAS 157 establishes a framework for measuring fair value and expands disclosures about 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 under FAS 157 are described below:

Basis of Fair Value Measurement

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.

The Company currently pays the premiums for a $5,000,000 split life insurance policy for its former Chief Executive Officer and current Executive Chairman, Robert A. Alter. Under the terms of the policy, the Company is entitled to receive the greater of the cash surrender value of the policy or the premiums paid by the Company following the termination of Mr. Alter s employment with the Company. Within 60 days following the date of the termination of the split dollar policy during Mr. Alter s lifetime, Mr. Alter may obtain a release of such obligation by paying the Company the greater of the total amount of the premiums paid by the Company or the then-current cash surrender value. The Company has valued this policy using Level 1 measurements at $1.7 million as of both June 30, 2009 and December 31, 2008. These amounts are included in other assets, net in the accompanying balance sheets.

The Company also has a Retirement Benefit Agreement with Mr. Alter. Pursuant to the Retirement Benefit Agreement, Mr. Alter may defer a portion of his compensation. Mr. Alter may amend the amount of his compensation to be deferred from time to time; provided, however, that any such amendment must be in compliance with Section 409A of the Internal Revenue Code. The Company will match 50% of Mr. Alter s deferrals for each year, up to a maximum of $1,500 for that year. Earnings on Mr. Alter s deferrals and the Company s matching contributions are an amount equal to the amount which would have been earned on such deferrals and matching contributions had they been paid as premiums on the life insurance policy noted above in accordance with the investment designations made by Mr. Alter. The balance in Mr. Alter s deferred compensation account is payable over a period of time following the termination of his employment with the Company, regardless of the reason for such termination. The Company has valued this agreement using Level 1 measurements at $1.7 million as of both June 30, 2009 and December 31, 2008. These amounts are included in accrued payroll and employee benefits in the accompanying balance sheets.

The Company has analyzed the carrying values of its hotel properties using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its hotel properties 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 has analyzed the carrying value of its goodwill using Level 3 measurements, including a discounted cash flow analysis taking into account each related property s expected cash flow from operations, holding period and proceeds from the potential disposition of the property. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of potential disposition and terminal capitalization rate. The Company s judgment is required in determining the discount rate applied to estimated cash flows, the terminal capitalization rate, the growth rate of each property s projected revenues and expenses, the need for capital expenditures, as well as specific market and economic conditions.

As of June 30, 2009 and December 31, 2008, all of the Company s outstanding debt had fixed interest rates. The Company s carrying value of its debt, including the W San Diego Hotel, totaled $1.5 billion and $1.7 billion as of June 30, 2009 and December 31, 2008, respectively. Using Level 3 measurements, the Company estimates that the fair market value of its debt as of June 30, 2009 and December 31, 2008 totaled $1.2 billion and $1.4 billion, respectively.

The following table presents the impairment charges recorded as a result of applying Level 3 measurements included in earnings for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30, 2009 (Unaudited)	Three Months Ended June 30, 2008 (Unaudited)	Six Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2008 (Unaudited)
Investment in hotel properties, net	$ 64,415	$	$ 64,532	$
Investment in hotel properties of discontinued operations, net	4,918		4,918	
Investment in hotel property of operations held for non-sale disposition, net	60,046		60,046	
Goodwill	1,145		4,745	
Total Level 3 measurement impairment losses included in earnings	$ 130,524	$	$ 134,241	$

The following table presents our assets and liabilities measured at fair value on a recurring and non-recurring basis at June 30, 2009 (in thousands):

		Fair Value Measurements at Reporting Date		
	Total June 30, 2009	Level 1	Level 2	Level 3
Assets:				
Life insurance policy	$ 1,730	$ 1,730	$	$
Investment in hotel properties, net(1)	79,859			79,859
Investment in hotel properties of discontinued operations, net	7,745			7,745
Investment in hotel property of operations held for non-sale disposition, net	29,303			29,303
Goodwill	8,659			8,659
Total assets	$ 127,296	$ 1,730	$	$ 125,566
Liabilities:				
Retirement benefit agreement	$ 1,730	$ 1,730	$	$
Total liabilities	$ 1,730	$ 1,730	$	$

(1) Includes the three hotel properties that were impaired and recorded at fair value as of June 30, 2009.

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 the Company s laundry facilities in Salt Lake City, Utah, and Rochester, Minnesota, 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 June 30, 2009 and December 31, 2008 includes an allowance for doubtful accounts of $0.1 million and $0.3 million, respectively. At June 30, 2009 and December 31, 2008, the Company had approximately $2.6 million and $4.9 million, respectively, in accounts receivable with one customer who is operating under a contract with the United States government. No amounts have been reserved for this receivable as of either June 30, 2009 or December 31, 2008 as all amounts have been deemed to be collectible.

Deferred Financing Costs

Deferred financing costs consist of loan fees and other financing costs related to the Company s outstanding indebtedness and are amortized to interest expense over the terms of the related debt.

Total amortization of deferred financing costs was $0.5 million and $0.4 million for the three months ended June 30, 2009 and 2008, respectively, the majority of which was included in interest expense. For the six months ended June 30, 2009 and 2008, total amortization of deferred financing costs was $0.9 million and $0.8 million, respectively, the majority of which was included in interest expense. Interest expense of operations held for non-sale disposition associated with the W San Diego Hotel contained a nominal amount of amortization of deferred financing costs for both the three and six months ended June 30, 2009 and 2008.

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During the second quarter of 2009, the Company wrote-off $0.3 million in deferred financing costs related to the amendment to its credit facility.

Earnings Per Share

The Company applies the two-class method when computing its earnings per share as required by the FASB Emerging Issues Task Force (EITF) Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share* (EITF 03-6). EITF 03-6 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.

On January 1, 2009, the Company adopted FSP EITF 03-6-1. FSP EITF 03-6-1 addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, need to be included in the earnings allocation when computing earnings per share under the two-class method as described in FAS 128. In accordance with FSP EITF 03-6-1, 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. Upon adoption, all prior-period earnings per share data presented were adjusted retrospectively with no material impact. For the three months ended June 30, 2009 and 2008, distributed and undistributed earnings representing non-forfeitable dividends of zero and $0.7 million, respectively, were allocated to the participating securities. For the six months ended June 30, 2009 and 2008, distributed and undistributed earnings representing non-forfeitable dividends of $0.4 million and $0.6 million, respectively, were allocated to the participating securities.

In accordance with FAS 128, 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 (using the treasury stock method), the incremental common shares issuable upon the exercise of stock options (using the treasury stock method) and the conversion of the Company s Series C Cumulative Convertible Redeemable Preferred Stock (Series C preferred stock).

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, 2009 (Unaudited)	Three Months Ended June 30, 2008 (Unaudited)	Six Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2008 (Unaudited)
Numerator:				
Net income (loss)	$ (130,205)	$ 68,355	$ (123,695)	$ 68,548
Less dividends paid on unvested restricted stock compensation		(224)	(447)	(463)
Less preferred stock dividends and accretion	(5,188)	(5,232)	(10,375)	(10,464)
Less undistributed income allocated to unvested restricted stock compensation		(433)		(172)
Less undistributed income allocated to Series C preferred stock		(2,772)		(1,101)
Numerator for basic and diluted earnings available (loss attributable) to common stockholders	$ (135,393)	$ 59,694	$ (134,517)	$ 56,348
Denominator:				
Weighted average basic common shares outstanding	60,845	58,186	56,549	58,452
Unvested restricted stock awards		76		80
Stock options		14		14

Weighted average diluted common shares outstanding	60,845	58,276	56,549	58,546
Basic earnings available (loss attributable) to common stockholders per common share	$ (2.23)	$ 1.03	$ (2.38)	$ 0.96
Diluted earnings available (loss attributable) to common stockholders per common share	$ (2.23)	$ 1.02	$ (2.38)	$ 0.96

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The Company s common stock options and unvested restricted stock units and shares associated with its long-term incentive plan have been excluded from the above calculation of earnings per share for the three and six months ended June 30, 2009, as their inclusion would have been anti-dilutive. The Company s shares of Series C preferred stock have been excluded from the above calculation of earnings per share for the three and six months ended June 30, 2009 and 2008 as their inclusion would have been anti-dilutive.

3. Investment in Hotel Properties

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

	June 30, 2009 (Unaudited)	December 31, 2008
Land	$ 274,120	$ 274,370
Buildings and improvements	2,068,389	2,114,012
Furniture, fixtures and equipment	287,188	275,868
Intangibles	35,736	35,736
Franchise fees	1,447	1,447
Construction in process	7,492	11,545
	2,674,372	2,712,978
Accumulated depreciation and amortization	(483,753)	(430,015)
	$ 2,190,619	$ 2,282,963

During the first quarter of 2009, the Company sold surplus artwork for net proceeds of $0.3 million and a net gain of $0.3 million. During the second quarter of 2009, the Company sold additional surplus artwork for net proceeds of $0.1 million and a net gain of $0.1 million. The gains on these sales are included in interest and other income on the consolidated statements of operations.

In March 2009, the Company recorded an impairment loss of $0.1 million to goodwill and other impairment losses on a parcel of land adjacent to one of its hotels in anticipation of its sale in June 2009. The Company received net proceeds of $0.1 million, and recorded a net loss of $0.1 million on this sale, which is included in interest and other income on the consolidated statements of operations.

In June 2009, the Company performed a review of each property for possible impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In this analysis of fair value, the Company used discounted cash flow analysis to estimate the fair value of its properties taking into account each property s expected cash flow from operations, holding period and 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. In conjunction with this review, the Company recorded an impairment loss of $64.5 million to goodwill and other impairment losses to reduce the carrying values of three hotels on its balance sheet to their fair values. The three hotels and respective impairment losses were: the Renaissance Westchester, $30.2 million; the Marriott Del Mar, $25.4 million; and the Marriott Ontario, $8.9 million.

In June 2009, the Company elected to cease the subsidization of debt service on the non-recourse mortgage for its W San Diego Hotel, or the hotel, which resulted in a default under the mortgage. As a consequence of the significant and continuing deterioration in demand for luxury lodging and the introduction of numerous new competitive hotels in the San Diego market, the Company believes the value of this hotel is now significantly less than the principal amount of its mortgage. Prior to electing the default, the Company made several attempts to work with the special servicer handling the W San Diego Hotel s loan to amend the terms of the mortgage to provide for a reduction in current interest payments. The special servicer declined the Company s proposed modifications. At this point, the Company does not expect further negotiation with the special servicer, and the Company is prepared to convey the hotel to the lender in lieu of repayment of the debt. In conjunction with this default, the Company has reclassified the assets, liabilities and results of operations of the W San Diego Hotel to operations held for non-sale disposition on its balance sheets, statements of operations and statements of cash flows. In addition, the Company recorded an impairment loss of $60.0 million in accordance with FAS 144 to impairment loss of operations held for non-sale disposition associated with the W San Diego

Hotel in order to reduce the carrying value of this hotel to its fair value as of June 30, 2009.

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4. Discontinued Operations

As part of a strategic plan to dispose of non-core hotel assets, the Company sold the Crowne Plaza Grand Rapids during the fourth quarter of 2008, sold the Marriott Napa Valley and the Marriott Riverside during the second quarter of 2009, and entered into an agreement during the second quarter of 2009 to sell the Hyatt Suites Atlanta Northwest in the third quarter of 2009. In addition, the Company sold the Hyatt Regency Century Plaza in May 2008. These five hotel properties met the held for sale and discontinued operations criteria in accordance with FAS 144. The Company recorded an impairment loss of $4.9 million in June 2009 in anticipation of the Hyatt Suites Atlanta Northwest sale in the third quarter of 2009. The sales of the Marriott Napa Valley and the Marriott Riverside during the second quarter of 2009 generated net proceeds of $53.5 million and a net loss of $10.8 million. During the second quarter of 2009, the Company also recorded a net loss of $2.3 million due to additional expenses incurred related to hotels sold in prior years, including $1.5 million accrued by the Company in regards to a lawsuit brought against the Company by the buyer of thirteen hotels sold by the Company in 2006, and $0.8 million accrued for various tax audits covering prior years. The Crowne Plaza Grand Rapids sale in 2008 generated net proceeds of $3.6 million, including a $2.0 million note receivable which was paid by the buyer in January 2009, and a net loss of $16.1 million, while the sale of the Hyatt Regency Century Plaza in 2008 generated net proceeds of $358.8 million and a net gain of $42.1 million.

The following sets forth the discontinued operations for the three and six months ended June 30, 2009 and 2008, related to hotel properties that are classified as held for sale or that have been sold (in thousands):

	Three Months Ended June 30, 2009 (Unaudited)	Three Months Ended June 30, 2008 (Unaudited)	Six Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2008 (Unaudited)
Operating revenues	$ 5,683	$ 28,357	$ 12,692	$ 63,893
Operating expenses	(5,125)	(20,016)	(11,187)	(45,743)
Depreciation and amortization expense	(874)	(2,010)	(1,964)	(5,301)
Impairment loss	(4,918)		(4,918)	
Gain (loss) on sale of hotels	(13,070)	42,108	(13,070)	42,108
Income (loss) from discontinued operations	$ (18,304)	$ 48,439	$ (18,447)	$ 54,957

5. Other Real Estate

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

	June 30, 2009 (Unaudited)	December 31, 2008
Land	$ 3,824	$ 3,824
Buildings and improvements	10,157	10,159
Furniture, fixtures and equipment	5,794	5,554
Construction in process	5	5
	19,780	19,542
Accumulated depreciation	(5,792)	(5,355)
	13,988	14,187
Land held for investment	188	453
	$ 14,176	$ 14,640

In January 2009, the Company sold a vacant parcel of land for net proceeds of $0.3 million. No gain or loss was recognized on the sale.

As of June 30, 2009, other real estate, net included the Company s two commercial laundry facilities, an office building and one vacant parcel of land.

6. Investments in Unconsolidated Joint Ventures

In December 2007, the Company entered into a joint venture agreement with Strategic Hotels & Resorts, Inc. (Strategic) to own and operate BuyEfficient, LLC (BuyEfficient), an electronic purchasing platform that allows members to procure food, operating supplies, furniture, fixtures and equipment. Under the terms of the agreement, Strategic acquired a 50% interest in BuyEfficient from the Company. In December 2006, the Company entered into a joint venture agreement to obtain a 38% interest in the 460-room Doubletree Guest Suites Times Square Hotel in New York City, New York. The Company accounts for both of these ownership interests using the equity method. The Company s accounting policies are consistent with those of the unconsolidated joint ventures.

As part of the Company s agreement with Strategic, the cost of BuyEfficient s participation in the Company s Long-Term Incentive Plan continues to be borne solely by the Company. In accordance with EITF No. 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee*, the Company expenses the cost of stock-based compensation granted to employees of BuyEfficient as incurred to the extent the Company s claim on BuyEfficient s book value has not been increased. The Company recognizes this stock-based compensation expense based on fair value in accordance with FASB Statement No. 123(R), *Share-Based Payment* and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.* During the three months ended June 30, 2009 and 2008, the Company recognized stock-based compensation expense for BuyEfficient of $17,000 and $50,000, respectively. During the six months ended June 30, 2009 and 2008, the Company recognized stock-based compensation expense for BuyEfficient of $24,000 and $99,000, respectively. All of the stock-based compensation expense for BuyEfficient was included in equity in net losses of unconsolidated joint ventures.

Annual dividends on the Company s equity investment in the Doubletree Guest Suites Times Square Hotel are senior to the returns on equity to other investors in this joint venture. The annual dividends were initially 8.0% and will increase to 9.25% over a nine-year period. In addition, the Company s equity investment is entitled to receive a pro-rata share of any excess equity distributions made by the joint venture. The Company received zero in distributions during both the three and six months ended June 30, 2009, and zero and $5.1 million in distributions during the three and six months ended June 30, 2008, respectively.

7. Goodwill

The Company follows the requirements of FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142). Under FAS 142, 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 real estate is reviewed at least annually and when facts and circumstances suggest that it may be impaired. Such review entails comparing the carrying value of the individual hotel property (the reporting unit) including the allocated goodwill to the fair value determined for that hotel property. If the aggregate carrying value of the hotel property exceeds the fair value, the goodwill of the hotel property 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 during the Company s fourth quarter. During the first and second quarters of 2009, in light of the continuing decline in the economic environment, the Company determined that an intra-year impairment analysis should be performed as of both March 31, 2009 and June 30, 2009. In conjunction with its first quarter impairment evaluation, the Company determined that the goodwill associated with four of its hotels may be impaired as of March 31, 2009, and, accordingly, the Company recorded an impairment loss of $3.6 million to goodwill and other impairment losses. In conjunction with its second quarter impairment evaluation, the Company determined that the goodwill associated with one of the hotels impaired during the first quarter plus two additional hotels may be impaired as of June 30, 2009, and, accordingly, the Company recorded an impairment loss of $1.1 million to goodwill and other impairment losses.

As of June 30, 2009, the Company s market capitalization is less than the book value of its equity. The Company believes that the disparity between the book value of its assets and the market value of its business is in large part a consequence of current market conditions, including risks related to the debt markets, the Company s industry and the broader economy. The Company has given consideration to these risks, and their impact upon the respective reporting units fair values in evaluating the impairment of its goodwill, and has reported impairments where it deems appropriate. The Company believes that the fair value of its remaining reporting units that contained goodwill at June 30, 2009 exceeds the book value of those units.

8. Other Assets

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

	June 30, 2009 (Unaudited)	December 31, 2008
Property and equipment, net	$ 1,053	$ 1,067
Deferred costs	334	1,432
Interest receivable	1,083	984
Other receivables	7,673	12,125
Other	2,690	2,530

	$ 12,833	$ 18,138

In January 2009, the Company received $2.0 million as payment on a note receivable from the buyer of a hotel the Company sold in December 2008.

In June 2009, the Company recognized an impairment charge of $1.4 million related to the write-off of deferred costs associated with a potential timeshare development in Newport Beach, California. This impairment is included in goodwill and other impairment losses.

9. Notes Payable

Notes payable consisted of the following (in thousands):

	June 30, 2009 (Unaudited)	December 31, 2008
Notes payable requiring payments of interest and principal, with fixed rates ranging from 4.98% to 9.88%; maturing at dates ranging from December 2010 through May 2021. The notes are collateralized by first deeds of trust on 32 hotel properties and one laundry facility.	$ 1,390,984	$ 1,397,765
Senior Notes. The notes are guaranteed by the Company and certain of its subsidiaries.	62,500	250,000
	1,453,484	1,647,765
Less: discount on Senior Notes	(3,667)	(16,507)
	1,449,817	1,631,258
Less: current portion	(18,668)	(13,002)
	$ 1,431,149	$ 1,618,256

In June 2009, the Company elected to cease the subsidization of debt service on the non-recourse mortgage for its W San Diego Hotel, or the hotel, which resulted in a default under the mortgage. As a consequence of the significant and continuing deterioration in demand for luxury lodging and the introduction of numerous new competitive hotels in the San Diego market, the Company believes the value of this hotel is now significantly less than the principal amount of its mortgage. Prior to electing the default, the Company made several attempts to work with the special servicer handling the W San Diego Hotel s loan to amend the terms of the mortgage to provide for a reduction in current interest payments. The special servicer declined the Company s proposed modifications. At this point, the Company does not expect further negotiation with the special servicer, and the Company is prepared to convey the hotel to the lender in lieu of repayment of the debt. In conjunction with this default, the Company has reclassified the assets, liabilities (including $65.0 million of mortgage debt) and results of operations of the W San Diego Hotel to operations held for non-sale disposition on its balance sheets, statements of operations and statements of cash flows. The Company was not in default of the loan covenants on any other of its notes payable at either June 30, 2009 or December 31, 2008.

In May 2008, the FASB issued FSP APB 14-1. FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s non-convertible debt borrowing rate at the time of issuance. As a result, the liability component is recorded at a discount reflecting its below market interest rate. The liability component is subsequently accreted to its par value over its expected life based on a rate of interest that reflects the issuer s non-convertible debt borrowing rate at the time of issuance, and is reflected in the results of operations as interest expense. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required and early adoption was prohibited. The Senior Notes are within the scope of FSP APB 14-1. This change in methodology affects the Company s calculations of net income and earnings per share, but does not increase the Company s cash interest payments. As a result of the adoption of this standard on January 1, 2009, the Company restated its December 31, 2008 balance sheet by decreasing its notes payable balance by $16.5 million, with a corresponding increase to equity. The $16.5 million was comprised of the original debt discount adjustment of $21.8 million less discount accretion of $5.3 million from June 2007 through December 2008. In addition, the Company recognized an additional $0.7 million and $1.3 million in interest expense during the three and six months ended June 30, 2009, respectively, and retroactively increased its interest expense by $0.9 million and $1.7 million for the three and six months ended June 30, 2008, respectively, as the interest rate increases to 6.5% based on the Company s non-convertible debt borrowing rate at the time of issuance.

During the first quarter of 2009, the Company repurchased $64.0 million in aggregate principal amount of the Senior Notes for $30.8 million, including $0.4 million in interest, using its available cash on hand. After the repurchase, such Senior Notes were cancelled. The Company wrote off $1.4 million in deferred financing fees and $4.2 million of the Senior Notes discount, and recognized a net gain of $28.0 million on this early extinguishment of debt. In May 2009, in accordance with the terms and conditions of a tender offer (the Senior Notes Tender Offer), the

Company purchased a total of $123.5 million in principal amount of Senior Notes for $89.0 million, including $2.0 million in interest, $1.9 million in related consents solicited from the registered holders of the Senior Notes to adopt a proposed amendment to the indenture governing the Senior Notes and $0.6 million in fees and costs. After the repurchase, such Senior Notes were cancelled. In addition, the Company paid $1.2 million, including $0.3 million in fees and costs, for consents related to non-tendered Senior Notes. The Company wrote off $2.7 million in deferred financing fees and $7.3 million

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of the Senior Notes discount, and recognized a net gain of $26.6 million on this early extinguishment of debt. The Company initially used its credit facility to fund this repurchase of the Senior Notes, and subsequently replaced such cash with proceeds from its equity offering completed in May 2009.

In April 2009, the Company drew down $60.0 million on its credit facility in connection with its Senior Notes Tender Offer. The Company repaid the $60.0 million in May 2009 using available cash. In June 2009, the Company amended its credit facility (the amended credit facility), reducing the facility s size from $200.0 million to $85.0 million. In addition, the amendment reduced the facility s minimum fixed charge coverage covenant from 1.50:1.00 to 1.00:1.00, with added flexibility to drop to 0.90:1.00 for up to four quarters, and eliminated the facility s 65% maximum total leverage covenant, replacing it with a 9.50:1.00 maximum net debt to EBITDA covenant, which may be increased to 10.50:1.00 for up to four quarters. The amended credit facility is secured by five of the Company s hotels (Fairmont Newport Beach, Hyatt Regency Newport Beach, Renaissance LAX, Residence Inn Rochester Mayo Clinic, and the Sheraton Cerritos), has an interest rate based on grid pricing ranging from 375 525 basis points over LIBOR, and matures in 2012, assuming the exercise of a one-year extension option. As of June 30, 2009, the Company had no outstanding indebtedness under its amended credit facility, and had $3.5 million in outstanding irrevocable letters of credit backed by the amended credit facility, leaving, as of that date, up to $81.5 million available under the amended credit facility. The Company is subject to compliance with various covenants under the amended credit facility. The Company s failure to comply with such covenants in the future may result in a reduction of funds available from time to time, or the termination of the amended credit facility.

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

	Three Months Ended June 30, 2009 (Unaudited)	Three Months Ended June 30, 2008 (Unaudited)	Six Months Ended June 30, 2009 (Unaudited)	Six Months Ended June 30, 2008 (Unaudited)
Operations held and used:				
Interest expense	$ 21,676	$ 23,150	$ 44,210	$ 46,203
Accretion of Senior Notes	655			