

An aerial photograph of a beach, showing the rhythmic patterns of sand and the white foam of waves washing onto the shore. The image is dominated by shades of blue and white, with the sand appearing as light-colored stripes against the darker blue of the water.

'14

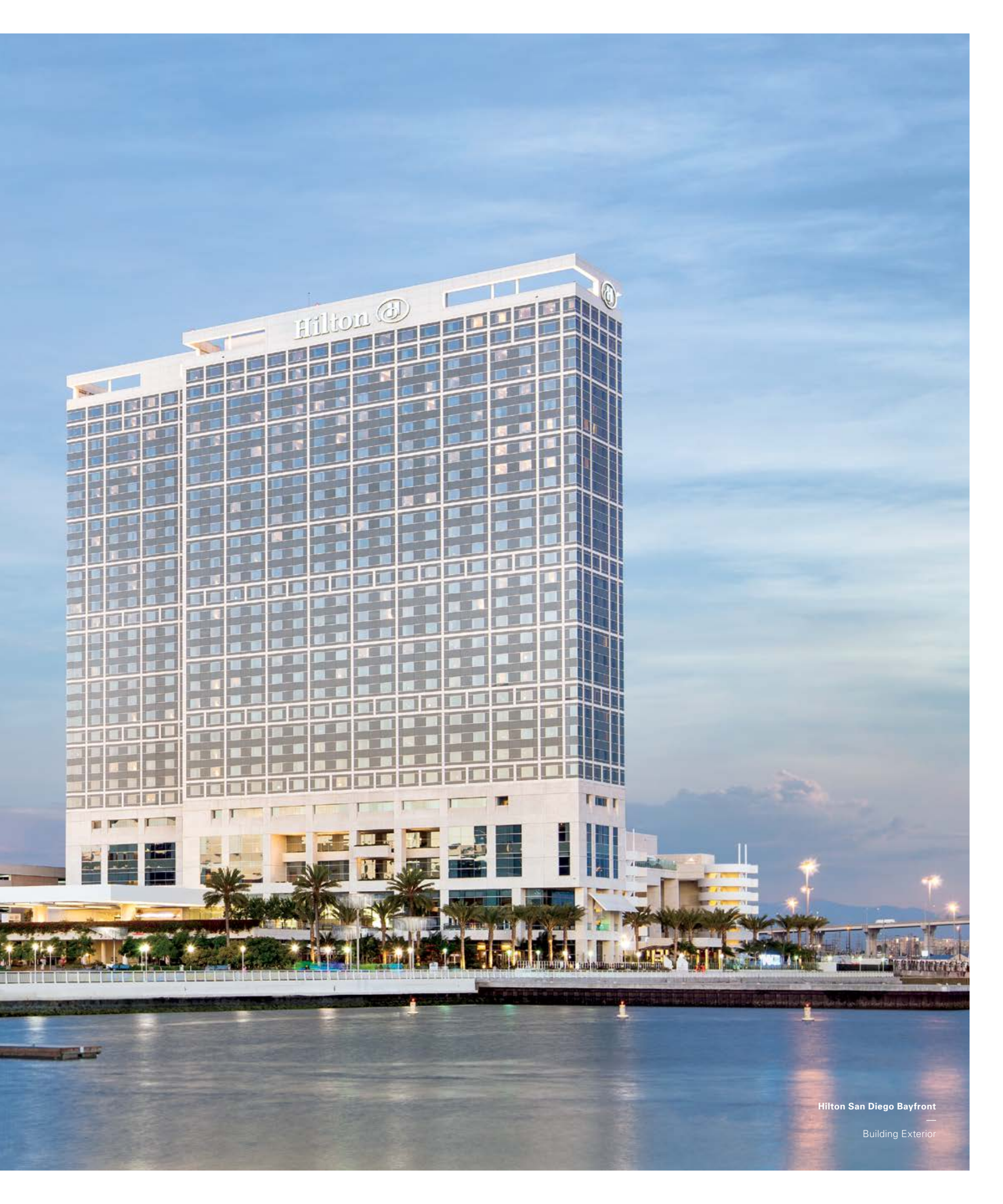
BUILDING SHAREHOLDER
VALUE THROUGH ALL
PHASES OF THE
LODGING CYCLE

2014 ANNUAL REPORT

30 Hotels

INSTITUTIONAL-QUALITY,
UPPER-UPSCALE





Hilton San Diego Bayfront
—
Building Exterior



Doubletree Guest Suites Times Square

—
Renovated Lobby / Bar



14,306 Rooms

WITH CONCENTRATIONS
IN TOP LODGING MARKETS

A scenic photograph of a tropical coastline. In the foreground, a sandy beach meets the ocean, with gentle waves washing onto the shore. The water reflects the sky and the palm trees. A dense line of green vegetation, including many tall palm trees, runs along the beach. Behind the trees, a row of modern, single-story houses with light-colored roofs is visible. In the far background, a tall, multi-story building with a blue facade stands out against the sky. The sky is a clear, pale blue with a few wispy clouds. The text "\$5 Billion Value" is superimposed in the center of the image in a large, white, sans-serif font.

**\$5 Billion
Value**

A wide-angle photograph of the Marriott Wailea resort. The building is a long, multi-story structure with a modern design, featuring large glass windows and balconies. It is situated on a lush, green hillside, surrounded by numerous tall palm trees. The foreground shows the ocean with gentle waves lapping at the shore. In the background, a small island with a lighthouse is visible on the horizon under a sky with soft, wispy clouds.

EMPHASIZING LOW LEVERAGE
AND HIGH FLEXIBILITY

\$16

14

12

10

8

6



2/1/13 and 2/15/13

Completion of follow-on equity offering with \$295 million of net proceeds

1/25/13

Sold 1,222-room Rochester Portfolio

1/22/13

Redeemed all \$58 million outstanding 4.6% Senior Exchangeable Notes

9/14/12

Sold 350-room Marriott Troy, 257-room Hilton Del Mar, 229-room DoubleTree Minneapolis

6/4/12

Acquired 419-room Hyatt Chicago Magnificent Mile

7/19/12

Acquired 361-room Hilton Garden Inn Chicago Downtown/Magnificent Mile

8/23/12

Sold 284-room Marriott Del Mar

3/1/13

Redemption of all \$176 million outstanding 8.00% Series A Preferred Stock

11/11

1/12

3/12

5/12

7/12

9/12

11/12

1/13

3/13

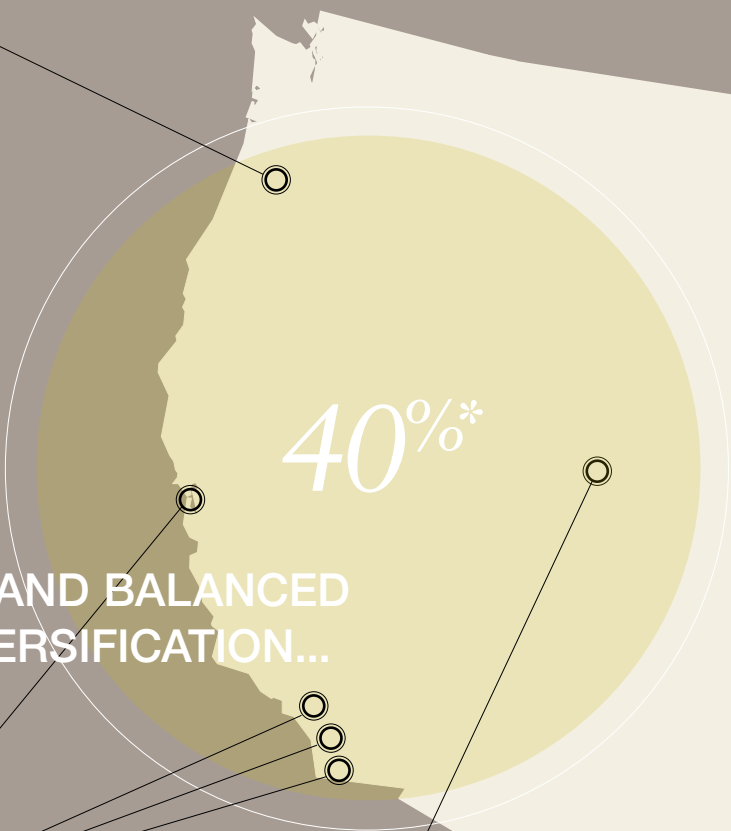


**A COMMITMENT TO OUR STATED PLAN:
CAREFULLY BUILD SHAREHOLDER VALUE...**

West

OREGON
Marriott Portland

THROUGH BROAD AND BALANCED
GEOGRAPHIC DIVERSIFICATION...



CALIFORNIA
*Courtyard by Marriott Los Angeles Airport
Embassy Suites La Jolla
Fairmont Newport Beach
Hilton San Diego Bayfront
Hyatt Regency Newport Beach
Hyatt Regency San Francisco
Renaissance Long Beach
Renaissance Los Angeles Airport
Sheraton Cerritos*

UTAH
Marriott Park City

HAWAII
Maui: Marriott Wailea

*2014 total EBITDA by region
percentages reflect prior ownership for the Marriott Wailea acquired July 17, 2014
and 100% ownership of the Hilton San Diego Bayfront

Midwest

ILLINOIS

Embassy Suites Hotel Chicago
Hilton Garden Inn Chicago Downtown/Magnificent Mile
Hyatt Chicago Magnificent Mile

7%*

Northeast

MASSACHUSETTS

Boston Park Plaza
Marriott Boston Long Wharf
Marriott Quincy

NEW YORK

Doubletree Guest Suites Times Square
Hilton Times Square
Renaissance Westchester

PENNSYLVANIA

Marriott Philadelphia

MD/DC/VA

Marriott Tysons Corner
Renaissance Baltimore—Harborplace
Renaissance Washington, DC

39%*

14%*

LOUISIANA

JW Marriott New Orleans
Hilton New Orleans St. Charles

TEXAS

Hilton Houston—North
Marriott Houston

FLORIDA

Renaissance Orlando at SeaWorld®

South

WE CONTINUE TO IMPROVE THE QUALITY AND SCALE
OF OUR PORTFOLIO THROUGH ACQUISITIONS.

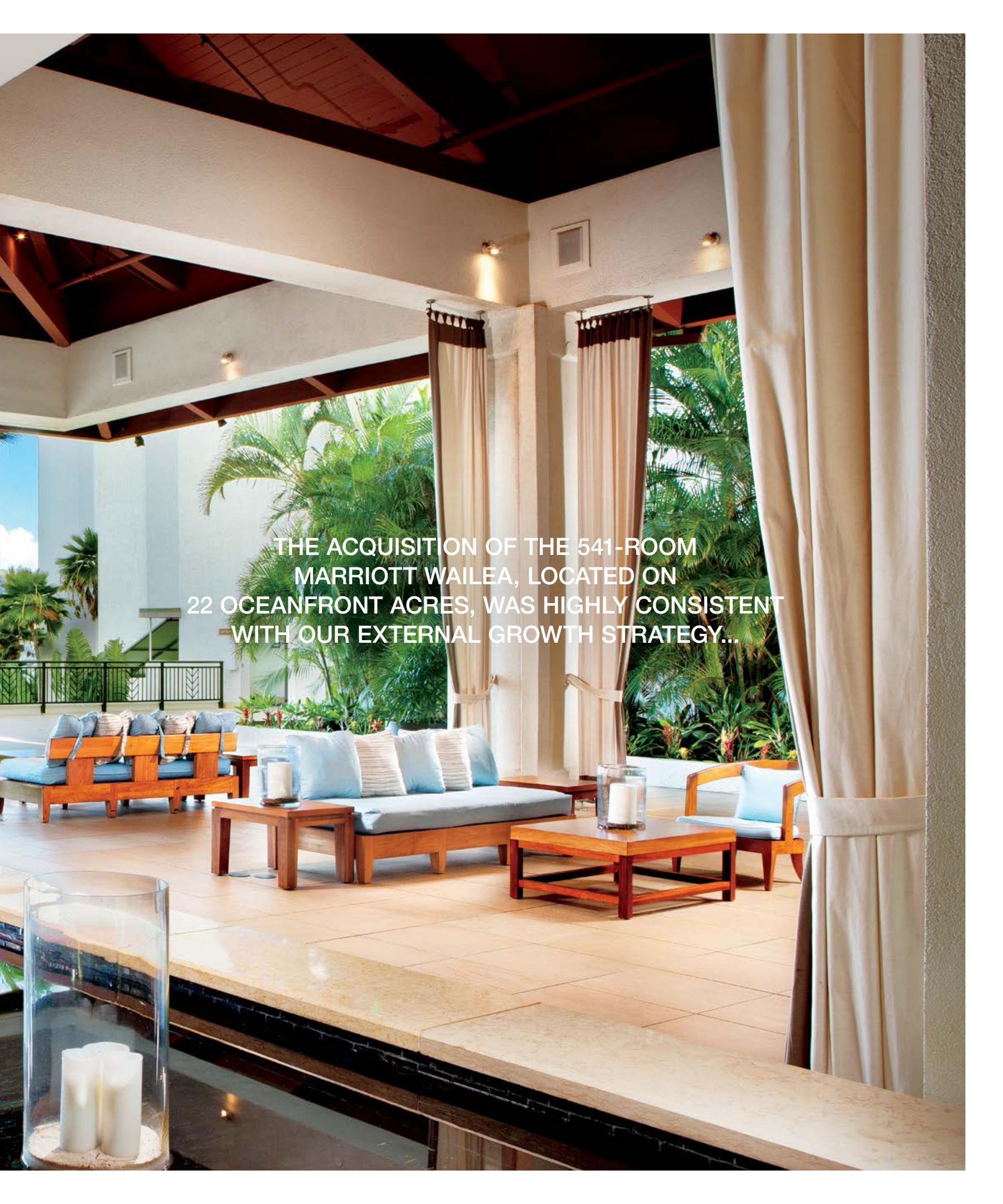


Marriott Wailea
—
Building Exterior



Marriott Wailea

Front Lobby Area



THE ACQUISITION OF THE 541-ROOM
MARRIOTT WAILEA, LOCATED ON
22 OCEANFRONT ACRES, WAS HIGHLY CONSISTENT
WITH OUR EXTERNAL GROWTH STRATEGY...

A high-angle photograph of a resort pool area during sunset. The pool is a large, irregular shape with a light blue tint from the sky. It is surrounded by a stone deck and a green lawn. Numerous white patio umbrellas and lounge chairs are scattered around the pool. In the background, there are palm trees and a view of the ocean under a dramatic, colorful sky.

AND REFINEMENT OF OUR
PORTFOLIO QUALITY AND SCALE.





WE ALSO REMAIN FOCUSED ON MAXIMIZING OUR
PORTFOLIO VALUE THROUGH WELL-TIMED,
APPROPRIATELY SCOPED RENOVATIONS LIKE THE LOBBY
AT THE DOUBLETREE GUEST SUITES TIMES SQUARE...





Before

A photograph of a modern hotel lobby. The space features a curved wall with a textured, greyish-brown finish. A purple velvet sofa is positioned in the center. To the left, there is a dark wood panel with a vertical light fixture. In the foreground, a dark wood reception desk with a glass top is visible. The ceiling has a curved, recessed design with a small light fixture. The overall atmosphere is contemporary and sophisticated.

After

Doubletree Guest Suites Times Square

Renovated Front Desk





AND OVER THE COMING YEAR,

A large, modern interior space with a high ceiling featuring a grid of white beams. The floor is made of large, light-colored marble tiles. In the foreground, a woman's silhouette is visible, walking towards the right. To the left, there is a black armchair with a high, rounded back. In the background, there are several armchairs and a display case. The overall atmosphere is sophisticated and contemporary.

WE WILL UNVEIL THE TRANSFORMATION
OF THE BOSTON PARK PLAZA...





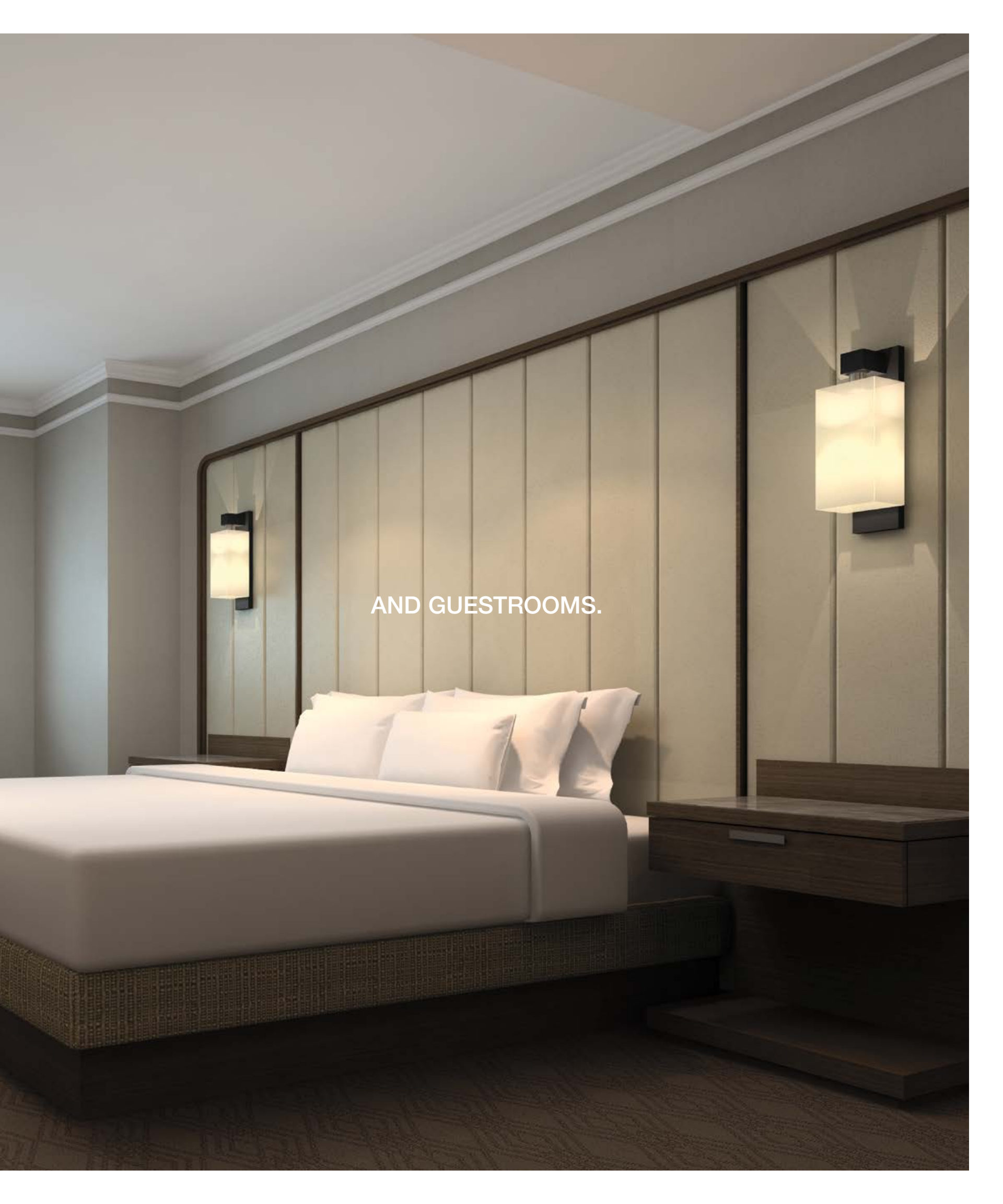
WITH OUR NEW
LOBBY BAR...

The image shows a contemporary hotel restaurant. On the left, a large wall is covered in a dark, textured material with a prominent white silhouette of a person walking. The room is furnished with white high-backed chairs and dark, modern armchairs. A dark wooden beam runs across the ceiling. The floor has a patterned carpet. The text "HOTEL RESTAURANT..." is centered in the image.

HOTEL RESTAURANT...







AND GUESTROOMS.

MESSAGE TO SHAREHOLDERS

I am happy to report that 2014 marked another productive year in our evolution here at Sunstone. In the past few years, we have taken an also-ran hotel owner haggard by over leverage and a poor investment track record and made it a formidable and highly profitable contender in the hotel ownership arena. Our evolution—which will never be completed—has materially reduced unnecessary risk that we were not being rewarded to take and has produced strong returns for our shareholders. Those are good things.

At the core of our evolution is our basic long-term strategy to create shareholder value. After all, creating shareholder value is the reason we are in business. As we have shared with you in the past, our strategy is quite simple and has remained consistent. Our strategy is this. First, we invest in high-quality and relevant hotel real estate at an anticipated return premium to our cost of capital. Second, we actively asset manage and methodically re-invest capital into our portfolio to drive internal profit growth—simply, we try to extract more value from our existing assets. Third, we adhere to a low levered balance sheet that maximizes our financial flexibility and allows us to take advantage of attractive investment opportunities no matter the market conditions—through both thick and thin...and thin is generally when the most profitable deals are made. Fourth, we believe in transparency and shareholder friendly corporate governance—after all, we know who we work for. And finally, we believe in fair and mutually beneficial arrangements with our operating, brand and capital partners—we can't do this alone, and life is more than just your next deal. We believe this strategy is simple, produces attractive long-term results, forges lasting and meaningful relationships with our partners and minimizes unwarranted risks.

THE YEAR AT SUNSTONE

To that end, most things turned out well for us in 2014, and we have set the stage for growth in years to come. Here are a few highlights:

Strong Internal Growth: In 2014, our portfolio of 30 hotels, in aggregate, generated a 14% increase in comparable portfolio EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) as a result of a 6.8% increase in RevPAR (Revenue per Available Room) and various cost control initiatives. Growth in revenues from group business has lagged revenue growth from individual corporate and leisure travelers this cycle, but we have recently witnessed an increase in group meeting activity and the amount of money these groups spend per event. This trend bodes well for our future growth, as does the fact that our high occupancy level (82.4% in 2014) leaves us with strong pricing power and the ability to be more selective in the groups we take. Again, a good trend.

Attractive Earnings Growth: The internal growth in our portfolio produced a 29.9% increase in our corporate Adjusted EBITDA as well as a 25.8% increase in our Adjusted Funds From Operations (Adjusted FFO) per diluted share—a REIT measure of levered earnings. Both our Adjusted EBITDA and Adjusted FFO per diluted share exceeded our expectations for the year.

Acquisition of a Diamond in the Rough: In July 2014, we continued to build on the quality and scale of our portfolio through the acquisition of the 541-room Marriott Wailea—in Maui, Hawaii. The acquisition was funded entirely with equity and generated a 2014 property-level Net Operating Income (NOI) yield of 5.4%. While the going-in yield for this phenomenally located hotel is attractive, we have great expectations for the property once the existing pedestrian-quality offerings are elevated to the higher caliber of similarly located, yet far more expensive, resorts in the same neighborhood. We have a track record of successfully repositioning hotels that have lost their edge, and we are excited about our repositioning plans and profit potential in Maui.

Reinvesting in Our Portfolio and Our Future: We invested \$126 million of capital back into our portfolio, not only to keep our hotels in great shape and competitive, but also to reposition two of our recent value-add acquisitions—the Boston Park Plaza and the Marriott Wailea. These renovations are expected to pay rewards in the future. We are particularly excited about the completion of the first phase of the Boston Park Plaza renovation, which includes a transformation of the lobby, meeting space, street-level retail and a new 20,000 square foot health club. While this work will be completed by the end of the first quarter 2015, we have already started to witness the benefits, as our group and catering bookings are up substantially as a result. When we are done with the renovation in early-to-mid 2016, we will own a high quality, well-appointed, large hotel in a great location in Boston for an all-in cost of approximately \$330,000 per guestroom. Our all-in cost basis is expected to be considerably less than the prices paid for recent hotel trades in the market. This provides us with a fairly sizable cushion for this investment to be successful.

Improving Our Financial Flexibility While Reducing Our Cost of Capital:

We continued to strengthen our balance sheet in 2014, proactively refinanced three loans, and have effectively raised all of the capital needed to fund all of our 2015 debt maturities. One of the primary leverage ratios to which we hold ourselves accountable—consolidated debt and preferred equity to total capitalization—ended 2014 at 31.2%, down 710 basis points from 38.3% at year end 2013, and vastly lower than the dangerously high 66.9% at year end 2011. More specifically, in August, we refinanced the \$229 million loan on our Hilton San Diego Bayfront, reducing the interest rate by 100 basis points and extending the maturity date by three years to 2019. Then in December, we refinanced the existing \$39 million mortgage on our JW Marriott New Orleans with a new \$90 million, ten-year loan. The extra proceeds from this loan will help us retire the remaining \$99 million of loans that mature in June 2015 and provide us with an

additional four unsecured hotels. And finally, in December, we repaid, for a premium, the loan on our Embassy Suites La Jolla in north San Diego. The loan repayment, which was funded with a smaller loan on the same hotel, not only reduced our annual interest cost by approximately \$1.6 million, but also provided us with a material return on the prepayment premium and allowed us to extend the maturity date of the loan by six years to 2025. Our balance sheet is in great shape, provides us with significant flexibility to opportunistically pursue our long-term business strategy, reduces the risk of “going on defense” in a downturn, and increases our “offensive capabilities” *when* such a downturn happens.

Material Increase in Our Common Dividend: Our total 2014 dividend of \$0.51 per share represents a material increase over the \$0.10 per share paid in 2013. Through mid-2013, we used tax losses to defer our dividend payments to common shareholders and used all of our retained cash to pay down debt—a strategy that has left us in considerably better condition. We paid a small \$0.05 per share quarterly dividend in the first three quarters of 2014, and then paid a far more significant \$0.36 per share “catch-up” dividend in the fourth quarter, comprised of both cash and stock, in order to meet the distribution guidelines set by Uncle Sam. Our dividend policy does not conform to industry norms—as is the case with a few of the things we do here at Sunstone—but we believe it is the right dividend policy for the Company and our shareholders. That is, paying a small quarterly dividend and a large catch-up dividend made up of cash and stock reduces the risk that we will over distribute our earnings in any given year, and it allows us to retain incremental cash to further reduce debt, fund value-add hotel repositionings and fund attractive investment opportunities. We are likely to maintain this somewhat unorthodox dividend policy until we run out of attractive investment alternatives, at which time, we would expect to return our incremental retained earnings to our shareholders.

Attractive Shareholder Returns: We generated a total shareholder return of 27.1% in 2014. This return was on pace with the 27.1% return of the NAREIT All REIT Index, yet in all candor, fell at the lower end of the range of 22% to 36% of a few of our most comparable lodging REIT peers. We are not happy with this result. We believe the modest underperformance was largely the result of investor concerns that we would experience short-term profit disruption at properties undergoing renovation—Boston Park Plaza, Hyatt Regency San Francisco and the Marriott Wailea. We believe that these concerns will prove to be short lived as renovation disruption has proven to be modest, and as investors come to appreciate that the long-term benefits of these value-add activities far outweigh the short-term cost of bringing them to fruition.

WHAT'S NEXT...


The hotel operating environment remains positive for most of our hotels and for our portfolio in general. At current high occupancy levels, we expect to work with our operating partners to push room rates higher; be more selective on the timing, quality and profitability of the group business we attract; and continue to control expenses where we can. Not all expenses are controllable, as costs such as property taxes continue to increase at a meaningful rate. However, our asset management team and operating partners continue to focus on bringing a good portion of our increased revenues to the bottom line.

On the investment front, we need to remain selective in the current environment. That is, the low-return world we find ourselves in has

increased the value of the hotels we own—which is good—but has made it more difficult to compete for attractively priced acquisitions. In this competitive investment environment, we will refrain from the mistakes witnessed in previous cycles when so many companies indiscriminately acquired hotels with unsustainable levels of debt. Combining high levels of debt with the high levels of cyclicity inherent in our business is a dangerous combination that has proven time and time again to result in bad outcomes. Rather, we expect to continue to methodically invest in quality hotel real estate—hotels we believe are well positioned for the long term—when we are comfortable that our anticipated returns are expected to exceed our cost of capital. Furthermore, we would expect to fund any such investments largely with equity, or with proceeds from the sale of some of our existing hotels. While it may be a more difficult time to buy hotels, it is a fairly easy time to sell hotels. So we probably will do just that with a few of the hotels that don't fit our portfolio strategy going forward.

In closing, I would like to thank Sunstone's Board of Directors and our 49 employees for their tireless efforts to build shareholder value through the mindful execution of their daily duties. I would also like to thank our brand, operating and capital partners for their ongoing support and collaboration—we could not be successful without them. And finally, I wish to thank our shareholders—the owners of our company—for investing with us and giving us the opportunity to run this great business.

Warmest Regards,



JOHN V. ARABIA
PRESIDENT AND CHIEF EXECUTIVE OFFICER

*SELECTED
Financial Data*

The following table sets forth selected financial information for the Company that has been derived from the consolidated financial statements and notes. This information should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
(\$ in thousands)					
OPERATING DATA					
REVENUES					
Room	\$ 811,709	\$ 653,955	\$ 576,146	\$ 501,183	\$ 351,039
Food and beverage	259,358	213,346	200,810	175,103	138,188
Other operating	70,931	56,523	52,128	45,508	26,373
Total revenues	1,141,998	923,824	829,084	721,794	515,600
OPERATING EXPENSES					
Room	214,899	170,361	147,932	128,225	92,101
Food and beverage	180,053	147,713	139,106	126,139	98,889
Other operating	21,012	16,819	16,162	14,004	11,535
Advertising and promotion	54,992	47,306	42,474	37,226	27,326
Repairs and maintenance	45,901	35,884	32,042	29,067	22,608
Utilities	34,141	27,006	25,596	25,537	19,117
Franchise costs	38,271	32,932	30,067	25,595	18,032
Property tax, ground lease and insurance	84,665	79,004	66,830	58,010	35,280
Property general and administrative	126,737	103,454	94,642	85,293	61,753
Corporate overhead	28,739	26,671	24,316	25,453	21,751
Depreciation and amortization	155,845	137,476	130,907	113,708	79,633
Impairment loss	—	—	—	10,862	—
Total operating expenses	985,255	824,626	750,074	679,119	488,025
Operating income	156,743	99,198	79,010	42,675	27,575
Equity in net earnings of unconsolidated joint ventures	—	—	—	21	555
Interest and other income	3,479	2,821	297	3,115	112
Interest expense	(72,315)	(72,239)	(76,821)	(74,195)	(58,931)
Loss on extinguishment of debt	(4,638)	(44)	(191)	—	—
Gain on remeasurement of equity interests	—	—	—	69,230	—
Income (loss) before income taxes and discontinued operations	83,269	29,736	2,295	40,846	(30,689)
Income tax provision	(179)	(8,145)	(1,148)	—	—
Income (loss) from continuing operations	83,090	21,591	1,147	40,846	(30,689)
Income from discontinued operations	4,849	48,410	48,410	40,453	69,231
Net income	87,939	70,001	49,557	81,299	38,542
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)	(312)	—
Distributions to non-controlling interest	(32)	(32)	(31)	(30)	—
Preferred stock dividends, redemption charges and accretion	(9,200)	(19,013)	(29,748)	(27,321)	(20,652)
Income available to common stockholders	\$ 72,031	\$ 46,943	\$ 18,017	\$ 53,636	\$ 17,890
Income (loss) from continuing operations available (attributable) to common stockholders per diluted common share	\$ 0.34	\$ (0.01)	\$ (0.24)	\$ 0.11	\$ (0.52)
Dividends declared per common share	\$ 0.51	\$ 0.10	\$ —	\$ —	\$ —
BALANCE SHEET DATA					
Investment in hotel properties, net ⁽¹⁾	\$3,538,129	\$3,231,382	\$2,681,877	\$2,532,232	\$1,666,180
Total assets	\$3,924,965	\$3,508,798	\$3,136,675	\$3,101,240	\$2,436,106
Total debt ⁽¹⁾	\$1,429,292	\$1,404,075	\$1,363,389	\$1,416,890	\$ 973,810
Total liabilities	\$1,656,131	\$1,556,399	\$1,517,362	\$1,675,946	\$1,236,807
Equity	\$2,268,834	\$1,952,399	\$1,519,313	\$1,325,294	\$1,099,299

(1) Does not include hotels or debt which have been reclassified to discontinued operations, or which have been classified as held for sale.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

The following discussion should be read together with the consolidated financial statements and related notes included elsewhere in this report.

OVERVIEW

Sunstone Hotel Investors, Inc. is a Maryland corporation. We operate as a self-managed and self-administered real estate investment trust, or REIT. A REIT is a legal entity that directly or indirectly owns real estate assets. REITs generally are not subject to federal income taxes at the corporate level as long as they pay stockholder dividends equivalent to 100% of their taxable income. REITs are required to distribute to stockholders at least 90% of their taxable income. We own, directly or indirectly, 100% of the interests of Sunstone Hotel Partnership, LLC (the "Operating Partnership"), which is the entity that directly or indirectly owns our hotel properties. We also own 100% of the interests of our taxable REIT subsidiary, Sunstone Hotel TRS Lessee, Inc., which leases all of our hotels from the Operating Partnership, and engages independent third-parties to manage our hotels. In addition, we own BuyEfficient, LLC ("BuyEfficient"), an electronic purchasing platform that allows members to procure food, operating supplies, furniture, fixtures and equipment.

We own primarily upper upscale hotels in the United States. As of December 31, 2014, we had interests in 30 hotels, which are currently held for investment (the "30 hotels"). Of the 30 hotels, we classify 27 as upper upscale, two as luxury and one as upscale as defined by Smith Travel Research, Inc. All but one (the Boston Park Plaza) of our 30 hotels are operated under nationally recognized brands such as Marriott, Hilton, Hyatt, Fairmont and Sheraton, which are among the most respected and widely recognized brands in the lodging industry. While independent hotels may do well in strong market locations, we believe the largest and most stable segment of travelers prefer the consistent service and quality associated with nationally recognized brands.

We seek to own hotels primarily in urban locations that benefit from significant barriers to entry by competitors and diverse economic drivers. As of December 31, 2014, all but one (the Marriott Wailea) of our 30 hotels are considered business, convention, or airport hotels, as opposed to resort or leisure hotels. The hotels comprising our 30 hotel portfolio average 477 rooms in size.

Since the end of 2009, demand for lodging in the U.S. has increased, which has resulted in improved hotel revenues and profits. In light of increasing demand for lodging and generally muted supply of new hotel development, we believe we are currently in the middle phase of a cyclical lodging recovery. Accordingly, during the past four years, we selectively acquired interests in nine hotels: the Doubletree Guest Suites Times Square in January 2011; the JW Marriott New Orleans in February 2011; the Hilton San Diego Bayfront in April 2011; the Hyatt Chicago Magnificent Mile in June 2012; the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012; the Hilton New Orleans St. Charles in May 2013; the Boston Park Plaza in July 2013; the Hyatt Regency San Francisco in December 2013; and the Marriott Wailea in July 2014. Based on our purchase prices, the combined asset value of these nine hotels totals \$1.8 billion, or \$329,000 per key. In addition, we purchased the outside 50.0% equity interest in our BuyEfficient joint venture in January 2011. Our acquisition program is aimed at generating attractive risk-adjusted returns on our investment dollars. We, therefore, may target lodging assets outside of the typical branded, urban, upper upscale profile represented by our existing portfolio in order to capitalize on opportunities which may arise. We intend to select the brands and operators for our hotels that we believe will lead to the highest returns.

We have from time to time divested of assets that no longer fit our target profile, will not offer long-term returns in excess of our cost of capital, or that have high risk relative to their anticipated return expectations. In connection with this strategy, during the past four years, we sold 10 hotels: the Royal Palm Miami Beach in April 2011; the Valley River Inn located in Eugene, Oregon in October 2011; the Marriott Del Mar in August 2012; the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, and the Marriott Troy in September 2012; and the Kahler Grand, the Kahler Inn & Suites, the Marriott Rochester and the Residence Inn by Marriott Rochester (the "Rochester Hotels") in January 2013. Based on our sales prices, the combined asset value of these 10 hotels totals \$547.2 million, or \$182,000 per key. In addition, during the past four years, we sold the following non-hotel assets: a commercial laundry facility located in Salt Lake City, Utah in July 2011; an office building adjacent to the Marriott Troy in September 2012; and a commercial laundry facility located in Rochester, Minnesota in January 2013 (together with the Rochester Hotels, the "Rochester Portfolio").

2014 HIGHLIGHTS

In February 2014, we entered into separate Equity Distribution Agreements with Wells Fargo Securities LLC and Merrill Lynch, Pierce Fenner & Smith Incorporated (the "Managers"). Under the terms of the agreements, we may issue and sell from time to time through or to the Managers, as sales agents and/or principals, shares of our common stock having an aggregate offering amount of up to \$150.0 million. During 2014, we received \$21.0 million in net proceeds from the issuance of 1,352,703 shares of our common stock pursuant to the agreements.

In June 2014, we acquired approximately seven acres of land underlying the Fairmont Newport Beach for \$11.0 million. Prior to our acquisition, the land was leased to us by a third party.

Also in June 2014, we issued 18,000,000 shares of our common stock in an underwritten public offering for net proceeds of approximately \$262.5 million, which were used to acquire the Marriott Wailea in July 2014.

In July 2014, we purchased the 544-room Marriott Wailea for a net purchase price of \$325.6 million, which was comprised of \$265.6 million in cash, including \$4.4 million of proration credits and unrestricted and restricted cash received from the seller, and \$60.0 million of our common stock issued directly to the seller. The acquisition was funded with proceeds received from our June 2014 common stock offering, and 4,034,970 shares of our common stock valued at \$60.0 million (\$14.87 per share). Subsequent to our acquisition, three rooms were temporarily taken out of service, leaving 541 rooms available to sell.

In August 2014, we amended the non-recourse mortgage secured by the Hilton San Diego Bayfront. The loan amendment extends the maturity date from April 2016 to August 2019, and reduces the interest rate from three-month LIBOR plus 325 basis points to one-month LIBOR plus 225 basis points. The loan originally included a syndication of four lenders. One of the four lenders elected not to proceed with the amended loan, causing us to expense \$0.5 million of the unamortized balance of the applicable deferred financing fees to loss on extinguishment of debt. In conjunction with the amendment, we paid additional deferred financing fees of \$1.3 million to the three remaining lenders, which we are amortizing over the term of the refinanced debt. We also paid \$0.1 million in loan fees to third parties, which we recorded as a component of interest expense.

In December 2014, we repaid the \$38.9 million mortgage secured by the JW Marriott New Orleans, using proceeds received from a new \$90.0 million mortgage secured by the JW Marriott New Orleans. The new loan extends the maturity date from September 2015 to December 2024. The new loan is subject to a 30-year amortization schedule, and reduces the interest rate from 5.45% under a related interest rate swap agreement to a fixed rate of 4.15%. In conjunction with our repayment of the original mortgage, we wrote off \$39,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in our consolidated statements of operations, and we paid \$0.6 million to terminate the related interest rate swap agreement. In addition, we paid deferred financing fees of \$0.6 million related to the new loan, which we are amortizing over the term of the new loan.

Also in December 2014, we extinguished the \$67.1 million mortgage secured by the Embassy Suites La Jolla for a total cost of \$71.1 million, and recorded a loss on extinguishment of debt of \$4.0 million. The extinguishment was funded using proceeds received from a new \$65.0 million mortgage secured by the Embassy Suites La Jolla, along with cash on hand. The new loan is subject to a 30-year amortization schedule, reduces the interest rate from a fixed rate of 6.6% to a fixed rate of 4.12%, and extends the maturity date from June 2019 to January 2025. In conjunction with our repayment of the original mortgage, we wrote off \$43,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in our consolidated statements of operations. In addition, we paid deferred financing fees of \$0.4 million related to the new loan, which we are amortizing over the term of the new loan.

As of December 31, 2014, the weighted average term to maturity of our debt is approximately four years, and 71.6% of our debt is fixed rate with a weighted average interest rate of 5.2%. The weighted average interest rate on all of our debt, which includes our variable-rate debt obligations based on variable rates at December 31, 2014, is 4.5%.

OPERATING ACTIVITIES

Operating Performance Indicators. The following performance indicators are commonly used in the hotel industry:

- *Occupancy*, which is the quotient of total rooms sold divided by total rooms available;
- *Average daily room rate*, or ADR, which is the quotient of room revenue divided by total rooms sold;
- *Revenue per available room*, or RevPAR, which is the product of occupancy and ADR, and does not include food and beverage revenue, or other operating revenue;
- *Comparable RevPAR*, which we define as the RevPAR generated by hotels we owned as of the end of the reporting period, but excluding those hotels that we classified as held for sale, those hotels that are undergoing a material repositioning and those hotels whose room counts have materially changed during either the current or prior year. For hotels that were not owned for the entirety of the comparison periods, comparable RevPAR is calculated using RevPAR generated during periods of prior ownership. We refer to this subset of our hotels used to calculate comparable RevPAR as our “Comparable Portfolio.” Currently our Comparable Portfolio includes all 30 hotels in which we have interests as of December 31, 2014. In addition, our Comparable Portfolio includes prior ownership results for the Hyatt Chicago Magnificent Mile, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Boston Park Plaza, the Hyatt Regency San Francisco and the Marriott Wailea;

- *RevPAR index*, which is the quotient of a hotel's RevPAR divided by the average RevPAR of its competitors, multiplied by 100. A RevPAR index in excess of 100 indicates a hotel is achieving higher RevPAR than the average of its competitors. In addition to absolute RevPAR index, we monitor changes in RevPAR index;
- *EBITDA*, which is net income (loss) excluding: non-controlling interests; interest expense; provision for income taxes, including income taxes applicable to sale of assets; and depreciation and amortization;
- *Adjusted EBITDA*, which includes EBITDA but excludes: amortization of deferred stock compensation; the impact of any gain or loss from asset sales; impairment charges; prior year property tax assessments or credits; and any other identified adjustments;
- *Funds from operations*, or FFO, which includes net income (loss), excluding non-controlling interests, gains and losses from sales of property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs) and real estate-related impairment losses, and after adjustment for unconsolidated partnerships and joint ventures; and
- *Adjusted FFO available to common stockholders*, which includes FFO but excludes preferred stock dividends and redemption charges, penalties, written-off deferred financing costs, non-real estate-related impairment losses, income tax benefits or (provisions) associated with the application of net operating loss carryforwards, and any other identified adjustments.

Revenues. Substantially all of our revenues are derived from the operation of our hotels. Specifically, our revenues consist of the following:

- *Room revenue*, which is the product of the number of rooms sold and the ADR;
- *Food and beverage revenue*, which is comprised of revenue realized in the hotel food and beverage outlets as well as banquet and catering events; and
- *Other operating revenue*, which includes ancillary hotel revenue and other items primarily driven by occupancy such as telephone/internet, parking, spa, resort and other facility fees, entertainment and other guest services. Additionally, this category includes, among other things, operating revenue from BuyEfficient, and hotel space leased by third parties.

Expenses. Our expenses consist of the following:

- *Room expense*, which is primarily driven by occupancy and, therefore, has a significant correlation with room revenue;
- *Food and beverage expense*, which is primarily driven by food and beverage sales and banquet and catering bookings and, therefore, has a significant correlation with food and beverage revenue;
- *Other operating expense*, which includes the corresponding expense of other operating revenue, advertising and promotion, repairs and maintenance, utilities, and franchise costs;
- *Property tax, ground lease and insurance expense*, which includes the expenses associated with property tax, ground lease and insurance payments, each of which is primarily a fixed expense, however property tax is subject to regular revaluations based on the specific tax regulations and practices of each municipality;
- *Property general and administrative expense*, which includes our property-level general and administrative expenses, such as payroll and related costs, contract and professional fees, credit and collection expenses, employee recruitment, relocation and training expenses, travel expenses, management fees and other costs. Additionally, this category includes general and administrative expenses from BuyEfficient;
- *Corporate overhead expense*, which includes our corporate-level expenses, such as payroll and related costs, amortization of deferred stock compensation, acquisition and due diligence costs, legal expenses, contract and professional fees, relocation, entity-level state franchise and minimum taxes, travel expenses, office rent and other costs; and
- *Depreciation and amortization expense*, which includes depreciation on our hotel buildings, improvements, furniture, fixtures and equipment, along with amortization on our franchise fees and certain intangibles. Additionally, this category includes depreciation and amortization related to both our corporate office and BuyEfficient's furniture, fixtures, equipment and intangibles.

Other Revenue and Expense. Other revenue and expense consists of the following:

- *Interest and other income*, which includes interest we have earned on our restricted and unrestricted cash accounts and the Preferred Equity Investment, as well as any energy rebates we have received or any gains or losses we have recognized on sales of assets other than real estate investments;
- *Interest expense*, which includes interest expense incurred on our outstanding fixed and variable-rate debt and capital lease obligation, accretion of our Operating Partnership's 4.6% exchangeable senior notes (the "Senior Notes") that were repurchased in 2013, amortization of deferred financing fees, gains or losses on derivatives and any loan penalties and fees incurred on our debt;
- *Loss on extinguishment of debt*, which includes losses we recognized on amendments or early repayments of mortgages or other debt obligations;
- *Income tax provision*, which includes federal and state income taxes charged to the Company net of any refunds received, and any adjustments to unrecognized tax positions, along with any related interest and penalties incurred;

- *Income from discontinued operations*, which includes the results of operations for any hotels or other real estate investments sold during the reporting period, along with the gain or loss realized on the sale of these assets and any extinguishments of related debt;
- *Income from consolidated joint venture attributable to non-controlling interest*, which includes net income attributable to the outside 25.0% interest in the joint venture that owns the Hilton San Diego Bayfront;
- *Distributions to non-controlling interest*, which includes preferred dividends earned by investors from an entity that owns the Doubletree Guest Suites Times Square, including related administrative fees; and
- *Preferred stock dividends and redemption charges*, which includes dividends earned on our 8.0% Series A Cumulative Redeemable Preferred Stock (“Series A preferred stock”) until their redemption in March 2013, Series C Cumulative Convertible Redeemable Preferred Stock (“Series C preferred stock”) until their redemption in May 2013, and 8.0% Series D Cumulative Redeemable Preferred Stock (“Series D preferred stock”), as well as redemption charges for preferred stock redemptions made in excess of net carrying values.

Factors Affecting Our Operating Results. The primary factors affecting our operating results include overall demand for hotel rooms, the pace of new hotel development, or supply, and the relative performance of our operators in increasing revenue and controlling hotel operating expenses.

- *Demand.* The demand for lodging generally fluctuates with the overall economy. In aggregate, demand for our hotels has improved each year since 2010. In 2012, our Comparable Portfolio RevPAR increased 6.2% as compared to 2011, with a 260 basis point increase in portfolio occupancy. These improving demand trends continued in 2013 and 2014. As a result, our Comparable Portfolio RevPAR increased 3.3% in 2013 as compared to 2012, and 6.9% in 2014 as compared to 2013. Comparable Portfolio occupancy increased 40 basis points in 2013 as compared to 2012, and increased an additional 190 basis points in 2014 as compared to 2013. Our operating statistics improved in 2013 as compared to 2012, even as four of our hotels were under major renovations during the first half of 2013, causing limited occupancy. These major renovations were substantially completed during the third quarter of 2013. While a portion of the improvement in our operating statistics in 2014 as compared to 2013 was due to occupancy improvements at the four hotels under renovation during 2013, this improvement was muted by the negative impact of renovations at four of our hotels during 2014. Consistent with prior trends, we anticipate that lodging demand will continue to improve as the U.S. economy continues to strengthen. Historically, cyclical troughs are followed by extended periods of relatively strong demand, resulting in a cyclical lodging growth phase. While growth is not expected to be uniform, we expect hotel demand to remain strong over the next several years if the U.S. economy continues to grow and employment levels continue to improve.
- *Supply.* The addition of new competitive hotels affects the ability of existing hotels to absorb demand for lodging and therefore drive RevPAR and profits. The development of new hotels is largely driven by construction costs and expected performance of existing hotels. The recession and financial crisis which occurred in 2008 and 2009, served to restrict credit and tighten lending standards, which resulted in a curtailment of funding for new hotel construction projects. In aggregate, we expect the U.S. hotel supply will remain slightly below historic levels over the next few years. On a market-by-market basis, some markets may experience new hotel room openings at or greater than historic levels, including in New York City, Washington DC and Chicago where there are currently higher-than-average supplies of new hotel room openings. In addition, lenders are seeking higher yielding instruments, which may lead to riskier lending practices, including lending on new hotel construction.
- *Revenues and expenses.* We believe that marginal improvements in RevPAR index, even in the face of declining revenues, are a good indicator of the relative quality and appeal of our hotels, and our operators’ effectiveness in maximizing revenues. Similarly, we also evaluate our operators’ effectiveness in minimizing incremental operating expenses in the context of increasing revenues or, conversely, in reducing operating expenses in the context of declining revenues.

With respect to improving RevPAR index, we continue to work with our hotel operators to optimize revenue management initiatives while taking into consideration market demand trends and the pricing strategies of competitor hotels in our markets. We also develop capital investment programs designed to ensure each of our hotels is well renovated and positioned to appeal to groups and individual travelers fitting target guest profiles. Increased capital investment in our properties may lead to short-term revenue disruption and negatively impact RevPAR index. Our revenue management initiatives are generally oriented towards maximizing ADR even if the result may be lower occupancy than may be achieved through lower ADR. Increases in RevPAR attributable to increases in ADR may be accompanied by minimal additional expenses, while increases in RevPAR attributable to higher occupancy may result in higher variable expenses such as housekeeping, labor and utilities expense. In 2013, our Comparable Portfolio RevPAR index decreased 60 basis points as compared to the same period in 2012 due to several capital investment programs at our hotels. In 2014, our Comparable Portfolio RevPAR index increased by 120 basis points as compared to the same period in 2013 due in part to a reduction in renovation displacement and the effect of newly-implemented resort fees in 2014.

We continue to work with our operators to identify operational efficiencies designed to reduce expenses while maintaining guest experience and hotel employee satisfaction. Key asset management initiatives include optimizing hotel staffing levels, increasing the efficiency of the hotels, such as installing energy efficient management and inventory control systems, and selectively combining food and beverage outlets. Our operational efficiency initiatives may be difficult to implement, as most categories of variable operating expenses, such as utilities and housekeeping labor costs, fluctuate with changes in occupancy. Furthermore, our hotels operate with significant fixed costs, such as general and administrative expense, insurance, property taxes, and other expenses associated with owning hotels, over which our operators have little control. We have experienced either currently or in the past, increases in hourly wages, employee benefits (especially health insurance), utility costs and property insurance, which have negatively affected our operating margins. Moreover, there are limits to how far our operators can reduce expenses without affecting brand standards or the competitiveness of our hotels.

Operating Results. The following table presents our operating results for our total portfolio for the years ended December 31, 2014 and 2013, including the amount and percentage change in the results between the two periods. The table presents the results of operations included in the consolidated statements of operations, and includes the 30 hotels (14,303 rooms) as of December 31, 2014 and 29 hotels (13,744 rooms) as of December 31, 2013. No hotels were classified as discontinued operations during 2014, however, adjustments were recognized during 2014 related to hotels sold during 2004 through 2013. Discontinued Operations for 2013 includes the Rochester Portfolio (1,222 rooms).

	2014	2013	Change \$	Change %
<i>(dollars in thousands, except statistical data)</i>				
<i>REVENUES</i>				
Room	\$ 811,709	\$653,955	\$157,754	24.1%
Food and beverage	259,358	213,346	46,012	21.6%
Other operating	70,931	56,523	14,408	25.5%
Total revenues	1,141,998	923,824	218,174	23.6%
<i>OPERATING EXPENSES</i>				
Hotel operating	673,934	557,025	116,909	21.0%
Property general and administrative	126,737	103,454	23,283	22.5%
Corporate overhead	28,739	26,671	2,068	7.8%
Depreciation and amortization	155,845	137,476	18,369	13.4%
Total operating expenses	985,255	824,626	160,629	19.5%
<i>OPERATING INCOME</i>	156,743	99,198	57,545	58.0%
Interest and other income	3,479	2,821	658	23.3%
Interest expense	(72,315)	(72,239)	(76)	(0.1)%
Loss on extinguishment of debt	(4,638)	(44)	(4,594)	(10,440.9)%
Income before income taxes and discontinued operations	83,269	29,736	53,533	180.0%
Income tax provision	(179)	(8,145)	7,966	97.8%
<i>INCOME FROM CONTINUING OPERATIONS</i>	83,090	21,591	61,499	284.8%
Income from discontinued operations	4,849	48,410	(43,561)	(90.0)%
<i>NET INCOME</i>	87,939	70,001	17,938	25.6%
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(2,663)	(66.4)%
Distributions to non-controlling interest	(32)	(32)	—	—%
Preferred stock dividends and redemption charges	(9,200)	(19,013)	9,813	51.6%
<i>INCOME AVAILABLE TO COMMON STOCKHOLDERS</i>	\$ 72,031	\$ 46,943	\$ 25,088	53.4%

The following table presents our operating results for our total portfolio for the years ended December 31, 2013 and 2012, including the amount and percentage change in the results between the two periods. The table presents the results of operations included in the consolidated statements of operations, and includes continuing operations for 29 hotels (13,744 rooms) as of December 31, 2013 and 26 hotels (11,632 rooms) as of December 31, 2012, as well as discontinued operations for the Rochester portfolio (1,222 rooms) as of December 31, 2013 and 8 hotels (2,342 rooms) as of December 31, 2012.

	2013	2012	Change \$	Change %
<i>(dollars in thousands, except statistical data)</i>				
REVENUES				
Room	\$653,955	\$576,146	\$77,809	13.5%
Food and beverage	213,346	200,810	12,536	6.2%
Other operating	56,523	52,128	4,395	8.4%
Total revenues	923,824	829,084	94,740	11.4%
OPERATING EXPENSES				
Hotel operating	557,025	500,209	56,816	11.4%
Property general and administrative	103,454	94,642	8,812	9.3%
Corporate overhead	26,671	24,316	2,355	9.7%
Depreciation and amortization	137,476	130,907	6,569	5.0%
Total operating expenses	824,626	750,074	74,552	9.9%
OPERATING INCOME				
Interest and other income	99,198	79,010	20,188	25.6%
Interest expense	2,821	297	2,524	849.8%
Loss on extinguishment of debt	(72,239)	(76,821)	4,582	6.0%
	(44)	(191)	147	77.0%
Income before income taxes and discontinued operations	29,736	2,295	27,441	1,195.7%
Income tax provision	(8,145)	(1,148)	(6,997)	(609.5)%
INCOME FROM CONTINUING OPERATIONS				
Income from discontinued operations	21,591	1,147	20,444	1,782.4%
	48,410	48,410	—	—%
NET INCOME				
Income from consolidated joint venture attributable to non-controlling interest	70,001	49,557	20,444	41.3%
Distributions to non-controlling interest	(4,013)	(1,761)	(2,252)	(127.9)%
	(32)	(31)	(1)	(3.2)%
Preferred stock dividends and redemption charges	(19,013)	(29,748)	10,735	36.1%
INCOME AVAILABLE TO COMMON STOCKHOLDERS				
	\$ 46,943	\$ 18,017	\$28,926	160.5%

Operating Statistics. The following tables include comparisons of the key operating metrics for our Comparable Portfolio, including prior ownership results as applicable for the Hyatt Chicago Magnificent Mile, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Boston Park Plaza, the Hyatt Regency San Francisco and the Marriott Wailea.

	2014			2013			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Comparable Portfolio	82.4%	\$194.31	\$160.11	80.5%	\$186.11	\$149.82	190 bps	4.4%	6.9%
Marriott Adjusted Comparable Portfolio ⁽¹⁾	82.4%	\$194.31	\$160.11	80.5%	\$186.24	\$149.92	190 bps	4.3%	6.8%

	2013			2012			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Comparable Portfolio	80.5%	\$186.11	\$149.82	80.1%	\$181.12	\$145.08	40 bps	2.8%	3.3%
Marriott Adjusted Comparable Portfolio ⁽¹⁾	80.5%	\$186.24	\$149.92	80.1%	\$181.02	\$145.00	40 bps	2.9%	3.4%
Marriott Adjusted Comparable Portfolio excluding Boston Park Plaza ⁽²⁾	80.2%	\$188.03	\$150.80	79.8%	\$181.93	\$145.18	40 bps	3.4%	3.9%

(1) Includes the Comparable Portfolio adjusted for the effects of converting the operating statistics for ten of our Marriott-managed hotels from a 13-period basis as reported in 2012 to a standard 12-month calendar basis.

(2) Includes the Comparable Portfolio adjusted for the change in Marriott's calendar as noted in the above footnote, and adjusted to exclude the Boston Park Plaza due to the hotel adding 12 rooms in September 2012, and an additional 100 rooms in January 2013.

Non-GAAP Financial Measures. We use the following “non-GAAP financial measures” that we believe are useful to investors as key supplemental measures of our operating performance: EBITDA, Adjusted EBITDA, FFO and Adjusted FFO available to common stockholders. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. EBITDA, Adjusted EBITDA, FFO and Adjusted FFO available to common stockholders, 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 adjust EBITDA for the following items, which may occur in any period, and refer to this measure as Adjusted EBITDA:

- *Amortization of deferred stock compensation:* 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.
- *Amortization of favorable and unfavorable contracts:* we exclude the non-cash amortization of the favorable management contract asset recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the favorable and unfavorable tenant lease contracts, as applicable, recorded in conjunction with our acquisitions of the Boston Park Plaza, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Hyatt Regency San Francisco and the Marriott Wailea. 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. We do however, 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.
- *Real estate transactions:* we 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.
- *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 adjustments related to our consolidated Hilton San Diego Bayfront partnership.
- *Cumulative effect of a change in accounting principle:* from time to time, 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 is not consistent with reflecting the ongoing performance of our remaining assets. In addition, we believe that impairment charges, which are based off of historical cost account values, are similar to gains (losses) on dispositions and depreciation expense, both of which are also excluded from Adjusted EBITDA.
- *Other adjustments:* we exclude other adjustments such as lawsuit settlement 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 for that period and/or the ongoing operations of our hotels.

The following table reconciles our net income to EBITDA and Adjusted EBITDA for our hotel portfolio for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Net income	\$ 87,939	\$ 70,001	\$ 49,557
Operations held for investment:			
Depreciation and amortization	155,845	137,476	130,907
Amortization of lease intangibles	4,113	4,112	4,113
Interest expense	72,315	72,239	76,821
Income tax provision	179	8,145	1,148
Non-controlling interests:			
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)
Depreciation and amortization	(3,335)	(3,956)	(5,685)
Interest expense	(2,020)	(2,341)	(2,477)
Discontinued operations:			
Depreciation and amortization	—	—	13,164
Amortization of lease intangibles	—	—	14
Interest expense	—	99	6,490
EBITDA	308,360	281,762	272,291
Operations held for investment:			
Amortization of deferred stock compensation	6,221	4,858	3,466
Amortization of favorable and unfavorable contracts, net	166	320	206
Non-cash straightline lease expense	2,021	2,055	2,777
Capital lease obligation interest—cash ground rent	(1,404)	(1,404)	(819)
(Gain) loss on sale of assets, net	(93)	(12)	18
Loss on extinguishment of debt	4,638	44	191
Closing costs—completed acquisitions	541	1,678	1,965
Lawsuit settlement costs, net	—	358	158
Prior year property tax and CAM adjustments, net	(3,305)	106	621
Property-level restructuring costs	675	—	623
Non-controlling interests:			
Non-cash straightline lease expense	(450)	(450)	(450)
Prior year property tax adjustments, net	696	—	(202)
Loss on extinguishment of debt	(133)	—	—
Discontinued operations:			
Gain on sale of assets, net	(5,199)	(51,620)	(38,292)
Loss on extinguishment of debt	—	3,115	—
Lawsuit reversal costs	—	—	(48)
	4,374	(40,952)	(29,786)
Adjusted EBITDA	\$312,734	\$240,810	\$242,505

Adjusted EBITDA was \$312.7 million in 2014 as compared to \$240.8 million in 2013 and \$242.5 million in 2012. Adjusted EBITDA increased \$71.9 million in 2014 as compared to 2013 in part due to additional earnings generated by the three hotels we acquired in 2013 and the one hotel we acquired in 2014 (the Hilton New Orleans St. Charles in May 2013, the Boston Park Plaza in July 2013, the Hyatt Regency San Francisco in December 2013 and the Marriott Wailea in July 2014, together the “four 2013–2014 acquired hotels”), combined with an increase in earnings at four of our hotels which were undergoing major renovations during the first half of 2013 (the Hilton Times Square, the Hyatt Chicago Magnificent Mile, the Hyatt Regency Newport Beach and the Renaissance Westchester, together the “four 2013 renovation hotels”). These increases were partially offset by a decrease in earnings at two of our hotels which were undergoing major renovations during the first quarter of 2014 (the Hilton Garden Inn Chicago Downtown/Magnificent Mile and the Renaissance Long Beach, together the “two 2014 renovation hotels”), combined with decreases in earnings at the Hyatt Regency San Francisco and the Boston Park Plaza, which were undergoing major renovations during the first half and fourth quarter of 2014, respectively.

Adjusted EBITDA decreased \$1.7 million in 2013 as compared to 2012 as additional earnings generated by the two hotels we acquired in 2012 and the three hotels we acquired in 2013 (the Hyatt Chicago Magnificent Mile in June 2012, the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012, the Hilton New Orleans St. Charles in May 2013, the Boston Park Plaza in July 2013 and the Hyatt Regency San Francisco in December 2013, together the “five 2012–2013 acquired hotels”) were mostly offset by a decrease in earnings caused by major renovations at the four 2013 renovation hotels. These renovations were substantially completed by June 30, 2013.

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. Our presentation of FFO conforms to the National Association of Real Estate Investment Trusts’ (“NAREIT”) definition of FFO. This may not be comparable to FFO reported by other REITs that do not define the terms in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

We also present Adjusted FFO available to common stockholders 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 FFO for the following items, which may occur in any period, and refer to this measure as Adjusted FFO available to common stockholders:

- *Preferred stock dividends and redemption charges:* we deduct preferred stock dividends and exclude redemption charges in order to facilitate comparisons between us and the majority of other lodging REITs who either have no preferred stock dividends or who also present Adjusted FFO available to common stockholders.
- *Amortization of favorable and unfavorable contracts:* we exclude the non-cash amortization of the favorable management contract asset recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the favorable and unfavorable tenant lease contracts, as applicable, recorded in conjunction with our acquisitions of the Boston Park Plaza, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Hyatt Regency San Francisco and the Marriott Wailea. The amortization of favorable and unfavorable contracts does not reflect the underlying performance of our hotels.
- *Non-cash 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, as well as the non-cash gains or losses on our derivatives. We believe that these items are not reflective of our ongoing finance costs.
- *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.
- *Impairment losses:* we exclude the effect of non-real estate impairment losses because we believe that including them in Adjusted FFO available to common stockholders is not consistent with reflecting the ongoing performance of our remaining assets.
- *Consolidated partnership adjustments:* we deduct the non-controlling partner’s pro rata share of any FFO adjustments related to our consolidated Hilton San Diego Bayfront partnership.
- *Other adjustments:* we exclude other adjustments such as lawsuit settlement costs, prior year property tax assessments and/or credits, management company transition costs, departmental closing costs, including severance, and income tax benefits or provisions associated with the application of net operating loss carryforwards because we do not believe these costs reflect our actual performance for that period and/or the ongoing operations of our hotels.

The following table reconciles our net income to FFO and Adjusted FFO available to common stockholders for our hotel portfolio for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Net income	\$ 87,939	\$ 70,001	\$ 49,557
Operations held for investment:			
Real estate depreciation and amortization	154,253	136,047	129,668
Amortization of lease intangibles	4,113	4,112	4,113
(Gain) loss on sale of assets, net	(93)	(12)	18
Non-controlling interests:			
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)
Real estate depreciation and amortization	(3,335)	(3,956)	(5,685)
Discontinued operations:			
Real estate depreciation and amortization	—	—	13,164
Amortization of lease intangibles	—	—	14
Gain on sale of assets, net	(5,199)	(51,620)	(38,292)
FFO	231,002	150,559	150,796
Operations held for investment:			
Preferred stock dividends and redemption charges	(9,200)	(19,013)	(29,748)
Amortization of favorable and unfavorable contracts, net	166	320	206
Non-cash straightline lease expense	2,021	2,055	2,777
Write-off of deferred financing fees	—	—	3
Non-cash interest related to (gain) loss on derivatives, net	(529)	(525)	406
Loss on extinguishment of debt	4,638	44	191
Closing costs—completed acquisitions	541	1,678	1,965
Lawsuit settlement costs, net	—	358	158
Prior year property tax and CAM adjustments, net	(3,305)	106	621
Property-level restructuring costs	675	—	623
Income tax (benefit) provision related to prior years	(762)	8,145	1,148
Preferred stock redemption charges	—	4,770	—
Non-controlling interests:			
Non-cash straightline lease expense	(450)	(450)	(450)
Non-cash interest related to loss on derivative	—	(3)	(1)
Prior year property tax adjustments, net	696	—	(202)
Loss on extinguishment of debt	(133)	—	—
Discontinued operations:			
Loss on extinguishment of debt	—	3,115	—
Write-off of deferred financing fees	—	—	185
Lawsuit reversal costs	—	—	(48)
	(5,642)	600	(22,166)
Adjusted FFO available to common stockholders	\$225,360	\$151,159	\$128,630

Adjusted FFO available to common stockholders was \$225.4 million in 2014 as compared to \$151.2 million in 2013 and \$128.6 million in 2012. Adjusted FFO available to common stockholders increased \$74.2 million in 2014 as compared to 2013 in part due to additional earnings generated by the four 2013–2014 acquired hotels, combined with an increase in earnings at the four 2013 renovation hotels. In addition, Adjusted FFO available to common stockholders increased during 2014 as compared to 2013 due to a decrease in preferred stock dividends and redemption charges. These increases were partially offset by a decrease in earnings at the two 2014 renovation hotels, combined with decreases in earnings at the Hyatt Regency San Francisco and the Boston Park Plaza, which were undergoing major renovations during the first half and fourth quarter of 2014, respectively.

Adjusted FFO available to common stockholders increased \$22.5 million in 2013 as compared to 2012 due to additional earnings generated by the five 2012–2013 acquired hotels, combined with a decrease in preferred stock dividends and interest expense. These increases to Adjusted FFO available to common stockholders were partially offset by a decrease in earnings caused by major renovations at the four 2013 renovation hotels. These renovations were substantially completed by June 30, 2013.

Room revenue. Room revenue increased \$157.8 million, or 24.1%, in 2014 as compared to 2013. The four 2013–2014 acquired hotels contributed additional room revenue of \$113.8 million during 2014. Room revenues at both the Boston Park Plaza and the Hyatt Regency San Francisco were negatively impacted during 2014 by major renovations, which caused 9,080 room nights to be out of service, displacing approximately \$2.6 million in room revenue based on the hotels achieving a combined potential 80.8% occupancy rate and RevPAR of \$187.97 without the renovations. Room revenue generated by the 26 hotels we owned prior to January 1, 2013 (our “existing portfolio”) increased \$45.5 million during 2014 as compared to 2013 due to increases in both occupancy (\$19.2 million) and ADR (\$26.3 million). The increases in occupancy and ADR were driven by an additional 68,236 group room nights, combined with an additional 39,230 transient room nights. Room revenue in our existing portfolio was negatively impacted during 2014 by major renovations at the two 2014 renovation hotels. These major renovations caused a total of 5,141 room nights to be out of service during the first quarter of 2014, displacing approximately \$0.5 million in room revenue based on the hotels achieving a combined potential 69.5% occupancy rate and RevPAR of \$90.00 without the renovations. In comparison, the 2013 displacement experienced by the four 2013 renovation hotels caused a total of 40,287 room nights to be out of service during 2013, displacing approximately \$7.7 million in room revenue based on the hotels achieving a combined potential 79.9% occupancy rate and RevPAR of \$159.02 without the renovations.

Partially offsetting the increase in our existing portfolio’s room revenue during 2014 as compared to 2013, room revenue decreased as a result of a change in the financial reporting calendar used by Marriott, one of our third-party managers. Beginning in 2013, Marriott switched from using a 13-fiscal period accounting calendar to a standard 12-month calendar. However, due to the timing of Marriott’s fiscal 2012 year-end of December 28, 2012, Marriott’s fiscal 2013 includes three additional days, December 29, 2012 through December 31, 2012. These three additional days in fiscal 2013 generated approximately \$1.6 million more in room revenue for ten of our Marriott-managed hotels during 2013 as compared to 2014.

Room revenue increased \$77.8 million, or 13.5%, in 2013 as compared to 2012. The five 2012–2013 acquired hotels contributed additional room revenue of \$54.3 million during 2013. Room revenue at the Hyatt Chicago Magnificent Mile was negatively impacted during 2013 by a major renovation, which caused 13,601 room nights to be out of service, displacing approximately \$2.4 million in room revenue based on the hotel achieving a potential 74.9% occupancy rate and RevPAR of \$127.70 without the renovation. In addition, room revenue increased during 2013 as compared to the same period in 2012 due to a change in the financial reporting calendar used by Marriott. Beginning in 2013, Marriott switched from using a 13-fiscal period accounting calendar to a standard 12-month calendar, which caused there to be an additional three days and approximately \$1.6 million more in room revenue for ten of our Marriott-managed hotels during 2013 as compared to 2012. Room revenue generated by the 24 hotels we owned prior to January 1, 2012 (our “prior year existing portfolio”) increased \$21.9 million during 2013 as compared to 2012 due to increases in both occupancy (\$7.7 million) and ADR (\$14.2 million). The increases in occupancy and ADR were driven by an additional 58,248 transient room nights, partially offset by 14,435 fewer group room nights. Room revenue in our prior year existing portfolio was negatively impacted during 2013 by major renovations at three hotels in our prior year existing portfolio: the Hilton Times Square; the Hyatt Regency Newport Beach; and the Renaissance Westchester. These major renovations caused a total of 26,686 room nights to be out of service during 2013, displacing approximately \$5.2 million in room revenue based on these three hotels achieving a combined potential 81.6% occupancy rate and RevPAR of \$169.76 without the renovations. This 2013 displacement compares to our 2012 displacement caused by major renovations at the Renaissance Washington DC and the Hyatt Regency Newport Beach. The major renovation at the Renaissance Washington DC caused 13,656 room nights to be out of service during the last six months of 2012, displacing approximately \$2.9 million in room revenue based on the hotel achieving a potential 72.7% occupancy rate and RevPAR of \$148.24 without the renovation. The major renovation at the Hyatt Regency Newport Beach caused 4,333 room nights to be out of service during the last two months of 2012, displacing approximately \$0.5 million in room revenue based on the hotel achieving a potential 85.0% occupancy rate and RevPAR of \$110.96 without the renovation.

Food and beverage revenue. Food and beverage revenue increased \$46.0 million, or 21.6%, in 2014 as compared to 2013. Our four 2013–2014 acquired hotels contributed an additional \$29.0 million to food and beverage revenue during 2014. Food and beverage revenue in our existing portfolio increased \$17.6 million in 2014 as compared to 2013, primarily due to increased banquet and outlet revenue at the majority of our hotels due to the increases in occupancy and group room nights. In addition, food and beverage revenue increased in our existing portfolio during 2014 as the negative impact from the two 2014 renovation hotels during 2014 was much less than the negative impact from the four 2013 renovation hotels during 2013. These increases in food and beverage revenue during 2014 as compared to 2013 were partially offset by Marriott’s additional three days in the first quarter 2013, which generated approximately \$0.6 million in food and beverage revenue for ten of our Marriott-managed hotels during 2013 as compared to 2014.

Food and beverage revenue increased \$12.5 million, or 6.2%, in 2013 as compared to 2012. The five 2012–2013 acquired hotels contributed an additional \$11.3 million to food and beverage revenue during 2013, though food and beverage revenue generated by the Hyatt Chicago Magnificent Mile was negatively affected by the hotel’s major renovation. Marriott’s additional three days in 2013 generated approximately \$0.6 million in food and beverage revenue for ten of our Marriott-managed hotels during 2013 as compared to 2012. Food and beverage revenue in our prior year existing portfolio increased \$0.6 million during 2013 as compared to 2012, due to increased outlet and room service revenue caused by the increase in occupancy, partially offset by decreased banquet revenue at several of our hotels caused by 14,435

fewer group room nights, as well as the negative impact of the renovations at the Hilton Times Square, the Hyatt Regency Newport Beach and the Renaissance Westchester. The decrease in group room nights during 2013 as compared to 2012 was further exaggerated by the fact that the type of group shifted from corporate and citywide business with a higher number of banquet functions during the first few months of 2012 to associations with fewer banquet functions during the first few months of 2013. The decrease in food and beverage revenue in our existing portfolio was partially offset by increased revenue generated during 2013 by the Renaissance Washington DC, which was under a major renovation during 2012, causing revenue to decrease in outlets, banquets and room service during 2012.

Other operating revenue. Other operating revenue increased \$14.4 million, or 25.5%, in 2014 as compared to 2013. Our four 2013–2014 acquired hotels contributed an additional \$9.3 million to other operating revenue during 2014. In addition, BuyEfficient’s revenue increased \$0.4 million during 2014 as compared to 2013 due to increased transaction fees. Other operating revenue in our existing portfolio increased \$4.7 million in 2014 as compared to 2013, primarily due to our resort fee charges beginning in 2014 at two of our existing hotels, which generated \$2.5 million during 2014. In addition, other operating revenue grew in our existing portfolio as increased parking, spa and third-party lease revenue was only partially offset by decreased telephone/internet revenue, cancellation and attrition revenue.

Other operating revenue increased \$4.4 million, or 8.4%, in 2013 as compared to 2012. Our five 2012–2013 acquired hotels contributed an additional \$3.5 million to other operating revenue during 2013. In addition, BuyEfficient’s revenue increased \$0.5 million during 2013 as compared to 2012 due to increased transaction and development fees. Other operating revenue in our prior year existing portfolio increased \$0.4 million during 2013 as compared to 2012, due to Marriott’s three additional days during 2013, combined with increased parking and spa revenue. These increases were partially offset by decreased telephone/internet revenue, cancellation, attrition, and third-party lease revenue.

Hotel operating expenses. Hotel operating expenses increased \$116.9 million, or 21.0%, in 2014 as compared to 2013. The four 2013–2014 acquired hotels contributed an additional \$96.7 million to hotel operating expenses during 2014. Hotel operating expenses in our existing portfolio increased \$20.2 million during 2014 as compared to 2013, primarily due to the corresponding increases in room, food and beverage and parking revenue. In addition, hotel operating expenses in our existing portfolio increased in 2014 as compared to 2013 due to the following increased expenses: franchise costs due to the increase in revenues; advertising and promotion and repairs and maintenance due to increased payroll and related expenses; utility expense due to increased rates at several of our hotels, combined with increased usage due to the extremely cold winter in the Midwest and East; and ground lease expense due to higher percentage rent at several of our hotels caused by the increase in revenue. The increases in our existing portfolio’s hotel operating expenses during 2014 as compared to 2013 were slightly offset by lower property taxes, which decreased due to appeal refunds received at several of our hotels, as well as by the inclusion of three additional days of expense for ten of the Marriott-managed hotels during 2013 as compared to 2014.

Hotel operating expenses increased \$56.8 million, or 11.4%, in 2013 as compared to 2012. The five 2012–2013 acquired hotels contributed \$46.3 million to hotel operating expenses during 2013. Hotel operating expenses in our prior year existing portfolio increased \$10.5 million during 2013 as compared to 2012, primarily related to the corresponding increase in room revenue, combined with the Marriott-managed hotels’ three additional days in 2013 as compared to 2012. In addition, hotel operating expenses in our prior year existing portfolio increased during 2013 as compared to 2012 due to increases in property taxes, property and liability insurance premiums and ground lease expense.

Property general and administrative expense. Property general and administrative expense increased \$23.3 million, or 22.5% in 2014 as compared to 2013. The four 2013–2014 acquired hotels contributed an additional \$16.2 million to property general and administrative expense during 2014. Property general and administrative expense in our existing portfolio increased \$7.1 million during 2014 as compared to 2013, primarily due to increased management fees, credit and collection expenses, payroll and related expenses, contract and professional fees, and licenses and permits expenses due to the increase in revenue, partially offset by decreased security and sales tax audit expenses. In addition, property general and administrative expenses in our existing portfolio decreased during 2014 as compared to 2013 due to the Marriott-managed hotels’ three additional days in 2013 as compared to 2014.

Property general and administrative expense increased \$8.8 million, or 9.3%, in 2013 as compared to 2012. The five 2012–2013 acquired hotels contributed \$7.6 million to property general and administrative expense during 2013. In addition, BuyEfficient contributed an additional \$0.2 million in property general and administrative expense during 2013 as compared to 2012 due to increases in payroll and related expenses, including deferred stock compensation expense. Property general and administrative expense in our prior year existing portfolio increased \$1.0 million during 2013 as compared to 2012, primarily due to the Marriott-managed hotels’ three additional days in 2013 as compared to 2012, combined with increased management fees, and credit and collection expenses due to the increase in revenue. Property general and administrative expenses also increased due to higher costs related to licenses and permits, and security expenses, partially offset by decreased payroll and related costs, contract and professional fees, employee relations, recruitment, training, sales tax audit fees, operating supplies and travel.

Corporate overhead expense. Corporate overhead expense increased \$2.1 million, or 7.8%, in 2014 as compared to 2013, primarily due to increased payroll and related expenses (\$1.8 million), deferred stock compensation expense (\$1.5 million), and legal, employee relations and donations expenses (\$0.4 million), partially offset by decreased due diligence expense (\$1.1 million), entity-level state franchise and minimum taxes (\$0.3 million) and contract and professional fees (\$0.2 million). Due diligence expense decreased during 2014 versus 2013 as we recognized \$0.6 million of due diligence costs related to our completed acquisitions and an additional \$0.1 million related to in-process or abandoned projects during 2014, whereas during 2013 we recognized \$1.7 million of due diligence costs related to our completed acquisitions, and an additional \$0.1 million related to in-process or abandoned projects.

Corporate overhead expense increased \$2.4 million, or 9.7%, in 2013 as compared to 2012, primarily due to the following increases: payroll and related expenses (\$1.0 million); deferred stock compensation (\$1.3 million); contract and professional fees (\$0.6 million); and legal, conferences, travel and entity-level state franchise and minimum taxes (\$0.7 million). These increases were partially offset by a \$1.1 million decrease in acquisition and due diligence costs and a \$0.1 million decrease in donations. During 2013, we incurred acquisition and due diligence costs of \$1.7 million related to our completed acquisitions, and an additional \$0.1 million related to in-process or abandoned projects. During 2012, we incurred acquisition and due diligence costs of \$2.0 million related to our completed acquisitions, and an additional \$0.9 million related to in-process or abandoned projects.

Depreciation and amortization expense. Depreciation and amortization increased \$18.4 million, or 13.4%, in 2014 as compared to 2013. The four 2013–2014 acquired hotels contributed an additional \$21.7 million to depreciation and amortization during 2014. Depreciation and amortization expense in our existing portfolio decreased \$3.3 million during 2014 as compared to 2013 primarily due to advanced bookings recorded in conjunction with our purchases of the JW Marriott New Orleans, the Hilton San Diego Bayfront and the Hilton Garden Inn Chicago Downtown/Magnificent Mile that were fully amortized as of February 2013, April 2013 and December 2013, respectively. In addition the furniture, fixtures and equipment (“FF&E”) at some of our hotels was fully depreciated as of the end of 2013. These decreases in expense were partially offset by additional depreciation recognized on hotel renovations and purchases of FF&E for our existing portfolio.

Depreciation and amortization increased \$6.6 million, or 5.0%, in 2013 as compared to 2012. The five 2012–2013 acquired hotels contributed \$11.3 million to depreciation and amortization during 2013. Depreciation and amortization expense in our prior year existing portfolio decreased \$4.7 million during 2013 as compared to 2012 primarily due to advanced bookings recorded in conjunction with our purchases of the JW Marriott New Orleans and the Hilton San Diego Bayfront that were fully amortized as of February 2013 and April 2013, respectively. This decrease in amortization was partially offset by additional depreciation recognized on hotel renovations and purchases of FF&E for our prior year existing portfolio.

Interest and other income. Interest and other income totaled \$3.5 million in 2014, \$2.8 million in 2013, and \$0.3 million in 2012. In 2014, we recognized \$2.8 million in interest income on the Preferred Equity Investment, \$0.4 million in energy rebates due to energy efficient renovations at our hotels, and \$0.3 million in other interest and miscellaneous income. In 2013, we recognized \$2.8 million in interest income, including \$2.6 million on the Preferred Equity Investment. In 2012, we recognized \$0.2 million in interest income, and \$0.1 million in other miscellaneous income.

Interest expense. Interest expense is as follows (in thousands):

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Interest expense on debt and capital lease obligations	\$70,067	\$69,806	\$71,664
(Gain) loss on derivatives, net	(529)	(525)	406
Accretion of Senior Notes	—	3	1,058
Amortization of deferred financing fees	2,777	2,955	3,690
Write-off of deferred financing fees	—	—	3
	<u>\$72,315</u>	<u>\$72,239</u>	<u>\$76,821</u>

Interest expense increased \$0.1 million, or 0.1%, in 2014 as compared to 2013. The increase in interest expense in 2014 as compared to 2013 is due to an increase in expense on our debt and capital lease obligations (\$0.3 million) primarily offset by a decrease in amortization of deferred financing fees (\$0.2 million). Interest expense on our debt and capital lease obligations increased as a result of our assumption of a \$119.2 million loan in conjunction with our purchase of the Boston Park Plaza in July 2013. The increase in interest expense on our debt and capital lease obligations during 2014 as compared to 2013 due to the Boston Park Plaza loan was partially offset by decreased interest on our other debt obligations due to lower balances as a result of scheduled amortization, as well as to decreased variable interest rates on our non-recourse loans secured by the Doubletree Guest Suites Times Square and the Hilton San Diego Bayfront. The variable interest rate on our Hilton San Diego Bayfront mortgage was impacted during 2014 by our completion of an amendment to such mortgage in August 2014, which reduced the loan's interest rate from three-month LIBOR plus 325 basis points to one-month LIBOR plus 225 basis points. In addition, our amortization of deferred financing fees decreased during 2014 as compared to 2013 due to our amendment of the Hilton San Diego Bayfront loan.

Interest expense decreased \$4.6 million, or 6.0%, in 2013 as compared to 2012. The decrease in interest expense in 2013 as compared to 2012 is comprised of the following: a decrease in expense on our debt and capital lease obligations (\$1.9 million); a decrease in expense related to our derivatives (\$0.9 million); a decrease in accretion of Senior Notes (\$1.1 million); and a decrease in amortization of deferred financing fees (\$0.7 million). Interest expense on our debt and capital lease obligations decreased \$1.9 million during 2013 as compared to 2012 due to reduced loan balances related to scheduled amortization, a repayment of debt in April 2012 and a repurchase of debt in January 2013. In April 2012, we repaid a \$32.2 million loan secured by the Renaissance Long Beach, and in January 2013, we repurchased \$58.0 million of our Senior Notes. These decreases in our debt obligations and related decreases in interest expense were partially offset by an increase in capital lease obligations and related interest expense due to our acquisition of the Hyatt Chicago Magnificent Mile in June 2012, which included the assumption of a building lease that we determined should be accounted for as a capital lease. Interest expense on our debt and capital lease obligations also increased during 2013 as compared to 2012 due to our assumption of a \$119.2 million loan in conjunction with our purchase of the Boston Park Plaza in July 2013. Interest expense related to our derivatives decreased \$0.9 million during 2013 as compared to 2012 due to our recording a net gain on our interest rate cap and swap agreements in 2013 as compared to a loss during 2012. Interest expense related to the accretion of our Senior Notes decreased \$1.1 million during 2013 as compared to 2012 due to the fact that the Senior Notes were fully accreted to their face value as of the first put date in January 2013. Interest expense related to amortization of deferred financing fees decreased \$0.7 million during 2013 as compared to 2012 due to the repayment of the loan secured by the Renaissance Long Beach in April 2012, combined with the fact that the deferred financing fees related to the Senior Notes were fully amortized as of the first put date in January 2013, partially offset by an increase in deferred financing fees incurred to amend our line of credit in September 2012 and to assume the Boston Park Plaza debt.

Our weighted average interest rate per annum on debt included in our continuing operations, including our variable-rate debt obligations, was approximately 4.5% at December 31, 2014, and 4.9% at both December 31, 2013 and 2012. At December 31, 2014, 2013 and 2012, approximately 71.6%, 70.7% and 69.6%, respectively, of the outstanding notes payable included in our continuing operations had fixed interest rates.

Loss on extinguishment of debt. Loss on extinguishment of debt totaled \$4.6 million in 2014, \$44,000 in 2013 and \$0.2 million in 2012. In conjunction with our financing transactions regarding the debt secured by the Hilton San Diego Bayfront, the JW Marriott New Orleans and the Embassy Suites La Jolla during 2014, we expensed the unamortized balances of the lenders' deferred financing fees in accordance with the Debt Topic of the FASB ASC, resulting in losses on the extinguishment of these debts totaling \$0.6 million. In addition, we paid a premium of \$4.0 million to extinguish the debt secured by the Embassy Suites La Jolla, which is also included in loss on extinguishment of debt.

During 2013, we recognized a loss of \$44,000 due to the repurchase and redemption of the remaining \$58.0 million aggregate principal amount of the Senior Notes.

During 2012, we recognized a loss of \$0.2 million due to the repurchase and cancellation of \$4.5 million in aggregate principal amount of the Senior Notes.

Income tax provision. Income tax provision totaled \$0.2 million in 2014, \$8.1 million in 2013 and \$1.1 million in 2012. We lease our hotels to the TRS Lessee and its subsidiaries, which are subject to federal and state income taxes. In addition, the REIT and Operating Partnership may also be subject to various state and local income taxes. During 2014, we recognized a combined federal and state income tax provision of \$0.2 million based on a 2013 actual tax benefit (\$0.6 million), partially offset by a 2014 projected tax provision net of operating loss carryforwards (\$0.8 million) for our taxable entities.

During 2013, we recognized income tax expense of \$4.7 million as a result of Internal Revenue Service (“IRS”) audits of tax years 2008, 2009 and 2010, including \$0.6 million in accrued interest. We recorded additional income tax expense of \$1.5 million during 2013 based on the ongoing evaluations of our uncertain tax positions related to the year ended December 31, 2012, and as a result of our recent resolution of outstanding issues with the IRS. During 2013, we recorded additional tax expense of \$1.9 million related to estimated 2013 federal alternative minimum tax resulting from our use of net operating loss carryforwards, as well as state income tax where our use of net operating loss carryforwards was either limited or unavailable.

During 2012, our federal alternative minimum tax resulting from our use of net operating loss carryforwards combined with our state income tax expense where the use of net operating loss carryforwards was either limited or unavailable to total \$1.1 million of income tax expense.

Income from discontinued operations. As described under “—Investing Activities—Dispositions” and in accordance with the Property, Plant and Equipment Topic of the FASB ASC, income from discontinued operations included the results of operations, along with any gains on extinguishment of debt, gains or losses on sales and impairments recognized for the following properties:

Hotels and Other Assets	Rooms	Disposition Date
<i>2014</i>		
None		
<i>2013</i>		
Kahler Grand, Minnesota ⁽¹⁾	660	January 25, 2013
Kahler Inn & Suites, Minnesota	271	January 25, 2013
Marriott Rochester, Minnesota ⁽¹⁾	202	January 25, 2013
Residence Inn by Marriott Rochester, Minnesota	89	January 25, 2013
Textile Care Services Rochester, Minnesota	—	January 25, 2013
<i>2012</i>		
Marriott Del Mar, California	284	August 23, 2012
Doubletree Guest Suites Minneapolis, Minnesota	229	September 14, 2012
Hilton Del Mar, California	257	September 14, 2012
Marriott Troy, Michigan	350	September 14, 2012
Office building adjacent to the Marriott Troy, Michigan	—	September 14, 2012
Total rooms	<u>2,342</u>	

(1) During 2012, the Company subtracted eight rooms from the Kahler Grand and one room from the Marriott Rochester, bringing the hotel room counts to 660 and 202, respectively.

Income from discontinued operations for the years ended December 31, 2014, 2013 and 2012 is as follows (in thousands):

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Operating revenues	\$ —	\$ 3,690	\$100,861
Operating expenses	(350)	(3,686)	(71,089)
Interest expense	—	(99)	(6,490)
Depreciation and amortization expense	—	—	(13,164)
Loss on extinguishment of debt	—	(3,115)	—
Gain on sale of hotels and other assets, net	5,199	51,620	38,292
Income from discontinued operations	<u>\$4,849</u>	<u>\$ 48,410</u>	<u>\$ 48,410</u>

Income from discontinued operations for the year ended December 31, 2014 includes two adjustments related to our 2013 sale of the Rochester Portfolio, as well as an adjustment related to six hotels sold during 2004 through 2013. The first Rochester Portfolio adjustment relates to our retention of a liability not to exceed \$14.0 million related to the Rochester Portfolio's pension plan, which could be triggered in certain circumstances, including termination of the pension plan. The recognition of the \$14.0 million pension plan liability reduced the gain we recognized in 2013 on the sale of the Rochester Portfolio. In May 2014, we were released from \$7.0 million of our pension plan liability, causing us to recognize additional gain on the sale of the Rochester Portfolio of \$7.0 million, which is included in discontinued operations for the year ended December 31, 2014. The remaining \$7.0 million gain will be recognized, if at all, when and to the extent we are released from any potential liability related to the Rochester Portfolio's pension plan.

The second Rochester Portfolio adjustment relates to potential future costs for certain capital expenditures at one of the hotels in the Rochester Portfolio. In accordance with the Contingencies Topic of the FASB ASC, which requires a liability be recorded based on our estimate of the probable cost of the resolution of a contingency, we accrued \$0.3 million in 2013 when we sold the Rochester Portfolio related to these potential future costs. During 2014, we determined that our total costs for these capital expenditures may range from \$2.0 million to \$3.0 million. As such, we accrued an additional \$1.8 million during 2014 in accordance with the Contingencies Topic of the FASB ASC, which is included in discontinued operations for the year ended December 31, 2014. During 2014, we paid \$1.3 million of the liability, bringing the accrued balance for this contingency to \$0.8 million as of December 31, 2014.

Income from discontinued operations for the year ended December 31, 2014 also includes additional expense of \$0.4 million related to workers' compensation claims which originated during our periods of ownership at six hotels. We sold these hotels during 2004, 2005, 2010 and 2013.

Income from discontinued operations for the year ended December 31, 2013 includes activity for the Rochester Portfolio sold in 2013.

Income from discontinued operations for the year ended December 31, 2012 includes activity for the Rochester Portfolio sold in 2013, and the four hotels and one office building sold in 2012. Income from discontinued operations for 2012 also includes property tax refunds and reimbursements for certain transaction related invoices for the Royal Palm Miami Beach, which we sold in April 2011.

Income from consolidated joint venture attributable to non-controlling interest. Income from consolidated joint venture attributable to non-controlling interest totaled \$6.7 million in 2014, \$4.0 million in 2013 and \$1.8 million in 2012. Consistent with the Presentation Topic of the FASB ASC, our net income for the years ended December 31, 2014, 2013 and 2012 includes 100% of the net income generated during our ownership period by the entity that owns the Hilton San Diego Bayfront. The outside 25.0% interest in the entity that owns the Hilton San Diego Bayfront earned net income of \$6.7 million, \$4.0 million and \$1.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Distributions to non-controlling interest. Distributions to non-controlling interest totaled \$32,000 in both 2014 and 2013, and \$31,000 in 2012. We are the sole common stockholder of the captive REIT that owns the Doubletree Guest Suites Times Square. Preferred dividends earned by investors from the entity that owns the Doubletree Guest Suites Times Square, net of related administrative fees, totaled \$32,000 for both 2014 and 2013, and \$31,000 for 2012.

Preferred stock dividends and redemption charges. Preferred stock dividends decreased \$9.8 million, or 51.6%, during the year ended December 31, 2014 as compared to the year ended December 31, 2013. Pursuant to our strategy of gradually reducing our leverage, during 2013 we redeemed all 7,050,000 shares of our Series A preferred stock and all 4,102,564 shares of our Series C preferred stock in March and May, respectively. As such, our total Series A and Series C preferred stock dividends decreased to zero in 2014 as compared to \$5.1 million in 2013. In addition, preferred stock dividends and redemption charges decreased during 2014 as compared to 2013 due to our recognition of redemption charges in 2013 totaling \$4.6 million and \$0.1 million in conjunction with the redemptions of our Series A preferred stock and Series C preferred stock, respectively. These redemption charges related to the original issuance costs of these shares, which were previously included in additional paid in capital.

Preferred stock dividends decreased \$10.7 million, or 36.1%, during the year ended December 31, 2013 as compared to the year ended December 31, 2012. Due to the redemptions of all of our Series A preferred stock in March 2013, and all of our Series C preferred stock in May 2013, our total Series A and Series C preferred dividends decreased \$15.5 million in 2013 as compared to 2012. This decrease in our Series A and Series C preferred stock dividends was partially offset by a \$4.6 million redemption charge recognized on our Series A preferred stock and a \$0.1 million redemption charge recognized on our Series C preferred stock related to the original issuance costs of these shares, which were previously included in additional paid in capital.

INVESTING ACTIVITIES

Acquisitions. We believe we are in the middle phase of a potentially prolonged cyclical lodging industry recovery. Accordingly, we further believe that hotels acquired over the next several quarters are likely to benefit from a multi-year recovery in hotel profitability, and may create long-term value in excess of our investment hurdles. During 2012, 2013 and 2014, we made several hotel acquisitions as detailed below:

Hotels	Rooms	Acquisition Date
<i>2014:</i>		
Marriott Wailea, Hawaii ⁽¹⁾	544	July 17, 2014
<i>2013:</i>		
Hilton New Orleans St. Charles, Louisiana	250	May 1, 2013
Boston Park Plaza, Massachusetts ⁽¹⁾	1,053	July 2, 2013
Hyatt Regency San Francisco, California ⁽¹⁾	802	December 2, 2013
<i>2012:</i>		
Hyatt Chicago Magnificent Mile, Illinois ⁽¹⁾	417	June 4, 2012
Hilton Garden Inn Chicago Downtown/Magnificent Mile, Illinois	357	July 19, 2012
Total rooms	3,423	

(1) Subsequent to these acquisitions, we temporarily removed three rooms from the Marriott Wailea, leaving 541 rooms available to sell. In addition, we added rooms as follows: one at the Boston Park Plaza, increasing the room count to 1,054; one at the Hyatt Regency San Francisco, increasing the room count to 803; and two at the Hyatt Chicago Magnificent Mile, increasing the room count to 419.

The total cost for these six hotel acquisitions was approximately \$1.1 billion, including shares of our common stock valued at \$111.2 million for accounting purposes, or \$314,000 per room. Each of these acquisitions is discussed below.

In July 2014, we purchased the 544-room Marriott Wailea for a net purchase price of \$325.6 million, which was comprised of \$265.6 million in cash, including \$4.4 million of proration credits and unrestricted and restricted cash received from the seller, and \$60.0 million of our common stock issued directly to the seller. The acquisition was funded with proceeds received from our June 2014 common stock offering, and 4,034,970 shares of our common stock valued at \$60.0 million (\$14.87 per share). Subsequent to our acquisition, three rooms were temporarily taken out of service, leaving 541 rooms available to sell.

In May 2013, we purchased the 250-room Hilton New Orleans St. Charles for a net purchase price of \$59.1 million, including \$0.2 million of proration credits and unrestricted cash received from the seller. The acquisition was funded with \$53.2 million of proceeds generated by our January 2013 sale of the Rochester Portfolio, as well as with proceeds received from our February 2013 issuance of common stock.

In July 2013, we purchased the 1,053-room Boston Park Plaza for a net purchase price of \$248.0 million, including \$2.0 million of proration credits, unrestricted and restricted cash and other adjustments received from the seller. The acquisition was funded with \$92.3 million of proceeds generated by our January 2013 sale of the Rochester Portfolio, the assumption of a \$119.2 million non-recourse loan secured by the hotel, as well as with proceeds received from the Company's February 2013 issuance of common stock and with cash on hand. The mortgage we assumed in conjunction with our purchase of the Boston Park Plaza bears interest at a fixed rate of 4.4%, and matures in February 2018.

In December 2013, we purchased the 802-room Hyatt Regency San Francisco for a net purchase price of \$262.5 million, including \$5.5 million of purchase price adjustments comprised of restricted cash and other adjustments received from the seller. The acquisition was funded with proceeds generated by our November 2013 issuance of common stock.

In June 2012, we purchased the leasehold interest in the 417-room Wyndham Chicago located in Chicago, Illinois for a contractual purchase price of \$88.425 million. The acquisition was funded with \$29.7 million of cash on hand (including \$0.3 million of proration credits) and the issuance of 5,454,164 shares of our common stock, the "Wyndham stock consideration." The Wyndham stock consideration was determined by dividing \$58.425 million by the product of (1) the closing price of \$10.40 on the NYSE of our common stock on May 2, 2012 and (2) 1.03. In connection with this acquisition, we entered into a registration rights agreement requiring us to register the Wyndham stock consideration. We prepared the registration statement on Form S-3, which we filed with the SEC as required on June 4, 2012. Based on the \$9.38 closing price of the Company's common stock on the NYSE on June 4, 2012, the date the acquisition closed, the total purchase price of the Wyndham Chicago hotel for accounting purposes was \$81.16 million, excluding proration adjustments and closing costs. Upon closing, we terminated the existing management agreement and entered into a new management agreement with Davidson

Hotels & Resorts. We rebranded the hotel the Hyatt Chicago Magnificent Mile and immediately commenced planning for a \$25.0 million renovation program, which was completed in the second quarter 2013.

In July 2012, we purchased the 357-room Hilton Garden Inn Chicago Downtown/Magnificent Mile located in Chicago, Illinois for a net purchase price of \$90.3 million. The acquisition was funded with a portion of the \$126.2 million net proceeds we received from the issuance of 12,143,273 shares of our common stock in June 2012.

In addition to the above noted hotels, in June 2014 we acquired approximately seven acres of land underlying the Fairmont Newport Beach for \$11.0 million, using net proceeds from the March 2014 issuance of our common stock in connection with the Equity Distribution Agreements entered into in February 2014, combined with cash on hand. Prior to our acquisition, the land was leased to us by a third party. Our acquisition of the land reduced our property tax, ground lease and insurance expense by \$0.6 million for the year ended December 31, 2014.

While our primary focus is on acquiring branded, urban, upper upscale hotels, our acquisition program is aimed at generating attractive risk-adjusted returns on our investment dollars, and therefore we may target lodging assets outside of the typical branded, urban, upper upscale profile represented by our existing portfolio in order to capitalize on opportunities which may arise. We intend to select the brands and operators for our hotels that we believe will lead to the highest returns. Additionally, the scope of our acquisitions program may include large hotel portfolios or hotel loans. Future acquisitions may be funded by our issuance of additional debt or equity securities, including our common and preferred OP units, or by draws on our \$150.0 million senior corporate credit facility. However, in light of our current financial objectives, we expect to fund any near term acquisitions with a greater proportion of equity capital than debt capital.

Dispositions. We have from time to time divested of assets that no longer fit our target profile, will not offer long-term returns in excess of our cost of capital, or that have high risk relative to their anticipated returns. The following table sets forth the hotels we have sold since January 1, 2012:

Hotels	Rooms	Disposition Date
<i>2014:</i>		
None		
<i>2013:</i>		
Kahler Grand, Minnesota ⁽¹⁾⁽²⁾	660	January 25, 2013
Kahler Inn & Suites, Minnesota ⁽¹⁾	271	January 25, 2013
Marriott Rochester, Minnesota ⁽¹⁾⁽²⁾	202	January 25, 2013
Residence Inn by Marriott Rochester, Minnesota ⁽¹⁾	89	January 25, 2013
<i>2012:</i>		
Marriott Del Mar, California	284	August 23, 2012
Doubletree Guest Suites Minneapolis, Minnesota ⁽³⁾	229	September 14, 2012
Hilton Del Mar, California ⁽³⁾	257	September 14, 2012
Marriott Troy, Michigan ⁽³⁾	350	September 14, 2012
Total rooms	2,342	

(1) The 2013 portfolio sale of the Rochester Hotels also included a commercial laundry facility in Rochester, Minnesota.

(2) During 2012, the Company subtracted eight rooms from the Kahler Grand and one room from the Marriott Rochester, bringing the hotel room counts to 660 and 202, respectively.

(3) The 2012 portfolio sale of the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, and the Marriott Troy also included an office building adjacent to the Marriott Troy.

The aggregate net sale proceeds for these eight hotels was \$401.0 million, or \$171,000 per room. The results of operations of all of the properties identified above and the gains or losses on dispositions and extinguishments of debt are included in discontinued operations for all periods presented through the time of sale. The cash proceeds from the sales are included in our cash flows from investing activities for the respective periods. Each of these dispositions is discussed below.

In January 2013, we sold the Rochester Portfolio to an unaffiliated third party, for net proceeds of \$195.6 million, of which \$145.7 million was deposited with an accommodator in order to facilitate our tax-deferred exchanges for the Hilton New Orleans St. Charles and the Boston Park Plaza. We recognized a net gain on the sale of \$51.6 million. We retained a \$25.0 million Preferred Equity Investment in the Rochester Hotels that yields an 11% dividend, resulting in a deferred gain on the sale of \$25.0 million. The \$25.0 million gain will be deferred until the Preferred Equity Investment is redeemed. We also provided a \$3.7 million working cash advance to the buyer, resulting in a deferred gain on the sale of \$3.7 million. The \$3.7 million gain will be deferred until we are repaid from the Rochester Portfolio's available cash flow.

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

In addition, at the time we sold the Rochester Portfolio, we retained a liability not to exceed \$14.0 million related to the Rochester Portfolio's pension plan, which could be triggered in certain circumstances, including termination of the pension plan. The recognition of the \$14.0 million pension plan liability reduced our gain on the sale of the Rochester Portfolio. In May 2014, we were released from \$7.0 million of the pension plan liability, causing us to recognize additional gain on the sale of the Rochester Portfolio of \$7.0 million, which is included in discontinued operations. The remaining \$7.0 million gain will be recognized, if at all, when and to the extent we are released from any potential liability related to the Rochester Portfolio's pension plan.

We sold four hotels and an office building adjacent to one of the hotels in 2012. In August 2012, we sold the Marriott Del Mar located in San Diego, California for net proceeds of \$17.7 million, including the assumption of the existing mortgage secured by the hotel which totaled \$47.1 million on the date of sale, and recognized a gain on the sale of \$25.5 million. In addition, we wrote off \$48,000 in deferred financing fees in conjunction with the buyer's assumption of the debt secured by the hotel. In September 2012, we sold a portfolio of assets that included the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy (located in Minneapolis, Minnesota, San Diego, California, and Troy, Michigan, respectively) and an office building adjacent to the Marriott Troy for net proceeds of \$28.6 million, including the assumptions of three separate mortgages secured by the hotels totaling \$75.6 million, as well as a \$2.2 million liability for deferred management fees payable to the Marriott Troy's third-party manager. We recognized a net gain on the sale of \$12.7 million. In addition, we wrote off \$0.1 million in deferred financing fees in conjunction with the buyer's assumption of the debt secured by the three hotels.

The following table summarizes our portfolio and room data from January 1, 2012 through December 31, 2014, adjusted for the hotels acquired and sold during the respective periods.

	2014	2013	2012
<i>PORTFOLIO DATA—HOTELS</i>			
Number of hotels—beginning of period	29	30	32
Add: Acquisitions	1	3	2
Less: Dispositions	—	(4)	(4)
Number of hotels—end of period	30	29	30
	2014	2013	2012
<i>PORTFOLIO DATA—ROOMS</i>			
Number of rooms—beginning of period	13,744	12,854	13,208
Add: Acquisitions	544	2,105	774
Add: Room (conversions) expansions	15	7	(8)
Less: Dispositions	—	(1,222)	(1,120)
Number of rooms—end of period	14,303	13,744	12,854
Average rooms per hotel—end of period	477	474	428

Renovations. We invested \$126.0 million, \$117.7 million and \$109.3 million in capital improvements to our hotel portfolio during the years ended December 31, 2014, 2013 and 2012, respectively. During 2014, we continued to undertake major renovations, repositionings and ordinary course rooms and public space renovations, most significantly at the Boston Park Plaza and the Hyatt Regency San Francisco, and to a lesser degree at the Hilton Garden Inn Chicago Downtown/Magnificent Mile and the Renaissance Long Beach. During 2013, four of our hotels were undergoing major renovations or repositionings: the Hilton Times Square; the Hyatt Chicago Magnificent Mile; the Hyatt Regency Newport Beach; and the Renaissance Westchester. During 2012, two of our hotels were undergoing major renovations: the Renaissance Washington DC; and the Hyatt Regency Newport Beach. As a result of our major renovations and repositionings, we incurred revenue disruption of approximately \$3.1 million in 2014, \$7.7 million in 2013 and \$3.4 million in 2012, all of which was in line with our expectations.

LIQUIDITY AND CAPITAL RESOURCES

Historical. During the periods presented, our sources of cash included our operating activities, working capital, sales of hotel properties and other assets, proceeds from our credit facility, and proceeds from our common stock offerings. Our primary uses of cash were for acquisitions of hotel properties and other assets, capital expenditures for hotels, operating expenses, repayment of notes payable (including repurchases of Senior Notes) and our credit facility, repurchases of our preferred stock, dividends on our preferred and common stock and distributions to our joint venture partners. We cannot be certain that traditional sources of funds will be available in the future.

Operating activities. Our net cash provided by or used in operating activities fluctuates primarily as a result of changes in RevPAR and the operating cash flow of our hotels. Our net cash provided by or used in operating activities may also be affected by changes in our portfolio resulting from hotel acquisitions, dispositions or renovations. Net cash provided by operating activities was \$278.6 million for 2014 compared to \$171.1 million for 2013, and \$171.5 million for 2012. This increase was primarily due to additional cash generated by the four 2013–2014 acquired hotels, combined by an increase in cash generated by the four 2013 renovation hotels. This increase in cash provided by operating activities was partially offset by decreased cash generated by four of our hotels which were undergoing major renovations during 2014: the Boston Park Plaza; the Hilton Garden Inn Chicago Downtown/Magnificent Mile; the Hyatt Regency San Francisco; and the Renaissance Long Beach.

Operating cash decreased slightly in 2013 as compared to 2012 due to decreased cash generated by the four 2013 renovation hotels as well as increased restricted cash, mostly offset by operating cash generated by the five 2012–2013 acquired hotels.

Investing activities. Our net cash provided by or used in investing activities fluctuates primarily as a result of acquisitions, dispositions and renovations of hotels. Net cash used in investing activities in 2014, 2013 and 2012 was as follows (in thousands):

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Proceeds from sales of hotel properties and other assets	\$ 110	\$ 195,628	\$ 46,367
Restricted cash—replacement reserve	(4,311)	1,272	(10,743)
Acquisitions of hotel properties and other assets	(276,558)	(450,544)	(120,003)
Renovations and additions to hotel properties and other assets	(125,975)	(117,694)	(109,321)
Payment for interest rate derivative	—	(12)	—
Net cash used in investing activities	<u><u>\$(406,734)</u></u>	<u><u>\$(371,350)</u></u>	<u><u>\$(193,700)</u></u>

Net cash used in investing activities was \$406.7 million in 2014, \$371.4 million in 2013 and \$193.7 million in 2012. During 2014, we paid cash of \$265.6 million to acquire the Marriott Wailea, and cash of \$11.0 million to acquire the land underlying the Fairmont Newport Beach for a total of \$276.6 million. We also paid \$126.0 million for renovations and additions to our portfolio, and increased the balance in our restricted cash replacement reserve accounts by \$4.3 million. These cash outflows were slightly offset by \$0.1 million received from the sale of surplus FF&E.

During 2013, we received proceeds of \$195.6 million from the sale of the Rochester Portfolio. In addition, we purchased three hotels during 2013 for a total of \$450.5 million, including the Hilton New Orleans St. Charles in May 2013 (\$59.1 million), the Boston Park Plaza in July 2013 (\$128.9 million), and the Hyatt Regency San Francisco in December 2013 (\$262.5 million). During 2013, we also decreased the balance in our restricted cash replacement reserve accounts by \$1.3 million, paid \$117.7 million for renovations and additions to our portfolio and paid \$12,000 for an interest rate cap agreement on our variable-rate mortgage secured by the Hilton San Diego Bayfront.

During 2012, we received total proceeds of \$46.4 million from the sales of four hotels and an office building adjacent to one of the sold hotels, including \$17.7 million for the Marriott Del Mar, \$28.6 million from the portfolio sale of the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy, and an office building adjacent to the Marriott Troy, and an additional \$37,000 from the sale of surplus FF&E. These cash inflows were offset by the following cash outflows: \$10.7 million as we increased the balance in our restricted cash replacement reserve accounts; \$120.0 million to acquire two hotels, including \$29.7 million paid to acquire the Hyatt Chicago Magnificent Mile and \$90.3 million paid to acquire the Hilton Garden Inn Chicago Downtown/Magnificent Mile; and \$109.3 million for renovations and additions to our portfolio.

Financing activities. Our net cash provided by or used in financing activities fluctuates primarily as a result of our issuance of common stock, our issuance and repayment of notes payable (including the repurchase of Senior Notes) and our credit facility, and our issuance and repurchase of other forms of capital, including preferred equity. Net cash provided by financing activities was \$245.9 million in 2014, \$147.4 million in 2013, and \$30.2 million in 2012. Net cash provided by financing activities during 2014 consisted of \$283.4 million in net proceeds received from our issuance of common stock, and \$178.3 million in proceeds received from notes payable and our credit facility, including \$90.0 million from a new loan secured by the JW Marriott New Orleans, \$65.0 million from a new loan secured by the Embassy Suites La Jolla and \$23.3 million from short-term borrowings on our credit facility. These cash inflows were partially offset by \$153.0 million in principal payments on our notes payable and credit facility, including \$38.9 million to repay the old loan secured by the JW Marriott New Orleans, \$67.1 million to extinguish the old loan secured by the Embassy Suites La Jolla, \$23.3 million to repay draws on our credit facility and \$23.7 million of principal payments on our notes payable. In addition, we paid a total of \$4.1 million in fees to extinguish the old Embassy Suites La Jolla debt as well as debt related to one of the lenders who chose not to participate in the amended mortgage secured by the Hilton San Diego Bayfront. We also paid \$2.3 million in deferred financing costs related to the new loans secured by the JW Marriott New Orleans and the Embassy Suites La Jolla, along with the three lenders who are participating in the amended mortgage secured by the Hilton San Diego Bayfront. Finally, we paid \$47.9 million in dividends to our preferred and common stockholders, and \$8.5 million in distributions to the non-controlling interests in our hotels.

Net cash provided by financing activities during 2013 consisted of \$565.8 million in net proceeds received from our issuance of common stock and \$35.8 million in proceeds received from our credit facility, partially offset by the following cash outflows: a total of \$276.3 million paid to redeem all of our Series A and Series C preferred stock; \$141.5 million in principal payments on our notes payable and credit facility, including \$58.0 million to repurchase our Senior Notes, \$26.7 million to extinguish the existing mortgage on the Kahler Grand, \$0.4 million to prepay the existing mortgage on the commercial laundry facility included in the Rochester Portfolio, \$35.8 million to repay draws on our credit facility and \$20.6 million of principal payments on our notes payable; \$3.1 million in costs incurred on our repurchase of the Senior Notes, our extinguishment of the Kahler Grand mortgage and our repayment of the commercial laundry mortgage; \$27.5 million in common and preferred dividends to our stockholders; \$5.5 million in distributions to the non-controlling interests in our hotels; and \$0.2 million in deferred financing costs paid in connection with our purchase of the interest rate cap agreement on our variable-rate mortgage secured by the Hilton San Diego Bayfront and on our assumption of the Boston Park Plaza loan.

Net cash provided by financing activities during 2012 consisted of \$126.1 million in net proceeds received from the issuance of common stock, including \$126.2 million in net proceeds received from our common stock offering offset by \$0.1 million in fees related to shares issued to the seller of the Hyatt Chicago Magnificent Mile, and \$15.0 million in proceeds received from a draw on our credit facility. These cash inflows were partially offset by \$68.8 million in principal payments on our notes payable and credit facility, including \$32.2 million to repay the existing mortgage secured by the Renaissance Long Beach, \$15.0 million to repay a draw on our credit facility and \$21.6 million of principal payments on our notes payable. In addition, we paid \$4.6 million to repurchase a portion of our Senior Notes, \$1.3 million in deferred financing costs to amend our credit facility, \$29.7 million in preferred dividends to our stockholders, and \$6.4 million in distributions to the non-controlling interests in our hotels.

Future. We expect our primary uses of cash to be for capital investments in our hotels, operating expenses, repayment of principal on our notes payable and credit facility, interest expense, dividends on our common and preferred stock and acquisitions of hotels, including possibly hotel portfolios. We expect our primary sources of cash will continue to be our operating activities, working capital, notes payable and our credit facility, dispositions of hotel properties, and proceeds from public and private offerings of debt securities and common and preferred stock. Our financial objectives include the maintenance of our credit ratios, appropriate levels of liquidity, and continued balance sheet strength. Consistent with maintaining our low leverage and balance sheet strength, in the near-term, we expect to fund acquisitions largely through the issuance of equity in order to selectively grow the quality and scale of our portfolio. To that end, we issued common stock in June 2012 to fund our acquisitions of both the Hyatt Chicago Magnificent Mile in June 2012 and the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012. In addition, we used a portion of the proceeds we received from our February 2013 common stock offering to fund our acquisitions of both the Hilton New Orleans St. Charles in May 2013 and the Boston Park Plaza in July 2013, and we used a portion of the proceeds we received from our November 2013 common stock offering to fund our acquisition of the Hyatt Regency San Francisco in December 2013. In 2014, we used a portion of the proceeds we received from our June 2014 common stock offering, along with common stock issued directly to the seller, to fund our July 2014 acquisition of the Marriott Wailea. Our ability to raise funds through the issuance of equity securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about us. We will continue to analyze alternate sources of capital in an effort to minimize our capital costs and maximize our financial flexibility, including pursuant to the Equity Distribution Agreements we entered into in February 2014 with the Managers. Under the terms of the agreements, we may issue and sell from time to time through or to the Managers, as sales agents and/or principals, shares of our common stock having an aggregate offering amount of up to \$150.0 million. During 2014, we received \$21.0 million in net proceeds from the issuance of 1,352,703 shares of our common stock in connection with the agreements, which we used to partially fund the acquisition of the land underlying the Fairmont Newport Beach in June 2014. However, when needed, the capital markets may not be available to us on favorable terms or at all.

We believe that our current cash balance, our cash flow from operations, our access to capital markets and our unencumbered properties will provide us with sufficient liquidity to meet our current operating expenses and other expenses directly associated with our business (including payment of cash dividends on our capital stock, if declared) for the foreseeable future, and in any event for at least the next 12 months.

Debt. As of December 31, 2014, we had \$1.4 billion of consolidated debt, \$304.2 million of cash and cash equivalents, including restricted cash, and total assets of \$3.9 billion. We believe that by controlling debt levels, staggering maturity dates and maintaining a highly flexible capital structure, we can maintain lower capital costs than more highly leveraged companies, or companies with limited flexibility due to restrictive corporate-level financial covenants.

The weighted average term to maturity of our debt as of December 31, 2014, is approximately 4 years, and 71.6% of our debt is fixed rate with a weighted average interest rate of 5.2%. Including our variable-rate debt obligations based on the variable rates at December 31, 2014, the weighted average interest rate on this debt is 4.5%.

As of December 31, 2014, all of our outstanding debt had fixed interest rates, except our two variable-rate obligations, which include the \$228.3 million non-recourse mortgage on the Hilton San Diego Bayfront and the \$177.2 million non-recourse mortgage on the Doubletree Guest Suites Times Square, both of which are subject to interest rate cap agreements. The interest rate cap agreement on the Hilton San Diego Bayfront mortgage matures in April 2015, and caps the 3-month LIBOR rate at 3.75%. The interest rate cap agreement on the Doubletree Guest Suites Times Square mortgage matures in October 2015, and caps the LIBOR rate at 4.0%. All of our mortgage debt is in the form of single asset non-recourse loans rather than cross-collateralized multi-property pools. We currently believe this structure is appropriate for the operating characteristics of our business as it isolates risk and provides flexibility for various portfolio management initiatives, including the sale of individual hotels subject to existing debt.

Each of our debt transactions for the years ended December 31, 2014, 2013 and 2012 are discussed below.

In August 2014, we amended the mortgage on the Hilton San Diego Bayfront, which mortgage originally included the syndication of four lenders. One of these lenders chose not to participate in the refinancing, and, in accordance with the Debt Topic of the FASB ASC, we expensed the unamortized balance of the lender's deferred financing fees, resulting in a \$0.5 million loss on the extinguishment of this lender's debt. In addition, we paid \$1.3 million in deferred finance fees to the three lenders who are participating in the amended mortgage, which we are amortizing over the term of the refinanced debt. As a result of this amendment, the interest rate decreased to a blended rate of one-month LIBOR plus 225 basis points from the blended rate of three-month LIBOR plus 325 basis points. In addition, the original maturity date of April 2016 was extended to August 2019.

In December 2014, we repaid the \$38.9 million mortgage secured by the JW Marriott New Orleans, using proceeds received from a new \$90.0 million mortgage secured by the JW Marriott New Orleans. The new loan extends the maturity date from September 2015 to December 2024. The new loan is subject to a 30-year amortization schedule, and reduces the interest rate from 5.45% under a related interest rate swap agreement to a fixed rate of 4.15%. In conjunction with our repayment of the original mortgage, we wrote off \$39,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in our consolidated statements of operations, and we paid \$0.6 million to terminate the related interest rate swap agreement. In addition, we paid deferred financing fees of \$0.6 million related to the new loan, which we are amortizing over the term of the new loan.

Also in December 2014, we extinguished the \$67.1 million mortgage secured by the Embassy Suites La Jolla for a total cost of \$71.1 million, and recorded a loss on extinguishment of debt of \$4.0 million. The extinguishment was funded using proceeds received from a new \$65.0 million mortgage secured by the Embassy Suites La Jolla, along with cash on hand. The new loan is subject to a 30-year amortization schedule, reduces the interest rate from a fixed rate of 6.6% to a fixed rate of 4.12%, and extends the maturity date from June 2019 to January 2025. In conjunction with our repayment of the original mortgage, we wrote off \$43,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in our consolidated statements of operations. In addition, we paid deferred financing fees of \$0.4 million related to the new loan, which we are amortizing over the term of the new loan.

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

In January 2013, we repurchased \$42.0 million of Senior Notes pursuant to a tender offer, and we redeemed the remaining \$16.0 million of the Senior Notes. We funded the total \$58.0 million in Senior Note redemptions with available cash, leaving no future amounts outstanding related to the Senior Notes. We recognized a loss of \$44,000 on this extinguishment of debt.

In conjunction with our acquisition of the Boston Park Plaza in July 2013, we assumed a \$119.2 million non-recourse mortgage secured by the hotel. The mortgage bears interest at a fixed rate of 4.4%, and matures in February 2018.

Regarding our 2012 debt activities, in February 2012, we repurchased \$4.5 million in aggregate principal amount of our Senior Notes for \$4.57 million. After the repurchase, such Senior Notes were cancelled. We wrote off \$47,000 in deferred financing fees and \$0.1 million of the Senior Notes discount, and recognized a loss of \$0.2 million on this early extinguishment of debt.

In April 2012, we used existing cash to repay the remaining \$32.2 million balance of the non-recourse mortgage secured by the Renaissance Long Beach. In connection with this repayment, we wrote off \$3,000 in deferred financing fees.

In August 2012, we completed the sale of the Marriott Del Mar for a gross sales price of \$66.0 million, including the buyer's assumption of the \$47.1 million mortgage secured by the hotel, and wrote off \$48,000 in related deferred financing fees.

In September 2012, we completed the portfolio sale of the Doubletree Guest Suites Minneapolis, the Hilton Del Mar, the Marriott Troy and an office building adjacent to the Marriott Troy for a gross sales price of \$105.0 million, including the buyer's assumption of the three mortgages secured by the hotels totaling \$75.6 million, and wrote off \$0.1 million in related deferred financing fees.

In September 2012, we amended and restated our \$150.0 million senior unsecured revolving credit facility, which was scheduled to mature in November 2013. The pricing on the amended revolving credit facility was reduced and the 1% LIBOR floor was eliminated. The maturity of the credit facility was extended to November 2015 with an option to extend to November 2016. The amended credit facility's interest rate is based on a pricing grid with a range of 175 to 350 basis points, which represents a reduction from the previous grid that ranged from 325 to 425 basis points over LIBOR depending on our leverage ratio. The credit facility also includes an accordion option that allows us to request additional lender commitments up to a total of \$350.0 million. We paid \$1.3 million in deferred financing fees in conjunction with this amendment, which we are amortizing over the term of the amended credit facility. The credit facility currently has no outstanding borrowings; however, as of December 31, 2014, we had \$0.7 million in outstanding irrevocable letters of credit backed by the credit facility.

We may in the future seek to obtain mortgages on one or all of our 14 unencumbered hotels, all but five of which are currently held by subsidiaries whose interests are pledged to our credit facility at December 31, 2014: Courtyard by Marriott Los Angeles, Fairmont Newport Beach, Hilton Garden Inn Chicago Downtown/Magnificent Mile (not pledged to our credit facility), Hilton New Orleans St. Charles (not pledged to our credit facility), Hyatt Chicago Magnificent Mile (not pledged to our credit facility), Hyatt Regency Newport Beach, Hyatt Regency San Francisco (not pledged to our credit facility), Marriott Quincy, Marriott Portland, Marriott Wailea (not pledged to our credit facility), Renaissance Long Beach, Renaissance Los Angeles Airport, Renaissance Westchester and Sheraton Cerritos. These 14 hotels had an aggregate of 5,551 rooms as of December 31, 2014, and generated \$424.1 million in revenue during 2014, including revenue generated by the Marriott Wailea prior to our ownership. Should we obtain secured financing on any or all of our 14 unencumbered hotels, the amount of capital available through our credit facility may be reduced.

Cash Balance. As of December 31, 2014, our unrestricted cash balance was \$222.1 million. By minimizing our need to access external capital by maintaining higher than typical cash balances, our financial security and flexibility are meaningfully enhanced because we are able to fund our business needs and debt maturities, specifically our 2015 remaining debt maturities, partially with our cash. As we believe the lodging cycle is in the middle phase of a potentially prolonged cyclical recovery, we deployed a portion of our excess cash balance in 2014 towards debt refinancing activities (including refinancing the mortgages secured by the Hilton San Diego Bayfront, the JW Marriott New Orleans and the Embassy Suites La Jolla), selective acquisitions and capital investments in our portfolio. In addition, as we have made progress on our core objective to improve the quality and scale of our portfolio while gradually deleveraging our balance sheet, we continued payment of a quarterly cash dividend on our common shares, which we reinstituted during 2013. While our primary focus is on acquiring branded, urban, upper upscale hotels, our acquisition program is aimed at generating attractive risk-adjusted returns on our investment dollars. We, therefore, may target lodging assets outside of the typical branded, urban, upper upscale profile represented by our existing portfolio in order to capitalize on opportunities which may arise. Additionally, the scope of our acquisitions program may include large hotel portfolios or hotel loans.

CONTRACTUAL OBLIGATIONS

The following table summarizes our payment obligations and commitments as of December 31, 2014 (in thousands):

	Payment Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Notes payable	\$1,429,292	\$121,328	\$463,207	\$514,732	\$330,025
Interest obligations on notes payable ⁽¹⁾	238,172	59,690	89,307	48,321	40,854
Capital lease obligations	15,583	7	2	2	15,572
Interest obligations on capital leases	100,852	1,402	2,804	2,804	93,842
Operating lease obligations	386,155	8,438	20,022	22,686	335,009
Construction commitments	56,472	56,472	—	—	—
Employment obligations	7,025	6,319	706	—	—
Total	\$2,233,551	\$253,656	\$576,048	\$588,545	\$815,302

(1) Interest on variable-rate debt obligations is calculated based on the variable rates at December 31, 2014.

CAPITAL EXPENDITURES AND RESERVE FUNDS

We believe we maintain each of our hotels in good repair and condition and in general conformity with applicable franchise and management agreements, ground, building and air leases, laws and regulations. Our capital expenditures primarily relate to the ongoing maintenance of our hotels and are budgeted in the reserve accounts described in the following paragraph. We also incur capital expenditures for renovation and development. We invested \$126.0 million in our portfolio during 2014. As of December 31, 2014, we have contractual construction commitments totaling \$56.5 million. If we renovate or develop additional hotels in the future, our capital expenditures will likely increase.

With respect to our hotels that are operated under management or franchise agreements with major national hotel brands and for all of our hotels subject to first mortgage liens, we are obligated to maintain an FF&E reserve account for future planned and emergency-related capital expenditures at these hotels. The amount funded into each of these reserve accounts is determined pursuant to the management, franchise and loan agreements for each of the respective hotels, ranging between zero and 5.0% of the respective hotel's total annual revenue. As of December 31, 2014, \$50.3 million was held in FF&E reserve accounts for future capital expenditures at the 30 hotels. According to certain loan agreements, reserve funds are to be held by the lenders or managers in restricted cash accounts, and we are not required to spend the entire amount in such reserve accounts each year.

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangement consists of our ownership interest in the Preferred Equity Investment. For further discussion of the Preferred Equity Investment and its effect on our financial condition, results of operations and cash flows, see Note 4 to the consolidated financial statements.

SEASONALITY AND VOLATILITY

As is typical of the lodging industry, we experience some seasonality in our business as indicated in the table below. Revenue for certain of our hotels is generally affected by seasonal business patterns (e.g., the first quarter is strong in Orlando, the second quarter is strong for the Mid-Atlantic business hotels, and the fourth quarter is strong for New York City and Hawaii). Quarterly revenue also may be adversely affected by renovations and repositionings, our managers' effectiveness in generating business and by events beyond our control, such as extreme weather conditions, terrorist attacks or alerts, public health concerns, airline strikes or reduced airline capacity, economic factors and other considerations affecting travel. The Comparable Portfolio's quarterly and full year 2012, first quarter 2013 and full year 2013 revenues were also impacted by the 13-fiscal period accounting calendar used by Marriott. In 2013, Marriott converted its reporting calendar from a 13-period basis to a standard 12-month basis, the effect of which was to shift the operating results for 20 calendar days from the fourth quarter 2012 to the first three quarters of 2012. In addition, since Marriott's 2012 fiscal year ended on December 28, 2012, Marriott's 2013 first quarter and calendar year contain an additional three days, December 29, 2012 through December 31, 2012. Revenues for our 30 hotel Comparable Portfolio by quarter for 2012, 2013 and 2014 were as follows (dollars in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
REVENUES					
2012 Comparable Portfolio ⁽¹⁾	\$232,728	\$279,099	\$258,442	\$286,838	\$1,057,107
Revenues as a percentage of total	22.0%	26.4%	24.5%	27.1%	100.0%
2012 Comparable Portfolio excluding Boston Park Plaza ⁽²⁾	\$221,518	\$257,976	\$240,714	\$270,765	\$ 990,973
Revenues as a percentage of total	22.4%	26.0%	24.3%	27.3%	100.0%
2013 Comparable Portfolio ⁽¹⁾	\$243,333	\$292,603	\$284,858	\$272,940	\$1,093,734
Revenues as a percentage of total	22.2%	26.8%	26.0%	25.0%	100.0%
2013 Comparable Portfolio excluding Boston Park Plaza ⁽²⁾	\$232,555	\$270,404	\$264,920	\$255,358	\$1,023,237
Revenues as a percentage of total	22.7%	26.4%	25.9%	25.0%	100.0%
2014 Comparable Portfolio ⁽¹⁾	\$259,277	\$312,469	\$308,364	\$288,083	\$1,168,193
Revenues as a percentage of total	22.2%	26.7%	26.4%	24.7%	100.0%

(1) Includes all 30 hotel properties in which we have interests as of December 31, 2014. Also includes prior ownership results as applicable for the Hyatt Chicago Magnificent Mile, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Boston Park Plaza, the Hyatt Regency San Francisco and the Marriott Wailea before our acquisitions of the hotels.

(2) Includes the Comparable Portfolio adjusted to exclude the Boston Park Plaza due to the hotel adding 12 rooms in September 2012, and an additional 100 rooms in January 2013.

INFLATION

Inflation may affect our expenses, including, without limitation, by increasing such costs as labor, food, taxes, property and casualty insurance and utilities.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities.

We evaluate our estimates on an ongoing basis. We base our estimates on historical experience, information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the most significant judgments and estimates used in the preparation of our consolidated financial statements.

- **Impairment of long-lived assets and goodwill.** We periodically review each property and any related goodwill for possible impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an 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. We perform a Level 3 analysis of fair value, using a discounted cash flow analysis to estimate the fair value of our 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 include anticipated operating cash flow in the year of disposition and terminal capitalization rate. Our judgment is required in determining the discount rate applied to estimated cash flows, growth rate of the properties, operating income of the properties, the need for capital expenditures, as well as specific market and economic conditions.

We account for goodwill in accordance with the Intangibles—Goodwill and Other Topic of the FASB ASC, which states that goodwill has an indefinite useful life that should not be amortized but should be reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that goodwill might be impaired, as well as the Fair Value Measurements and Disclosures Topic of the FASB ASC for financial and nonfinancial assets and liabilities, which 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 review of any potential goodwill impairment requires estimates of fair value for our properties that have goodwill arising from unallocated acquisition costs. These estimates of fair value are prepared using Level 3 measurements.

- **Acquisition related assets and liabilities.** Accounting for the acquisition of a hotel property or other entity as a purchase transaction requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The most difficult estimations of individual fair values are those involving long-lived assets, such as property, equipment, intangible assets and capital lease obligations that are assumed as part of the acquisition of a leasehold interest. During 2012, 2013 and 2014, we used all available information to make these fair value determinations, and engaged an independent valuation specialist to assist in the fair value determination of the long-lived assets acquired in our purchases of the Hyatt Chicago Magnificent Mile, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Boston Park Plaza, the Hyatt Regency San Francisco and the Marriott Wailea. Due to the inherent subjectivity in determining the estimated fair value of long-lived assets, we believe that the recording of acquired assets and liabilities is a critical accounting policy.
- **Depreciation and amortization expense.** Depreciation expense is based on the estimated useful life of our assets. The life of the assets is based on a number of assumptions, including the cost and timing of capital expenditures to maintain and refurbish our hotels, as well as specific market and economic conditions. Hotel properties and other investments are depreciated using the straight-line method over estimated useful lives primarily ranging from five to 35 years for buildings and improvements and three to 12 years for furniture, fixtures and equipment. While we believe our estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of our hotels. We have not changed the estimated useful lives of any of our assets during the periods discussed.

NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (“ASU No. 2014-08”). ASU No. 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU No. 2014-08, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity’s operations and financial results, or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity’s operations and financial results could include the disposal of (1) a major line of business, (2) a major geographical area (3) a major equity method investment, or (4) other major parts of an entity. ASU No. 2014-08 expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation, an entity’s continuing involvement with a discontinued operation following the disposal date and retained equity method investments in a discontinued operation. ASU No. 2014-08 is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within that year. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. Our early adoption of ASU No. 2014-08 in the first quarter of 2014 did not have any effect on our financial statements as we had no disposals (or classifications as held for sale) during the year ended December 31, 2014. In the future, when we have disposals (or classifications as held for sale), we will be required to determine whether such disposal meets the discontinued operations requirements under ASU No. 2014-08. Additional disclosures may be required.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU No. 2014-09”). The core principal of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principal, an entity will need to apply a five-step model: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will become effective during the first quarter of 2017, and will require either a full retrospective approach or a modified retrospective approach, with early adoption prohibited. We are currently evaluating the impact that ASU No. 2014-09 will have on our financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (“ASU No. 2014-12”), which requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. ASU 2014-12 will become effective during the first quarter of 2016. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. ASU No. 2014-12 will not have an effect on our financial statements unless we issue grants in the future that fall within its scope.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To the extent that we incur debt with variable interest rates, our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have no derivative financial instruments held for trading purposes. We use derivative financial instruments to manage, or hedge, interest rate risks.

As of December 31, 2014, 71.6% of our debt obligations are fixed in nature, which largely mitigates the effect of changes in interest rates on our cash interest payments. If market rates of interest on our variable rate debt increase or decrease by 100 basis points, interest expense would increase or decrease, respectively, our future earnings and cash flows by approximately \$3.7 million based on the variable rates at December 31, 2014. After adjusting for the non-controlling interest in the Hilton San Diego Bayfront, this increase or decrease in interest expense would increase or decrease, respectively, our future earnings by \$3.2 million based on the variable rates at December 31, 2014. However, increases and decreases in LIBOR rates are sometimes correlated with increases and decreases in lodging operations, which may mean that any increases in our interest expense due to higher variable rates may coincide with increases in our revenue due to higher lodging demand.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that as of the end of the period covered by this Annual Report our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013 Framework). Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report and, as part of its audit, has issued its report, included herein at page 61, on the effectiveness of our internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

*REPORT OF INDEPENDENT
Registered Public Accounting Firm*

The Board of Directors and Stockholders
Sunstone Hotel Investors, Inc.

We have audited Sunstone Hotel Investors, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Sunstone Hotel Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sunstone Hotel Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sunstone Hotel Investors, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014 of Sunstone Hotel Investors, Inc. and our report dated February 19, 2015 expressed an unqualified opinion thereon.

Irvine, California
February 19, 2015

Ernst + Young LLP

*REPORT OF INDEPENDENT
Registered Public Accounting Firm*

To the Board of Directors and Stockholders
Sunstone Hotel Investors, Inc.

We have audited the accompanying consolidated balance sheets of Sunstone Hotel Investors, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sunstone Hotel Investors, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its reporting of discontinued operations as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360), *"Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sunstone Hotel Investors, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 19, 2015 expressed an unqualified opinion thereon.

Irvine, California
February 19, 2015

Ernst + Young LLP

*CONSOLIDATED
Balance Sheets*

	December 31, 2014	December 31, 2013
<i>(in thousands, except share data)</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 222,096	\$ 104,363
Restricted cash	82,074	89,306
Accounts receivable, net	34,227	29,941
Inventories	1,439	1,464
Prepaid expenses	14,909	12,612
Total current assets	354,745	237,686
Investment in hotel properties, net	3,538,129	3,231,382
Deferred financing fees, net	8,201	9,219
Goodwill	9,405	9,405
Other assets, net	14,485	21,106
Total assets	<u>\$3,924,965</u>	<u>\$3,508,798</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,577	\$ 25,116
Accrued payroll and employee benefits	31,919	29,933
Dividends payable	76,694	11,443
Other current liabilities	36,466	30,288
Current portion of notes payable	121,328	23,289
Total current liabilities	298,984	120,069
Notes payable, less current portion	1,307,964	1,380,786
Capital lease obligations, less current portion	15,576	15,586
Other liabilities	33,607	39,958
Total liabilities	1,656,131	1,556,399
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized. 8.0% Series D Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at December 31, 2014 and 2013, stated at liquidation preference of \$25.00 per share	115,000	115,000
Common stock, \$0.01 par value, 500,000,000 shares authorized, 204,766,718 shares issued and outstanding at December 31, 2014 and 180,858,699 shares issued and outstanding at December 31, 2013	2,048	1,809
Additional paid in capital	2,418,567	2,068,721
Retained earnings	305,627	224,364
Cumulative dividends	(624,545)	(511,444)
Total stockholders' equity	2,216,697	1,898,450
Non-controlling interest in consolidated joint ventures	52,137	53,949
Total equity	2,268,834	1,952,399
Total liabilities and equity	<u>\$3,924,965</u>	<u>\$3,508,798</u>

See accompanying notes to consolidated financial statements.

*CONSOLIDATED STATEMENTS
of Operations*

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
<i>(in thousands, except per share data)</i>			
REVENUES			
Room	\$ 811,709	\$653,955	\$576,146
Food and beverage	259,358	213,346	200,810
Other operating	70,931	56,523	52,128
Total revenues	1,141,998	923,824	829,084
OPERATING EXPENSES			
Room	214,899	170,361	147,932
Food and beverage	180,053	147,713	139,106
Other operating	21,012	16,819	16,162
Advertising and promotion	54,992	47,306	42,474
Repairs and maintenance	45,901	35,884	32,042
Utilities	34,141	27,006	25,596
Franchise costs	38,271	32,932	30,067
Property tax, ground lease and insurance	84,665	79,004	66,830
Property general and administrative	126,737	103,454	94,642
Corporate overhead	28,739	26,671	24,316
Depreciation and amortization	155,845	137,476	130,907
Total operating expenses	985,255	824,626	750,074
Operating income	156,743	99,198	79,010
Interest and other income	3,479	2,821	297
Interest expense	(72,315)	(72,239)	(76,821)
Loss on extinguishment of debt	(4,638)	(44)	(191)
Income before income taxes and discontinued operations	83,269	29,736	2,295
Income tax provision	(179)	(8,145)	(1,148)
Income from continuing operations	83,090	21,591	1,147
Income from discontinued operations	4,849	48,410	48,410
NET INCOME	87,939	70,001	49,557
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)
Distributions to non-controlling interest	(32)	(32)	(31)
Preferred stock dividends and redemption charges	(9,200)	(19,013)	(29,748)
INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 72,031	\$ 46,943	\$ 18,017
Basic and diluted per share amounts:			
Income (loss) from continuing operations available (attributable) to common stockholders	\$ 0.34	\$ (0.01)	\$ (0.24)
Income from discontinued operations	0.03	0.30	0.38
Basic and diluted income available to common stockholders per common share	\$ 0.37	\$ 0.29	\$ 0.14
Basic and diluted weighted average common shares outstanding	192,674	161,784	127,027

See accompanying notes to consolidated financial statements.

*CONSOLIDATED STATEMENTS
of Comprehensive Income*

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
<i>(in thousands)</i>			
Net income	\$87,939	\$ 70,001	\$ 49,557
Pension liability adjustment	—	—	(419)
Reclassification to income from discontinued operations	—	5,335	—
Comprehensive income	87,939	75,336	49,138
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)
Distributions to non-controlling interest	(32)	(32)	(31)
Preferred stock dividends and redemption charges	(9,200)	(19,013)	(29,748)
Comprehensive income available to common stockholders	\$72,031	\$ 52,278	\$ 17,598

See accompanying notes to consolidated financial statements.

CONSOLIDATED
Statements of Equity

	Preferred Stock						Additional Paid in Capital	Retained Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Non- Controlling Interest in Consolidated Joint Ventures	Total
	Series A		Series D		Common Stock							
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount						
<i>(in thousands, except per share data)</i>												
Balance at December 31, 2011	7,050,000	\$ 176,250	4,600,000	\$115,000	117,265,090	\$1,173	\$1,312,566	\$110,580	\$(445,396)	\$(4,916)	\$60,037	\$1,325,294
Net proceeds from sale of common stock	—	—	—	—	12,143,273	121	126,058	—	—	—	—	126,179
Issuance of common stock in connec- tion with hotel acquisition, net	—	—	—	—	5,454,164	55	51,008	—	—	—	—	51,063
Vesting of restricted common stock	—	—	—	—	374,911	3	3,765	—	—	—	—	3,768
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(6,381)	(6,381)
Series A preferred dividends and divi- dends payable at \$2.00 per share	—	—	—	—	—	—	—	—	(14,100)	—	—	(14,100)
Series C preferred dividends and divi- dends payable at \$1.572 per share	—	—	—	—	—	—	—	—	(6,448)	—	—	(6,448)
Series D preferred dividends and divi- dends payable at \$2.00 per share	—	—	—	—	—	—	—	—	(9,200)	—	—	(9,200)
Net income	—	—	—	—	—	—	—	47,796	—	—	1,761	49,557
Pension liability adjustment	—	—	—	—	—	—	—	—	—	(419)	—	(419)
Balance at December 31, 2012	7,050,000	176,250	4,600,000	115,000	135,237,438	1,352	1,493,397	158,376	(475,144)	(5,335)	55,417	1,519,313
Net proceeds from sale of common stock	—	—	—	—	45,300,000	453	565,307	—	—	—	—	565,760
Vesting of restricted common stock	—	—	—	—	321,261	4	5,247	—	—	—	—	5,251
Redemptions of Series A and Series C preferred stock	(7,050,000)	(176,250)	—	—	—	—	4,770	—	(4,770)	—	—	(176,250)
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(5,481)	(5,481)
Common stock dividends and divi- dends payable at \$0.10 per share	—	—	—	—	—	—	—	—	(17,287)	—	—	(17,287)
Series A preferred dividends at \$0.50 per share through redemption date	—	—	—	—	—	—	—	—	(2,350)	—	—	(2,350)
Series C preferred dividends at \$0.786 per share through redemption date	—	—	—	—	—	—	—	—	(2,693)	—	—	(2,693)
Series D preferred dividends and divi- dends payable at \$2.00 per share	—	—	—	—	—	—	—	—	(9,200)	—	—	(9,200)
Net income	—	—	—	—	—	—	—	65,988	—	—	4,013	70,001
Pension liability reclassification	—	—	—	—	—	—	—	—	—	5,335	—	5,335
Balance at December 31, 2013	—	—	4,600,000	115,000	180,858,699	1,809	2,068,721	224,364	(511,444)	—	53,949	1,952,399
Net proceeds from sale of common stock	—	—	—	—	19,352,703	194	283,262	—	—	—	—	283,456
Issuance of common stock in connec- tion with hotel acquisition, net	—	—	—	—	4,034,970	40	59,894	—	—	—	—	59,934
Vesting of restricted common stock	—	—	—	—	520,346	5	6,690	—	—	—	—	6,695
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(8,488)	(8,488)
Common stock dividends and divi- dends payable at \$0.51 per share	—	—	—	—	—	—	—	—	(103,901)	—	—	(103,901)
Series D preferred dividends and divi- dends payable at \$2.00 per share	—	—	—	—	—	—	—	—	(9,200)	—	—	(9,200)
Net income	—	—	—	—	—	—	—	81,263	—	—	6,676	87,939
Balance at December 31, 2014	—	\$ —	4,600,000	\$115,000	204,766,718	\$2,048	\$2,418,567	\$305,627	\$(624,545)	\$ —	\$52,137	\$2,268,834

See accompanying notes to consolidated financial statements

CONSOLIDATED
Statements of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
<i>(in thousands)</i>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 87,939	\$ 70,001	\$ 49,557
Adjustments to reconcile net income to net cash provided by operating activities:			
Bad debt expense	368	294	410
Gain on sale of assets, net	(5,292)	(51,632)	(38,274)
Loss on extinguishment of debt	4,638	3,159	191
(Gain) loss on derivatives, net	(529)	(525)	406
Depreciation	152,581	131,793	128,206
Amortization of franchise fees and other intangibles	7,543	10,115	20,198
Amortization and write-off of deferred financing fees	2,777	2,957	3,952
Amortization of loan discounts	—	3	1,058
Amortization of deferred stock compensation	6,221	4,858	3,466
Changes in operating assets and liabilities:			
Restricted cash	11,543	(11,688)	(249)
Accounts receivable	(1,532)	1,740	4,587
Inventories	100	1,524	(271)
Prepaid expenses and other assets	3,121	2,724	(7,906)
Accounts payable and other liabilities	7,273	7,001	2,279
Accrued payroll and employee benefits	1,844	(1,637)	2,983
Discontinued operations	—	432	903
Net cash provided by operating activities	278,595	171,119	171,496
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of hotel properties and other assets	110	195,628	46,367
Restricted cash—replacement reserve	(4,311)	1,272	(10,743)
Acquisitions of hotel properties and other assets	(276,558)	(450,544)	(120,003)
Renovations and additions to hotel properties and other assets	(125,975)	(117,694)	(109,321)
Payment for interest rate derivative	—	(12)	—
Net cash used in investing activities	(406,734)	(371,350)	(193,700)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemptions of preferred stock	—	(276,250)	—
Proceeds from common stock offerings	284,390	566,451	126,533
Payment of common stock offering costs	(1,000)	(691)	(451)
Proceeds from notes payable and credit facility	178,250	35,750	15,000
Payments on notes payable and credit facility	(153,033)	(141,527)	(73,328)
Payments for costs related to extinguishment of notes payable	(4,051)	(3,108)	(70)
Payments of deferred financing costs	(2,346)	(243)	(1,332)
Dividends paid	(47,850)	(27,524)	(29,748)
Distributions to non-controlling interests	(8,488)	(5,481)	(6,381)
Net cash provided by financing activities	245,872	147,377	30,223
Net increase (decrease) in cash and cash equivalents	117,733	(52,854)	8,019
Cash and cash equivalents, beginning of year	104,363	157,217	149,198
Cash and cash equivalents, end of year	\$ 222,096	\$ 104,363	\$ 157,217

CONSOLIDATED
Statements of Cash Flows (continued)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(in thousands)			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 69,511	\$ 71,563	\$ 78,234
Cash paid for income taxes, net of refunds received	\$ 273	\$ 7,143	\$ 1,023
NONCASH INVESTING ACTIVITY			
Accounts payable related to renovations and additions to hotel properties and other real estate	\$ 8,670	\$ 7,842	\$ 5,897
Amortization of deferred stock compensation—construction activities	\$ 474	\$ 393	\$ 302
NONCASH FINANCING ACTIVITY			
Issuance of common stock in connection with acquisitions of hotel properties	\$ 60,000	\$ —	\$ 51,160
Assignment of debt in connection with dispositions of hotel properties	\$ —	\$ —	\$(122,622)
Assumption of debt in connection with acquisition of hotel property	\$ —	\$ 119,190	\$ —
Dividends payable	\$ 76,694	\$ 11,443	\$ 7,437

See accompanying notes to consolidated financial statements.

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 December 31, 2014, the Company had interests in 30 hotels (the “30 hotels”) held for investment, and the Company’s third-party managers included the following:

	Number of Hotels
Subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. (collectively, “Marriott”)	11
Interstate Hotels & Resorts, Inc.	6
Highgate Hotels L.P. and an affiliate	4
Davidson Hotels & Resorts	2
Hilton Worldwide	2
Hyatt Corporation	2
Crestline Hotels & Resorts	1
Dimension Development Company	1
Fairmont Hotels & Resorts (U.S.)	1
Total hotels held for investment	30

In addition, the Company owns BuyEfficient, LLC (“BuyEfficient”), an electronic purchasing platform that allows members to procure food, operating supplies, furniture, fixtures and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
BASIS OF PRESENTATION

The accompanying consolidated financial statements as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012, include the accounts of the Company, the Operating Partnership, the TRS Lessee and their subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company consolidates subsidiaries when it has the ability to direct the activities that most significantly impact the economic performance of the entity. The Company also evaluates its subsidiaries to determine if they should be considered variable interest entities (“VIEs”). Typically, the entity that has the power to direct the activities that most significantly impact economic performance would consolidate the VIE. The Company considers an entity a VIE if equity investors own an interest therein that does not have the characteristics of a controlling financial interest or if such investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In accordance with the Consolidation Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), the Company reviewed its subsidiaries to determine if (i) they should be considered VIEs, and (ii) whether the Company should change its consolidation determination based on changes in the characteristics of these entities. Based on its review, the Company determined that all of its subsidiaries were properly consolidated as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012.

Non-controlling interests at both December 31, 2014 and 2013 represent the outside equity interests in various consolidated affiliates of the Company.

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

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

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“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. Prior to 2013, Marriott used a fiscal year ending on the Friday closest to December 31 and reported twelve weeks of operations each for the first three quarters of the year, and sixteen or seventeen weeks of operations for the fourth quarter of the year. Beginning in 2013, Marriott switched its reporting to a standard monthly calendar; however, Marriott’s 2013 calendar contains an additional three days, December 29, 2012 through December 31, 2012. The Company and its other hotel managers use a standard monthly calendar to report their financial information. The Company has elected to adopt quarterly close periods of March 31, June 30 and September 30, and an annual year end of December 31. As a result, the Company’s 2013 and 2012 results of operations for 10 of the Company’s Marriott-managed hotels are reported using the following reporting periods:

	2013	2012	Number of Days in 2013 Versus 2012 ⁽¹⁾
First quarter	December 29–March 31	December 31–March 23	8 days
Second quarter	April 1–June 30	March 24–June 15	7 days
Third quarter	July 1–September 30	June 16–September 7	8 days
Fourth quarter	October 1–December 31	September 8–December 28	(20 days)
Full year	December 29, 2012–December 31, 2013	December 31, 2011–December 28, 2012	3 days

(1) Number of days in 2013 versus 2012 does not include the leap day, February 29, 2012, as this extra day was not caused by the Marriott calendar conversion.

The Company estimates that Marriott’s fiscal calendar had the following effects on the Company’s total revenue and net income based on the average daily revenues and income generated by its Marriott hotels during the years ended December 31, 2014, 2013 and 2012 as follows (in thousands):

	2014	2013 ⁽¹⁾	2012 ⁽¹⁾
Total revenue	\$—	\$2,300	\$(1,251)
Net income	\$—	\$ 672	\$ (328)

(1) Increases (decreases) to total revenue and net income based on the Marriott fiscal calendars for 2013 (368 days) and 2012 (364 days) versus a standard 365 day year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash on hand and in various bank accounts plus all short-term investments with an original maturity of three months or less.

The Company maintains cash and cash equivalents and certain other financial instruments with various financial institutions. These financial institutions are located throughout the country and the Company’s policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company’s investment strategy. At December 31, 2014 and 2013, the Company had amounts in banks that were in excess of federally insured amounts.

RESTRICTED CASH

Restricted cash is comprised of reserve accounts for debt service, interest reserves, capital replacements, ground leases, and property taxes. These restricted funds are subject to supervision and disbursement approval by certain of the Company’s lenders and/or hotel managers.

ACCOUNTS RECEIVABLE

Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. Accounts receivable also includes, among other things, receivables from customers who utilize purchase volume rebates through BuyEfficient, as well as tenants who lease space in the Company’s hotels. The Company maintains an allowance for doubtful accounts sufficient to cover potential credit losses. The Company’s accounts receivable includes an allowance for doubtful accounts of \$0.2 million at both December 31, 2014 and 2013.

INVENTORIES

Inventories, consisting primarily of food and beverages at the hotels, are stated at the lower of cost or market, with cost determined on a method that approximates first-in, first-out basis.

ACQUISITIONS OF HOTEL PROPERTIES AND OTHER ENTITIES

Accounting for the acquisition of a hotel property or other entity as a purchase transaction requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The most difficult estimations of individual fair values are those involving long-lived assets, such as property, equipment, intangible assets and any capital lease obligations that are assumed as part of the acquisition of a leasehold interest. During 2014, 2013 and 2012, the Company used all available information to make these fair value determinations, and engaged independent valuation specialists to assist in the fair value determination of the long-lived assets acquired and the liabilities assumed in the Company's purchases of the Marriott Wailea, the Hilton New Orleans St. Charles, the Boston Park Plaza, the Hyatt Regency San Francisco, the Hyatt Chicago Magnificent Mile and the Hilton Garden Inn Chicago Downtown/Magnificent Mile. Due to the inherent subjectivity in determining the estimated fair value of long-lived assets, the Company believes that the recording of acquired assets and liabilities is a critical accounting policy.

INVESTMENTS IN HOTEL PROPERTIES AND OTHER ASSETS

Hotel properties and other investments are depreciated using the straight-line method over estimated useful lives primarily ranging from five to 35 years for buildings and improvements and three to 12 years for furniture, fixtures and equipment. Intangible assets are amortized using the straight-line method over their estimated useful life or over the length of the related agreement, whichever is shorter.

The Company's investment in hotel properties, net also includes initial franchise fees which are recorded at cost and amortized using the straight-line method over the lives of the franchise agreements ranging from 14 to 27 years. All other franchise fees that are based on the Company's results of operations are expensed as incurred.

The Company follows the requirements of the Property, Plant and Equipment Topic of the FASB ASC, which requires impairment losses to be recorded on long-lived assets to be held and used by the Company when indicators of impairment are present and the future undiscounted net cash flows expected to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the related assets are adjusted to their estimated fair value and an impairment is recognized. 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 computing fair value, the Company uses a discounted cash flow analysis to estimate the fair value of its hotel properties and other assets, taking into account each property's expected cash flow from operations, holding period and estimated proceeds from the disposition of the property. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of disposition and terminal capitalization rate. In 2014, 2013 and 2012, the Company did not identify any properties or other assets with indicators of impairment. Based on the Company's review, management believes that there were no other impairments on its long-lived assets, and that the carrying values of its hotel properties and other assets are recoverable at December 31, 2014.

Fair value represents the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidation sale. The estimation process involved in determining if assets have been impaired and in the determination of fair value is inherently uncertain because it requires estimates of current market yields as well as future events and conditions. Such future events and conditions include economic and market conditions, as well as the availability of suitable financing. The realization of the Company's investment in hotel properties and other assets is dependent upon future uncertain events and conditions and, accordingly, the actual timing and amounts realized by the Company may be materially different from their estimated fair values.

ASSETS HELD FOR SALE

The Company considers a hotel or other asset held for sale if it is probable that the sale will be completed within twelve months, among other requirements. A sale is determined to be probable once the buyer completes its due diligence of the asset, there is an executed purchase and sale agreement between the Company and the buyer, and the Company has received a substantial non-refundable deposit. Depreciation ceases when a property is held for sale. Should an impairment loss be required for assets held for sale, the related assets are adjusted to their estimated fair values, less costs to sell. If the sale of the hotel or other asset represents a strategic shift that will have a major effect on the Company's operations and financial results, the hotel or other asset is included in discontinued operations, and operating results are removed from income from continuing operations and reported as discontinued operations. The operating results for any such assets for any prior periods presented must also be reclassified as discontinued operations. As of both December 31, 2014 and 2013, the Company had no hotels or other assets held for sale. As of December 31, 2012, the Company classified four hotels and a commercial laundry facility as held for sale due to their sale in January 2013.

DEFERRED FINANCING FEES

Deferred financing fees consist of loan fees and other financing costs related to the Company's outstanding indebtedness and credit facility commitments, and are amortized to interest expense over the terms of the related debt or commitment. If a loan is refinanced or paid before its maturity, any related unamortized deferred financing costs will generally be expensed unless specific rules are met that would allow for the carryover of such costs to the refinanced debt.

During 2014, the Company amended the mortgage secured by the Hilton San Diego Bayfront, and refinanced the mortgages secured by the JW Marriott New Orleans and the Embassy Suites La Jolla (see Note 7). In conjunction with these financing transactions, the Company paid additional deferred financing fees of \$2.3 million, which are amortized over the terms of the modified and new loans. In addition, a total of \$0.6 million of deferred financing fees were written off, which are included in the Company's results of operations as loss on extinguishment of debt.

During 2013, the Company paid deferred financing fees of \$0.2 million related to the assumption of a mortgage in connection with the acquisition of the Boston Park Plaza and the purchase of an interest rate cap derivative agreement on the Hilton San Diego Bayfront mortgage.

During 2012, the Company incurred and paid deferred financing fees of \$1.3 million related to an amendment of its credit facility. In addition, the Company wrote-off \$0.2 million in deferred financing fees, which is included in the Company's results of operations as loss on extinguishment of debt, related to its sales of the Marriott Del Mar, the Doubletree Guest Suites Minneapolis, the Hilton Del Mar and the Marriott Troy, along with a nominal amount written off related to its repayment of the non-recourse mortgage secured by the Renaissance Long Beach.

Total amortization and write-off of deferred financing fees for 2014, 2013 and 2012 was as follows (in thousands):

	2014	2013	2012
Continuing operations:			
Amortization of deferred financing fees	\$2,777	\$2,955	\$3,690
Write-off of deferred financing fees	—	—	3
Total deferred financing fees—continuing operations	2,777	2,955	3,693
Discontinued operations:			
Amortization of deferred financing fees	—	2	74
Write-off of deferred financing fees	—	—	185
Total deferred financing fees—discontinued operations	—	2	259
Total amortization and write-off of deferred financing fees	\$2,777	\$2,957	\$3,952

GOODWILL AND BUYEFFICIENT INTANGIBLES

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

Based on its annual impairment evaluations for 2014, 2013 and 2012, the Company determined that no adjustments to its goodwill were required.

The Company's other assets, net includes BuyEfficient's intangibles related to certain trademarks, customer and supplier relationships and intellectual property related to internally developed software. These intangibles are amortized using the straight-line method over their useful lives ranging between seven to 20 years.

PROPERTY AND EQUIPMENT

Property and equipment is stated on the cost basis and includes computer equipment and other corporate office equipment and furniture. Property and equipment is depreciated on a straight-line basis over the estimated useful lives ranging from three to 12 years. The Company includes property and equipment, net of related accumulated depreciation, in its other assets, net on the accompanying consolidated balance sheets.

FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2014 and 2013, the carrying amount of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

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

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

As discussed in Note 5, the Company held two interest rate cap agreements at December 31, 2014 and 2013. At December 31, 2013, the Company also held one interest rate swap agreement. The Company holds its interest rate protection agreements to manage, or hedge, interest rate risks related to its floating rate debt. The Company records interest rate protection agreements on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in the consolidated statements of operations as they are not designated as hedges. In accordance with the Fair Value Measurements and Disclosure Topic of the FASB ASC, the Company estimates the fair value of its interest rate protection agreements based on quotes obtained from the counterparties, which are based upon the consideration that would be required to terminate the agreements. Using Level 2 measurements, the Company determined that the total value of the interest rate cap agreements at December 31, 2014 was de minimis. At December 31, 2013, the Company has valued the derivative interest rate cap agreements as an asset of \$16,000. The interest rate cap agreements are included in other assets, net, in the accompanying consolidated balance sheets. At December 31, 2013, the Company has valued the derivative interest rate swap agreement using Level 2 measurements as a liability of \$1.1 million. The interest rate swap agreement is included in other liabilities in the accompanying consolidated balance sheets.

On an annual basis and periodically when indicators of impairment exist, the Company analyzes the carrying values of its hotel properties and other assets using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its hotel properties and other assets taking into account each property's expected cash flow from operations, holding period and estimated proceeds from the disposition of the property. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of disposition and terminal capitalization rate. The Company did not identify any properties or other assets with indicators of impairment during 2014, 2013 or 2012.

On an annual basis and periodically when indicators of impairment exist, the Company also analyzes the carrying value of its goodwill using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its reporting units. The Company did not identify any properties with indicators of goodwill impairment in 2014, 2013 or 2012.

As of December 31, 2014 and 2013, 71.6% and 70.7% (including the effect of an interest rate swap agreement), respectively, of the Company's outstanding debt had fixed interest rates. The Company's carrying value of its debt totaled \$1.4 billion as of both December 31, 2014 and 2013. Using Level 3 measurements, including the Company's weighted average cost of debt ranging from 4.5% to 5.0%, the Company estimates that the fair market value of its debt totaled \$1.4 billion as of both December 31, 2014 and 2013.

The following table presents the Company's assets measured at fair value on a recurring and non-recurring basis at December 31, 2014 and 2013 (in thousands):

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
DECEMBER 31, 2014:				
Interest rate cap derivative agreements	\$ —	\$—	\$ —	\$—
Life insurance policy ⁽¹⁾	1,198	—	1,198	—
Total assets at December 31, 2014	<u>\$1,198</u>	<u>\$—</u>	<u>\$1,198</u>	<u>\$—</u>
DECEMBER 31, 2013:				
Interest rate cap derivative agreements	\$ 16	\$—	\$ 16	\$—
Life insurance policy ⁽¹⁾	1,385	—	1,385	—
Total assets at December 31, 2013	<u>\$1,401</u>	<u>\$—</u>	<u>\$1,401</u>	<u>\$—</u>

(1) Includes the split life insurance policy for one of the Company's former associates, which the Company values using Level 2 measurements. These amounts are included in other assets, net on the accompanying consolidated balance sheets, and will be used to reimburse the Company for payments made to the former associate from the related retirement benefit agreement, which is included in accrued payroll and employee benefits on the accompanying consolidated balance sheets.

The following table presents the Company's liabilities measured at fair value on a recurring and non-recurring basis at December 31, 2014 and 2013 (in thousands):

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
DECEMBER 31, 2014:				
Interest rate swap derivative agreement	\$ —	\$—	\$ —	\$—
Retirement benefit agreement ⁽¹⁾	1,198	—	1,198	—
Total liabilities at December 31, 2014	<u>\$1,198</u>	<u>\$—</u>	<u>\$1,198</u>	<u>\$—</u>
DECEMBER 31, 2013:				
Interest rate swap derivative agreement	\$1,066	\$—	\$1,066	\$—
Retirement benefit agreement ⁽¹⁾	1,385	—	1,385	—
Total liabilities at December 31, 2013	<u>\$2,451</u>	<u>\$—</u>	<u>\$2,451</u>	<u>\$—</u>

(1) Includes the retirement benefit agreement for one of the Company's former associates, which the Company values using Level 2 measurements. The agreement calls for the balance of the retirement benefit agreement to be paid out to the former associate in 10 annual installments, beginning in 2011. As such, the Company has paid the former associate a total of \$0.8 million through December 31, 2014, which was reimbursed to the Company using funds from the related split life insurance policy noted above. These amounts are included in accrued payroll and employee benefits in the accompanying consolidated balance sheets.

REVENUE RECOGNITION

Room revenue and food and beverage revenue are recognized as earned, which is generally defined as the date upon which a guest occupies a room and/or utilizes the hotel's services. Additionally, some of the Company's hotel rooms are booked through independent internet travel intermediaries. Revenue for these rooms is booked at the price the Company sold the room to the independent internet travel intermediary less any discount or commission paid.

Other operating revenue consists of revenue derived from incidental hotel services such as telephone/internet, transportation, parking, spa, entertainment and other guest services, along with tenant lease revenues relating to hotel space leased by third parties. Other operating revenue also includes revenue generated by BuyEfficient. Revenues from incidental hotel services and BuyEfficient are recognized in the period the related services are provided or the revenue is earned.

ADVERTISING AND PROMOTION COSTS

Advertising and promotion costs are expensed when incurred. Advertising and promotion costs represent the expense for advertising and reservation systems under the terms of the hotel franchise and brand management agreements and general and administrative expenses that are directly attributable to advertising and promotions.

STOCK BASED COMPENSATION

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

INCOME TAXES

The Company has elected to be treated as a REIT pursuant to the Internal Revenue Code, as amended (the “Code”). Management believes that the Company has qualified and intends to continue to qualify as a REIT. Therefore, the Company is permitted to deduct distributions paid to its stockholders, eliminating the federal taxation of income represented by such distributions at the company level. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on taxable income at regular corporate tax rates.

With respect to taxable subsidiaries, the Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB ASC. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Income Taxes Topic of the FASB ASC addresses how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. The guidance requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” to be sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company’s management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes federal and certain states.

NON-CONTROLLING INTERESTS

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

At December 31, 2014, 2013 and 2012, the non-controlling interest reported in the Company’s financial statements includes Hilton Worldwide’s 25.0% ownership in the Hilton San Diego Bayfront. In addition, the Company is the sole common stockholder of the captive REIT that owns the Doubletree Guest Suites Times Square; however, there are also preferred investors in the captive REIT whose preferred dividends less administrative fees during 2014, 2013 and 2012 are represented as distributions to non-controlling interests on the Company’s statements of operations.

DIVIDENDS

In August 2013, the Company’s board of directors reinstated a quarterly dividend payable to the Company’s common stockholders. In addition, the Company currently pays quarterly dividends to the preferred stockholders of its 8.0% Series D Cumulative Redeemable Preferred Stock (“Series D preferred stock”) as declared by the Company’s board of directors. Prior to their redemption dates in March 2013 and May 2013, respectively, the Company also paid quarterly dividends to the preferred stockholders of its 8.0% Series A Cumulative Redeemable Preferred Stock (“Series A preferred stock”) and its Series C Cumulative Convertible Redeemable Preferred Stock (“Series C preferred stock”) as declared by the board of directors. The Company’s ability to pay dividends is dependent on the receipt of distributions from the Operating Partnership.

EARNINGS PER SHARE

The Company applies the two-class method when computing its earnings per share as required by the Earnings Per Share Topic of the FASB ASC, which requires the net income per share for each class of stock (common stock and convertible preferred stock) to be calculated assuming all 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.

The Company follows the requirements of the Earnings Per Share Topic of the FASB ASC, which states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. During 2014 and 2013, distributed earnings representing nonforfeitable dividends of \$1.0 million and \$0.2 million, respectively, were allocated to the participating securities. There were no distributed earnings representing nonforfeitable dividends allocated to the participating securities during 2012. Undistributed earnings representing nonforfeitable dividends of \$0.2 million were allocated to the participating securities during both 2013 and 2012. There were no undistributed earnings representing nonforfeitable dividends allocated to the participating securities during 2014.

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

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Numerator:			
Net income	\$ 87,939	\$ 70,001	\$ 49,557
Income from consolidated joint venture attributable to non-controlling interest	(6,676)	(4,013)	(1,761)
Distributions to non-controlling interest	(32)	(32)	(31)
Preferred stock dividends and redemption charges	(9,200)	(19,013)	(29,748)
Dividends paid on unvested restricted stock compensation	(969)	(201)	—
Undistributed income allocated to unvested restricted stock compensation	—	(235)	(203)
Numerator for basic and diluted earnings available to common stockholders	<u>\$ 71,062</u>	<u>\$ 46,507</u>	<u>\$ 17,814</u>
Denominator:			
Weighted average basic and diluted common shares outstanding	<u>192,674</u>	<u>161,784</u>	<u>127,027</u>
Basic and diluted earnings available to common stockholders per common share	<u>\$ 0.37</u>	<u>\$ 0.29</u>	<u>\$ 0.14</u>

The Company's unvested restricted shares associated with its long-term incentive plan and shares associated with common stock options have been excluded from the above calculation of earnings per share for the years ended December 31, 2014, 2013 and 2012, as their inclusion would have been anti-dilutive. Prior to their redemption in May 2013, the shares of the Company's Series C preferred stock issuable upon conversion were excluded from the above calculation of earnings per share for the year ended December 31, 2012, as their inclusion would have been anti-dilutive.

SEGMENT REPORTING

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

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*” (“ASU No. 2014-08”). ASU No. 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU No. 2014-08, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity’s operations and financial results, or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity’s operations and financial results could include the disposal of (1) a major line of business, (2) a major geographical area (3) a major equity method investment, or (4) other major parts of an entity. ASU No. 2014-08 expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation, an entity’s continuing involvement with a discontinued operation following the disposal date and retained equity method investments in a discontinued operation. ASU No. 2014-08 is effective prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within that year. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company’s early adoption of ASU No. 2014-08 in the first quarter of 2014 did not have any effect on its financial statements as the Company had no disposals (or classifications as held for sale) during the year ended December 31, 2014. In the future, when the Company has disposals (or classifications as held for sale), it will be required to determine whether such disposal meets the discontinued operations requirements under ASU No. 2014-08. Additional disclosures may be required.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*” (“ASU No. 2014-09”). The core principal of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principal, an entity will need to apply a five-step model: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will become effective during the first quarter of 2017, and will require either a full retrospective approach or a modified retrospective approach, with early adoption prohibited. The Company is currently evaluating the impact that ASU No. 2014-09 will have on its financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, “*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*” (“ASU No. 2014-12”), which requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. ASU 2014-12 will become effective during the first quarter of 2016. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. ASU No. 2014-12 will not have an effect on the Company’s financial statements unless the Company issues grants in the future that fall within its scope.

3. INVESTMENT IN HOTEL PROPERTIES

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

	December 31,	
	2014	2013
Land	\$ 570,011	\$ 439,304
Buildings and improvements	3,237,596	2,977,458
Furniture, fixtures and equipment	450,057	414,192
Intangibles	147,947	171,889
Franchise fees	1,167	1,346
Construction in process	68,275	34,643
	4,475,053	4,038,832
Accumulated depreciation and amortization	(936,924)	(807,450)
	<u>\$3,538,129</u>	<u>\$3,231,382</u>

ACQUISITIONS—2014

In June 2014, the Company acquired approximately seven acres of land underlying the Fairmont Newport Beach for \$11.0 million, using net proceeds from the March 2014 issuance of its common stock in connection with its Equity Distribution Agreements, combined with cash on hand. Prior to the Company's acquisition, the land was leased to the Company by a third party.

In July 2014, the Company purchased the 544-room Marriott Wailea for a net purchase price of \$325.6 million, which was comprised of \$265.6 million in cash, including \$4.4 million of proration credits and unrestricted and restricted cash received from the seller, and \$60.0 million of the Company's common stock issued directly to the seller (the "Wailea stock consideration"). The acquisition was funded with proceeds received from the Company's June 2014 common stock offering, as well as with the Wailea stock consideration, consisting of 4,034,970 shares of the Company's common stock valued at \$60.0 million. The Wailea stock consideration was determined by dividing \$60.0 million by \$14.87, which was the NYSE closing price of the Company's common stock on June 19, 2014, the date the Marriott Wailea purchase and sale agreement was executed. In connection with this acquisition, the Company entered into a registration rights agreement requiring the Company to register the Wailea stock consideration. On July 17, 2014, the Company filed a prospectus supplement with the SEC, which registered the shares comprising the Wailea stock consideration for resale in accordance with the registration rights agreement. Based on the \$14.87 closing price of the Company's common stock on the NYSE on July 17, 2014, the date the acquisition closed, the total purchase price of the Marriott Wailea for accounting purposes was also \$325.6 million. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties and hotel working capital assets and liabilities. The Company recognized acquisition related costs of \$0.5 million during 2014, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Marriott Wailea have been included in the Company's statements of operations from the acquisition date of July 17, 2014 through the year ended December 31, 2014. Subsequent to the Company's acquisition of the hotel, three rooms were temporarily taken out of service, leaving 541 rooms available to sell.

The fair values of the assets acquired and liabilities assumed at the Marriott Wailea's acquisition date were allocated based on an independent third-party analysis. The following table summarizes the fair values of assets acquired, liabilities assumed and equity issued in this acquisition (in thousands):

<i>ASSETS:</i>	
Investment in hotel properties	\$327,035
Accounts receivable	3,122
Inventory	75
Prepaid expenses	238
Other assets	150
Total assets acquired	<u>330,620</u>
<i>LIABILITIES:</i>	
Accounts payable	3,534
Accrued payroll and employee benefits	142
Other current liabilities	1,371
Other liabilities	15
Total liabilities assumed	<u>5,062</u>
Total equity issued directly to seller	<u>60,000</u>
Total cash paid for acquisition	<u>\$265,558</u>

Investment in hotel properties was allocated to land (\$119.7 million), buildings and improvements (\$194.2 million), furniture, fixtures and equipment (\$8.2 million), and intangibles (\$4.9 million) related to advanced bookings, above/(below) market lease agreements, and in-place lease agreements. Details of the intangibles acquired are as follows (in thousands):

	Value at Acquisition	Weighted Average Expected Life
Advanced bookings	\$4,207	41 months
Above/(Below) market lease agreements, net	15	1 month
In-place lease agreements	686	3 to 14 months
Total intangibles related to the 2014 acquisition	<u>4,908</u>	44 to 55 months
Accumulated amortization	<u>(533)</u>	
Net book value of intangibles related to 2014 acquisition	<u>\$4,375</u>	

During the year ended December 31, 2014, the Company recorded amortization expense related to its Marriott Wailea intangibles as follows (in thousands):

	2014
Advanced bookings	\$481
Above/(Below) market lease agreements, net	(21)
In-place lease agreements	73
Total amortization expense on intangibles related to the 2014 acquisition	\$533

ACQUISITIONS—2013

In May 2013, the Company purchased the 250-room Hilton New Orleans St. Charles for a net purchase price of \$59.1 million, including \$0.2 million of proration credits and unrestricted cash received from the seller. The acquisition was funded with \$53.2 million of proceeds generated by the Company's January 2013 sale of four hotels and a commercial laundry facility located in Rochester, Minnesota (see Note 4), as well as with proceeds received from the Company's February 2013 issuance of common stock. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties and hotel working capital assets and liabilities. The Company incurred acquisition-related costs of \$0.4 million during 2013, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Hilton New Orleans St. Charles have been included in the Company's consolidated statements of operations from the acquisition date of May 1, 2013 through the year ended December 31, 2014.

In July 2013, the Company purchased the 1,053-room Boston Park Plaza for a net purchase price of \$248.0 million, including \$2.0 million of proration credits, unrestricted and restricted cash and other adjustments received from the seller. The acquisition was funded with \$92.3 million of proceeds generated by the Company's January 2013 sale of four hotels and a commercial laundry facility located in Rochester, Minnesota (see Note 4), the assumption of a \$119.2 million non-recourse loan secured by the hotel, as well as with proceeds received from the Company's February 2013 issuance of common stock and with cash on hand. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties, hotel working capital assets, notes payable and hotel working capital liabilities. The Company incurred acquisition-related costs of \$0.9 million during 2013, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Boston Park Plaza have been included in the Company's consolidated statements of operations from the acquisition date of July 2, 2013 through the year ended December 31, 2014.

In December 2013, the Company purchased the 802-room Hyatt Regency San Francisco for a net purchase price of \$262.5 million, including \$5.5 million of purchase price adjustments comprised of restricted cash and other adjustments received from the seller. The acquisition was funded with proceeds generated by the Company's November 2013 issuance of common stock. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price and other adjustments allocated to investment in hotel properties, prepaid expenses and other current liabilities. The Company incurred acquisition-related costs of \$0.5 million during 2013, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Hyatt Regency San Francisco have been included in the Company's consolidated statements of operations from the acquisition date of December 2, 2013 through the year ended December 31, 2014.

ACQUISITIONS—2012

In June 2012, the Company purchased the leasehold interest in the 417-room Wyndham Chicago for a contractual purchase price of \$88.425 million. The Company funded the acquisition with \$29.7 million of cash on hand (including \$0.3 million of proration credits) and the issuance of 5,454,164 shares of the Company's common stock, the "Wyndham stock consideration." The Wyndham stock consideration was determined by dividing \$58.425 million by the product of (1) the closing price of \$10.40 on the NYSE of the Company's common stock on May 2, 2012 and (2) 1.03. In connection with this acquisition, the Company entered into a registration rights agreement requiring the Company to register the Wyndham stock consideration. The Company prepared the registration statement on Form S-3, which was filed with the SEC as required on June 4, 2012. Based on the \$9.38 closing price of the Company's common stock on the NYSE on June 4, 2012, the date the acquisition closed, the total purchase price of the Wyndham Chicago hotel for accounting purposes was \$81.16 million, excluding proration adjustments and closing costs. Immediately upon acquisition, the Company rebranded the hotel the Hyatt Chicago Magnificent Mile. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties, hotel working capital assets and liabilities, obligations under capital lease and the Company's common stock. During 2012, the Company incurred acquisition-related costs of \$1.3 million, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Hyatt Chicago Magnificent Mile have been included in the Company's consolidated statements of operations from the acquisition date of June 4, 2012 through the year ended December 31, 2014.

In July 2012, the Company purchased the 357-room Hilton Garden Inn Chicago Downtown/Magnificent Mile for a net purchase price of \$90.3 million, including \$1.45 million of proration credits. The Company recorded the acquisition at fair value using an independent third-party analysis, with the purchase price allocated to investment in hotel properties and hotel working capital assets and liabilities. The Company incurred acquisition-related costs of \$0.7 million and \$0.2 million during 2012 and 2011, respectively, which are included in corporate overhead on the Company's consolidated statements of operations. The results of operations for the Hilton Garden Inn Chicago Downtown/Magnificent Mile have been included in the Company's consolidated statements of operations from the acquisition date of July 19, 2012 through the year ended December 31, 2014.

Acquired properties are included in the Company's results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect the Company's results as if the acquisitions of the Marriott Wailea in July 2014, the Hilton New Orleans St. Charles in May 2013, the Boston Park Plaza in July 2013, the Hyatt Regency San Francisco in December 2013, the Hyatt Chicago Magnificent Mile in June 2012 and the Hilton Garden Inn Chicago Downtown/Magnificent Mile in July 2012 had occurred on January 1, 2012. In the Company's opinion, all significant adjustments necessary to reflect the effects of the acquisitions have been made (in thousands, except per share data):

	2014	2013	2012
Revenues	\$1,175,367	\$1,100,354	\$1,063,094
Income available (loss attributable) to common stockholders from continuing operations	\$ 74,811	\$ 19,931	\$ (9,742)
Income (loss) per diluted share available (attributable) to common stockholders from continuing operations	\$ 0.39	\$ 0.12	\$ (0.08)

For the year ended December 31, 2014, the Company included \$27.0 million of revenues, and net income of \$3.5 million in its consolidated statements of operations related to the Company's 2014 acquisitions. For the year ended December 31, 2013, the Company included \$51.0 million of revenues, and net income of \$2.8 million in its consolidated statements of operations related to the Company's 2013 acquisitions. For the year ended December 31, 2012, the Company included \$27.7 million of revenues, and a net loss of \$1.1 million in its consolidated statements of operations related to the Company's 2012 acquisitions.

INTANGIBLE ASSETS

As of December 31, 2014 and 2013, intangible assets included in the Company's investment in hotel properties, net consisted of the following (in thousands):

	2014	2013
Advanced bookings ⁽¹⁾	\$ 10,621	\$ 35,154
Easement agreement ⁽²⁾	9,727	9,727
Ground/air lease agreements ⁽³⁾	121,850	121,850
In-place lease agreements ⁽⁴⁾	6,795	6,223
Above/(below) market lease agreements, net ⁽⁵⁾	(3,896)	(3,915)
Below market management agreement ⁽⁶⁾	2,850	2,850
	147,947	171,889
Accumulated amortization	(22,453)	(44,426)
	\$125,494	\$127,463

Amortization expense on these intangible assets for the years ended December 31, 2014, 2013 and 2012 consisted of the following (in thousands):

	2014	2013	2012
Advanced bookings ⁽¹⁾	\$1,769	\$4,560	\$14,824
Ground/air lease agreements ⁽³⁾	4,113	4,113	4,113
In-place lease agreements ⁽⁴⁾	830	454	348
Above/(below) market lease agreements, net ⁽⁵⁾	(304)	(148)	(6)
Below market management agreement ⁽⁶⁾	469	469	212
	\$6,877	\$9,448	\$19,491

- (1) Advanced bookings consist of advance deposits related to the purchases of the Boston Park Plaza, the Hyatt Regency San Francisco, and the Marriott Wailea. The contractual advanced hotel bookings were recorded at a discounted present value based on estimated collectability, and are amortized using the straight-line method based over the periods the amounts are expected to be collected. The amortization expense for contractual advanced hotel bookings is included in depreciation and amortization expense in the Company's consolidated statements of operations. The amounts will be fully amortized for the Boston Park Plaza, the Hyatt Regency San Francisco and the Marriott Wailea by June 2018, December 2017 and July 2018, respectively.
- (2) The Easement agreement at the Hilton Times Square was valued at fair value at the date of acquisition. The Hilton Times Square easement agreement has an indefinite useful life, and, therefore, is not amortized. This non-amortizable intangible asset is reviewed annually for impairment and more frequently if events or circumstances indicate that the asset may be impaired. If a non-amortizable intangible asset is subsequently determined to have a finite useful life, the intangible asset will be written down to the lower of its fair value or carrying amount and then amortized prospectively, based on the remaining useful life of the intangible asset.
- (3) Ground/air lease agreements at the Doubletree Guest Suites Times Square, the Hilton Times Square and the JW Marriott New Orleans were valued at fair value at the dates of acquisition. The agreements are amortized using the straight-line method over the remaining non-cancelable terms of the related agreements, which range from between approximately 22 and 76 years as of December 31, 2014. The amortization expense for the agreements is included in property tax, ground lease and insurance expense in the Company's consolidated statements of operations.
- (4) In-place lease agreements at the Boston Park Plaza, the Doubletree Guest Suites Times Square, the Hilton New Orleans St. Charles, the Hilton San Diego Bayfront, the Hyatt Regency San Francisco and the Marriott Wailea, were valued at fair value at the dates of acquisition. The agreements are amortized using the straight-line method over the remaining non-cancelable terms of the related agreements, which range from between approximately two months and 13 years as of December 31, 2014. The amortization expense for the agreements is included in depreciation and amortization expense in the Company's consolidated statements of operations.
- (5) The above/(below) market lease agreements, net consist of unfavorable tenant lease liabilities at the Boston Park Plaza, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hyatt Regency San Francisco and the Marriott Wailea, and favorable tenant lease assets at the Hilton New Orleans St. Charles, the Hyatt Regency San Francisco and the Marriott Wailea. These agreements were valued at fair value at the dates of acquisition, and are amortized using the straight-line method over the remaining non-cancelable terms of the related agreements, which range from between approximately two months and 17 years as of December 31, 2014. The amortization expense for the agreements is included in other operating revenue in the Company's consolidated statements of operations.
- (6) The below market management agreement at the Hilton Garden Inn Chicago Downtown/Magnificent Mile was valued at fair value at the acquisition date. The agreement is comprised of two components, one for the management of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, and the other for the potential management of a future hotel. The agreement is amortized using the straight-line method over the remaining non-cancelable terms of the two components, approximately 3 and 8 years each as of December 31, 2014. The amortization expense for the agreement is included in property general and administrative expense in the Company's consolidated statements of operations.

For the next five years, amortization expense for the intangible assets noted above is expected to be as follows (in thousands):

2015	\$7,334
2016	\$7,239
2017	\$7,206
2018	\$5,673
2019	\$4,341

4. DISCONTINUED OPERATIONS

In December 2014, the Company recorded additional expense of \$0.4 million related to workers' compensation claims which originated during the Company's periods of ownership at several hotels. The Company sold these hotels during 2004, 2005, 2010 and 2013.

In January 2013, the Company sold a four-hotel, 1,222-room portfolio (the "Rochester Hotels") and a commercial laundry facility (together with the Rochester Hotels, the "Rochester Portfolio") in Rochester, Minnesota, to an unaffiliated third party, for net proceeds of \$195.6 million, of which \$145.7 million was deposited with an accommodator in order to facilitate tax-deferred exchanges. The Rochester Hotels include the 660-room Kahler Grand, the 271-room Kahler Inn & Suites, the 202-room Marriott Rochester and the 89-room Residence Inn by Marriott Rochester. The Company recognized a net gain on the sale of \$51.6 million. The Company retained a \$25.0 million preferred equity investment (the "Preferred Equity Investment") in the Rochester Hotels that yields an 11% dividend, resulting in a deferred gain on the sale of \$25.0 million. The \$25.0 million gain will be deferred until the Preferred Equity Investment is redeemed. The Preferred Equity Investment is recorded at face value on the Company's consolidated balance sheets net of the deferred gain, resulting in a net book value of zero on the Company's consolidated balance sheets as of both December 31, 2014 and 2013. During the years ended December 31, 2014 and 2013, the Company recognized \$2.8 million and \$2.6 million in dividends on the Preferred Equity Investment, respectively. All of the dividends earned on the Preferred Equity Investment are included in interest and other income on the Company's consolidated statements of operations. The Company also provided a \$3.7 million working cash advance to the buyer, resulting in a deferred gain on the sale of \$3.7 million. The \$3.7 million gain will be deferred until the Company is repaid from the Rochester Portfolio's available cash flow. The working cash advance is recorded at face value on the Company's consolidated balance sheets net of the deferred gain, resulting in a net book value of zero on the Company's consolidated balance sheets as of both December 31, 2014 and 2013.

Concurrent with the Rochester Portfolio sale, the Company extinguished the outstanding \$26.7 million mortgage secured by the Kahler Grand for a total cost of \$29.8 million, prepaid the \$0.4 million loan secured by the commercial laundry facility, and recorded a loss on extinguishment of debt of \$3.1 million which is included in discontinued operations on the Company's consolidated statements of operations. The Company reclassified the Rochester Portfolio's results of operations for January 2013 and the year ended December 31, 2012 to discontinued operations on its consolidated statements of operations.

In addition, at the time the Company sold the Rochester Portfolio, the Company retained a liability not to exceed \$14.0 million related to the Rochester Portfolio’s pension plan, which could be triggered in certain circumstances, including termination of the pension plan. The recognition of the \$14.0 million pension plan liability reduced the Company’s gain on the sale of the Rochester Portfolio. In May 2014, the Company was released from \$7.0 million of its pension plan liability, causing the Company to recognize additional gain on the sale of the Rochester Portfolio of \$7.0 million, which is included in discontinued operations for the year ended December 31, 2014. The pension plan liability, totaling \$7.0 million and \$14.0 million as of December 31, 2014 and 2013, respectively, is included in other liabilities on the Company’s consolidated balance sheets. The remaining \$7.0 million gain will be recognized, if at all, when and to the extent the Company is released from any potential liability related to the Rochester Portfolio’s pension plan.

In accordance with the Contingencies Topic of the FASB ASC, which requires a liability be recorded based on the Company’s estimate of the probable cost of the resolution of a contingency, the Company accrued \$0.3 million when it sold the Rochester Portfolio related to potential future costs for certain capital expenditures at one of the hotels in the Rochester Portfolio. During the second quarter of 2014, the Company determined that its total costs for these capital expenditures may range from \$2.0 million to \$3.0 million. As such, the Company accrued an additional \$1.8 million during the second quarter of 2014 in accordance with the Contingencies Topic of the FASB ASC, which is included in discontinued operations for the year ended December 31, 2014, bringing the total amount accrued for this contingency to \$2.1 million. During 2014, the Company paid \$1.3 million of the liability, reducing the accrued balance for this contingency to \$0.8 million as of December 31, 2014. The Company expects to resolve this contingency in early 2015.

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

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

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

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

The following table sets forth the discontinued operations for the years ended December 31, 2014, 2013 and 2012 for the four hotels and the commercial laundry facility sold in 2013, and the four hotels and the office building sold in 2012 (in thousands):

	2014	2013	2012
Operating revenues	\$ —	\$ 3,690	\$100,861
Operating expenses	(350)	(3,686)	(71,089)
Interest expense	—	(99)	(6,490)
Depreciation and amortization expense	—	—	(13,164)
Loss on extinguishment of debt	—	(3,115)	—
Gain on sale of hotels and other assets, net	5,199	51,620	38,292
Income from discontinued operations	<u>\$4,849</u>	<u>\$48,410</u>	<u>\$ 48,410</u>

5. INTEREST RATE DERIVATIVE AGREEMENTS

At December 31, 2014 and 2013, the Company held two interest rate cap agreements. At December 31, 2013, the Company also held one interest rate swap agreement. The Company holds its interest rate derivative agreements in order to manage its exposure to the interest rate risks related to its floating rate debt. The first interest rate cap agreement is on the Hilton San Diego Bayfront mortgage, which mortgage currently bears an interest rate of one-month LIBOR plus 225 basis points. The initial interest rate cap agreement, whose strike rate was 3.75%, matured in April 2013. In April 2013, the Company purchased a new interest rate cap agreement on the Hilton San Diego Bayfront mortgage for a cost of \$12,000, which extended the maturity date from April 2013 to April 2015. The new interest rate cap agreement on the Hilton San Diego Bayfront continues to cap the LIBOR rate at 3.75%. The notional amount of the related debt capped totaled \$117.0 million at both December 31, 2014 and 2013. The second interest rate cap agreement is on the Doubletree Guest Suites Times Square mortgage, which mortgage currently bears an interest rate of one-month LIBOR plus 325 basis points. The Doubletree Guest Suites Times Square cap agreement caps the LIBOR rate at 4.0% until October 2015. The notional amount of the related debt capped totaled \$177.4 million and \$179.6 million at December 31, 2014 and 2013, respectively.

At December 31, 2013, the Company held an interest rate swap agreement on the JW Marriott New Orleans mortgage. The interest rate swap agreement capped the LIBOR interest rate on the underlying debt at a total interest rate of 5.45%, and the maturity date was in September 2015. The notional amount of the related debt totaled \$39.8 million as of December 31, 2013. In conjunction with the Company's refinancing of the mortgage secured by the JW Marriott New Orleans in December 2014 (see Note 7), the Company paid a fee of \$0.6 million to terminate the interest rate swap agreement.

None of the interest rate derivative agreements qualify for effective hedge accounting treatment. Accordingly, changes in the fair value of the Company's interest rate derivative agreements resulted in net gain of \$0.5 million for both the years ended December 31, 2014 and 2013, and a net loss of \$0.4 million for the year ended December 31, 2012, which have been reflected as decreases in interest expense for 2014 and 2013, and as an increase in interest expense for 2012. As of December 31, 2014, the fair values of the interest rate cap agreements were de minimus. As of December 31, 2013, the fair values of the interest rate cap agreements totaled an asset of \$16,000. The interest rate cap agreements are included in other assets, net on the Company's consolidated balance sheets. The fair value of the interest rate swap agreement was a liability of zero and \$1.1 million as of December 31, 2014 and 2013, respectively, and is included in other liabilities on the Company's consolidated balance sheet as of December 31, 2013.

6. OTHER ASSETS

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

	December 31,	
	2014	2013
Property and equipment, net	\$ 2,127	\$ 2,478
Land held for development	188	188
Intangibles, net	6,677	7,277
Interest rate cap derivative agreements	—	16
Cash trap receivables	—	4,443
Other receivables	2,094	3,942
Other	3,399	2,762
	<u>\$14,485</u>	<u>\$21,106</u>

As of December 31, 2014 and 2013, property and equipment, net consisted of the following (in thousands):

	2014	2013
Cost basis	\$11,573	\$10,933
Accumulated depreciation	(9,446)	(8,455)
Property and equipment, net	<u>\$ 2,127</u>	<u>\$ 2,478</u>

The Company’s other assets, net as of December 31, 2014 and 2013, include BuyEfficient’s intangible assets totaling \$6.7 million and \$7.3 million, respectively, net of accumulated amortization related to certain trademarks, customer and supplier relationships and intellectual property related to internally developed software. These intangibles are amortized using the straight-line method over their useful lives ranging between seven and 20 years. Accumulated amortization totaled \$2.4 million and \$1.8 million at December 31, 2014 and 2013, respectively. Amortization expense totaled \$0.6 million for the years ended December 31, 2014, 2013 and 2012. For the next five years, amortization expense for the BuyEfficient intangible assets is expected to be as follows (in thousands):

2015	\$600
2016	\$600
2017	\$600
2018	\$351
2019	\$337

As of December 31, 2013, \$4.4 million of the Company’s cash remained trapped by the lender associated with the mortgage secured by the Hilton Del Mar, which the Company sold in 2012, and whose mortgage was assumed by the buyer. In February 2014, the lender released the cash, and the entire \$4.4 million was returned to the Company.

7. NOTES PAYABLE

Notes payable consisted of the following at December 31 (in thousands):

	2014	2013
Notes payable requiring payments of interest and principal, with fixed rates ranging from 4.12% and 5.95% at December 31, 2014, and 4.4% and 6.6% at December 31, 2013; maturing at dates ranging from May 2015 through January 2025. The notes are collateralized by first deeds of trust on 14 hotel properties at both December 31, 2014 and 2013.	\$1,023,780	\$ 993,164
Note payable requiring payments of interest and principal, bearing a blended rate of one-month LIBOR plus 225 basis points at December 31, 2014, and three-month LIBOR plus 325 basis points at December 31, 2013; maturing in August 2019. The note is collateralized by a first deed of trust on one hotel property.	228,296	231,451
Note payable requiring payments of interest only through October 2013, and interest and principal thereafter, with a blended interest rate of one-month LIBOR plus 325 basis points; maturing in October 2018. The note is collateralized by a first deed of trust on one hotel property.	177,216	179,460
Total notes payable	1,429,292	1,404,075
Less: current portion	(121,328)	(23,289)
Notes payable, less current portion	\$1,307,964	\$1,380,786

NOTES PAYABLE TRANSACTIONS—2014

In August 2014, the Company amended the mortgage secured by the Hilton San Diego Bayfront, which mortgage originally included the syndication of four lenders. In conjunction with the amendment and in accordance with the Debt Topic of the FASB ASC, the Company analyzed each of the four lenders to determine if their participation in the refinancing should be accounted for as a modification or as an extinguishment of their portion of the original loan. As a result of the Company’s assessments, three of the lenders’ participations were deemed to be modifications of the original loan, and the applicable amounts of unamortized deferred financing fees continue to be capitalized and amortized over the term of the refinanced debt. In conjunction with the amendment, the Company paid additional deferred financing fees of \$1.3 million to these three lenders, which are also amortized over the term of the refinanced debt. During 2014, the Company paid \$0.1 million in loan fees to third parties related to the modifications, which were recorded in the Company’s results of operations as a component of interest expense. The portion of the loan related to the lender who chose not to participate in the refinancing was determined to be an extinguishment of the original loan, and as a result, \$0.5 million of the unamortized balance of the applicable deferred financing fees were expensed during 2014, and recorded in the Company’s results of operations as loss on extinguishment of debt. In addition, the Company paid the lender \$25,000 in costs associated with the extinguishment of debt, which is also included in the Company’s results of operations as loss on extinguishment of debt. The amended loan extends the loan’s maturity from April 2016 to August 2019, and reduces the loan’s interest rate from three-month LIBOR plus 325 basis points to one-month LIBOR plus 225 basis points.

In December 2014, the Company repaid the \$38.9 million mortgage secured by the JW Marriott New Orleans, using proceeds received from a new \$90.0 million mortgage secured by the JW Marriott New Orleans. The new loan extends the maturity date from September 2015 to December 2024. The new loan is subject to a 30-year amortization schedule, and reduces the interest rate from 5.45% under a related interest rate swap agreement to a fixed rate of 4.15%. In conjunction with its repayment of the original mortgage, the Company wrote off \$39,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in the Company's consolidated statements of operations, and paid a fee of \$0.6 million to terminate the related interest rate swap agreement. In addition, the Company paid deferred financing fees of \$0.6 million related to the new loan, which are amortized over the term of the new loan.

Also in December 2014, the Company extinguished the \$67.1 million mortgage secured by the Embassy Suites La Jolla for a total cost of \$71.1 million, and recorded a loss on extinguishment of debt of \$4.0 million. The extinguishment was funded using proceeds received from a new \$65.0 million mortgage secured by the Embassy Suites La Jolla, along with cash on hand. The new loan is subject to a 30-year amortization schedule, reduces the interest rate from a fixed rate of 6.6% to a fixed rate of 4.12%, and extends the maturity date from June 2019 to January 2025. In conjunction with its repayment of the original mortgage, the Company wrote off \$43,000 of unamortized deferred financing fees, which are included in loss on extinguishment of debt in the Company's consolidated statements of operations. In addition, the Company paid deferred financing fees of \$0.4 million related to the new loan, which are amortized over the term of the new loan.

As of December 31, 2014, the Company has \$150.0 million available for use under its senior unsecured revolving credit facility. An accordion option under the credit facility allows the Company to request additional lender commitments of up to \$350.0 million. The credit facility's interest rate is based on a pricing grid with a range of 175 to 350 basis points, depending on the Company's leverage ratio, and it matures in November 2015 with an option to extend to November 2016.

NOTES PAYABLE TRANSACTIONS—2013

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

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

In conjunction with the Company's acquisition of the Boston Park Plaza in July 2013, the Company assumed a \$119.2 million non-recourse mortgage secured by the hotel. The mortgage bears interest at a fixed rate of 4.4%, and matures in February 2018.

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

	2014	2013	2012
Interest expense on debt and capital lease obligations	\$70,067	\$69,806	\$71,664
(Gain) loss on derivatives, net	(529)	(525)	406
Accretion of Senior Notes	—	3	1,058
Amortization of deferred financing fees	2,777	2,955	3,690
Write-off of deferred financing fees	—	—	3
	<u>\$72,315</u>	<u>\$72,239</u>	<u>\$76,821</u>

Aggregate future principal maturities and amortization of notes payable at December 31, 2014, are as follows (in thousands):

2015	\$ 121,328
2016	205,802
2017	257,405
2018	290,852
2019	223,880
Thereafter	<u>330,025</u>
Total	<u>\$1,429,292</u>

8. OTHER CURRENT LIABILITIES AND OTHER LIABILITIES

OTHER CURRENT LIABILITIES

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

	December 31,	
	2014	2013
Property, sales and use taxes payable	\$14,490	\$14,482
Income tax payable	295	—
Accrued interest	3,289	3,078
Advance deposits	10,742	8,259
Management fees payable	3,467	1,077
Other	4,183	3,392
	<u>\$36,466</u>	<u>\$30,288</u>

OTHER LIABILITIES

Other liabilities consisted of the following (in thousands):

	December 31,	
	2014	2013
Deferred gain on sale of asset	\$ 7,000	\$14,000
Interest rate swap derivative agreement	—	1,066
Accrued income tax	1,541	1,491
Deferred revenue	6,790	6,918
Deferred rent	15,075	12,270
Deferred incentive management fees	534	1,714
Other	2,667	2,499
	<u>\$33,607</u>	<u>\$39,958</u>

In conjunction with the Rochester Portfolio sale, the Company retained a \$14.0 million liability related to the Rochester Portfolio's pension plan, which could be triggered in certain circumstances, including termination of the pension plan. Accordingly, the Company deferred \$14.0 million of gain on the sale of the Rochester Portfolio. In May 2014, the Company was released from \$7.0 million of its pension plan liability, causing the Company to recognize \$7.0 million of the deferred gain on sale of the Rochester Portfolio, which is included in discontinued operations for the year ended December 31, 2014. The remaining \$7.0 million deferred gain will be recognized, if at all, when and to the extent the Company is released from any potential liability related to the Rochester Portfolio's pension plan.

9. INCOME TAXES

The Company has elected to be taxed as a REIT under the Code. As a REIT, the Company generally will not be subject to corporate level federal income taxes on net income it distributes to its stockholders. The Company may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. The Company may also be subject to federal and/or state income taxes when using net operating loss carryforwards to offset current taxable income.

The Company leases its hotels to the TRS Lessee and its subsidiaries, which are subject to federal and state income taxes. The Company accounts for income taxes in accordance with the provisions of the Income Taxes Topic of the FASB ASC, which requires the Company to account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between GAAP carrying amounts and their respective tax bases.

During 2014, the Company recognized a combined federal and state income tax provision of \$0.2 million based on a 2013 actual tax benefit of \$0.6 million, partially offset by a 2014 projected tax provision net of operating loss carryforwards of \$0.8 million for its taxable entities.

During 2013, the Company recognized income tax expense of \$4.7 million as a result of Internal Revenue Service (“IRS”) audits of tax years 2008, 2009 and 2010, including \$0.6 million in accrued interest. The Company recorded additional income tax expense of \$1.5 million during 2013 based on the ongoing evaluations of its uncertain tax positions related to the year ended December 31, 2012, and as a result of its recent resolution of outstanding issues with the IRS. During 2013, the Company recorded additional tax expense of \$1.9 million related to estimated 2013 federal alternative minimum tax resulting from its use of net operating loss carryforwards, as well as state income tax where the Company’s use of net operating loss carryforwards was either limited or unavailable.

During 2012, the Company’s federal alternative minimum tax resulting from its use of net operating loss carryforwards combined with the Company’s state income tax expense where the use of net operating loss carryforwards was either limited or unavailable to total \$1.1 million of income tax expense.

The Company recognizes penalties and interest related to unrecognized tax benefits in income tax expense. During 2014 and 2013, the Company recognized \$50,000 and \$0.6 million in interest expense related to its tax provisions, respectively. The Company recognized no penalties or interest related to its tax provisions for 2012.

The income tax provision for the Company is included in the consolidated financial statements as follows (in thousands):

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Current:			
Federal	\$ 255	\$ 6,371	\$ 850
State	(76)	1,774	298
Total current income tax provision	\$ 179	\$ 8,145	\$ 1,148
Deferred:			
Federal	\$(2,341)	\$(9,488)	\$ 1,031
State	(598)	(2,426)	278
Change in valuation allowance	2,939	11,914	(1,309)
Total deferred income tax provision	\$ —	\$ —	\$ —

The tax effects of temporary differences giving rise to the deferred tax assets (liabilities) are as follows (in thousands):

	December 31,	
	2014	2013
NOL carryover	\$ 28,420	\$ 31,258
Other reserves	2,784	3,270
State taxes and other	(4,766)	(4,909)
Depreciation	375	133
Deferred tax asset before valuation allowance	26,813	29,752
Valuation allowance	(26,813)	(29,752)
	\$ —	\$ —

The Company has provided a valuation allowance against its net deferred tax asset at December 31, 2014 and 2013. The valuation allowance is due to the uncertainty of realizing the Company’s historical operating losses. Accordingly, no provision or benefit for deferred income taxes related to the Company is reflected in the accompanying consolidated statements of operations.

At December 31, 2014 and 2013, the net operating loss carryforwards for federal income tax purposes totaled approximately \$72.3 million and \$80.3 million, respectively. These losses, which begin to expire in 2024, are available to offset future income through 2032.

CHARACTERIZATION OF DISTRIBUTIONS

For income tax purposes, distributions paid consist of ordinary income, capital gains, return of capital or a combination thereof. For the years ended December 31, 2014, 2013 and 2012, distributions paid per share were characterized as follows (unaudited):

	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Common Stock:						
Ordinary income	\$0.510	100%	\$0.100	100%	\$ —	—%
Capital gain	—	—	—	—	—	—
Return of capital	—	—	—	—	—	—
Total	\$0.510	100%	\$0.100	100%	\$ —	—%
Preferred Stock—Series A						
Ordinary income	\$ —	—%	\$0.330	100%	\$2.000	100%
Capital gain	—	—	—	—	—	—
Return of capital	—	—	—	—	—	—
Total	\$ —	—%	\$0.330	100%	\$2.000	100%
Preferred Stock—Series C						
Ordinary income	\$ —	—%	\$0.656	100%	\$1.572	100%
Capital gain	—	—	—	—	—	—
Return of capital	—	—	—	—	—	—
Total	\$ —	—%	\$0.656	100%	\$1.572	100%
Preferred Stock—Series D						
Ordinary income	\$2.000	100%	\$2.000	100%	\$2.000	100%
Capital gain	—	—	—	—	—	—
Return of capital	—	—	—	—	—	—
Total	\$2.000	100%	\$2.000	100%	\$2.000	100%

10. SERIES C CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED STOCK

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

11. STOCKHOLDERS' EQUITY

SERIES A CUMULATIVE REDEEMABLE PREFERRED STOCK

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

SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK

The Company's 4,600,000 shares of its Series D preferred stock have a liquidation preference of \$25.00 per share. On or after April 6, 2016, the Series D preferred stock will be redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date.

COMMON STOCK

In February 2014, the Company entered into separate Equity Distribution Agreements (the “Agreements”) with Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Managers”). Under the terms of the Agreements, the Company may issue and sell from time to time through or to the Managers, as sales agents and/or principals, shares of the Company’s common stock having an aggregate offering amount of up to \$150.0 million. During 2014, the Company received \$21.0 million in net proceeds from the issuance of 1,352,703 shares of its common stock in connection with the Agreements.

In June 2014, the Company issued 18,000,000 shares of its common stock in an underwritten public offering for net proceeds of approximately \$262.5 million, which were used to acquire the Marriott Wailea in July 2014.

In July 2014, the Company issued 4,034,970 shares of its common stock valued at \$60.0 million directly to the seller of the Marriott Wailea in connection with the Company’s acquisition of the hotel (see Note 3). The Company incurred offering costs of \$0.1 million related to this transaction.

In February 2013, the Company issued 25,300,000 shares of its common stock, including the underwriters’ over-allotment of 3,300,000 shares, for net proceeds of approximately \$294.9 million. The Company used \$279.7 million of these proceeds to redeem all of its Series A preferred stock in March 2013, and its Series C preferred stock in May 2013, including accrued dividends, and used portions of the remaining proceeds towards the acquisitions of the Hilton New Orleans St. Charles in May 2013, and the Boston Park Plaza in July 2013.

In November 2013, the Company issued 20,000,000 shares of its common stock in an underwritten public offering for net proceeds of \$270.9 million. The Company used the net proceeds from this offering to purchase the Hyatt Regency San Francisco, and used the remaining proceeds for capital investment in the Company’s portfolio and other general corporate purposes, including working capital.

In June 2012, the Company issued 5,454,164 shares of its common stock to the seller of the Wyndham Chicago (which the Company rebranded the Hyatt Chicago Magnificent Mile) in connection with the Company’s acquisition of the hotel (see Note 3). The Company incurred offering costs of \$0.1 million related to this transaction.

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

DIVIDENDS

The Company declared dividends per share on its Series A preferred stock, Series D preferred stock and common stock during 2014, 2013 and 2012 as follows:

	2014	2013	2012
Series A preferred stock	\$ —	\$0.50	\$2.00
Series D preferred stock	2.00	2.00	2.00
Common stock ⁽¹⁾	0.51	0.10	—
	<u>\$2.51</u>	<u>\$2.60</u>	<u>\$4.00</u>

(1) Includes a \$0.36 dividend declared during the fourth quarter of 2014, which will be paid in January 2015 in a combination of cash and shares of the Company’s common stock, pursuant to elections by individual stockholders.

12. LONG-TERM INCENTIVE PLAN STOCK GRANTS

The Company’s Long-Term Incentive Plan (“LTIP”) provides for the granting to directors, officers and eligible employees incentive or nonqualified share options, restricted shares, deferred shares, share purchase rights and share appreciation rights in tandem with options, or any combination thereof. The Company has reserved 12,050,000 common shares for issuance under the LTIP, and 6,537,837 shares remain available for future issuance as of December 31, 2014.

Restricted shares granted pursuant to the Company’s LTIP generally vest over periods from three to five years from the date of grant.

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

The Company's compensation expense and forfeitures related to restricted shares and performance awards for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012
Compensation expense, including forfeitures	<u>\$9,063</u>	<u>\$7,189</u>	<u>\$5,139</u>

The Company's total compensation expense differs from the vesting of restricted common stock amount presented in the Company's consolidated statements of equity due to the Company withholding and using a portion of its restricted shares granted pursuant to its LTIP for purposes of remitting statutory minimum withholding and payroll taxes in connection with the release of restricted common shares to plan participants ("net-settle"). In addition, the Company capitalizes all restricted shares granted to certain of those employees who work on the design and construction of its hotels. The Company's total compensation expense in relation to its vesting of restricted common stock presented in the Company's consolidated statements of equity for the years ended December 31, 2014, 2013 and 2012 is as follows (in thousands):

	2014	2013	2012
Total compensation expense, including forfeitures	\$ 9,063	\$ 7,189	\$ 5,139
Net-settle adjustment	(2,842)	(2,331)	(1,673)
Amortization related to shares issued to design and construction employees	474	393	302
Vesting of restricted stock presented on statement of equity	<u>\$ 6,695</u>	<u>\$ 5,251</u>	<u>\$ 3,768</u>

The following is a summary of non-vested stock grant activity:

	2014		2013		2012	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding at beginning of year	2,009,412	\$10.23	1,539,992	\$ 9.11	1,407,152	\$8.55
Granted	691,182	\$13.48	975,711	\$11.82	647,171	\$9.51
Vested	(799,845)	\$10.61	(497,199)	\$ 9.89	(513,095)	\$8.08
Forfeited	(17,453)	\$11.90	(9,092)	\$10.89	(1,236)	\$9.38
Outstanding at end of year	<u>1,883,296</u>	<u>\$11.24</u>	<u>2,009,412</u>	<u>\$10.23</u>	<u>1,539,992</u>	<u>\$9.11</u>

At December 31, 2014, there were no deferred shares, share purchase rights, or share appreciation rights issued or outstanding under the LTIP.

STOCK OPTIONS

In April 2008, the Compensation Committee of the Company's board of directors approved a grant of 200,000 non-qualified stock options (the "Options") to one of the Company's former associates. The Options fully vested in April 2009, and will expire in April 2018. The exercise price of the Options is \$17.71 per share.

13. COMMITMENTS AND CONTINGENCIES

MANAGEMENT AGREEMENTS

Management agreements with the Company's third-party hotel managers require the Company to pay between 2% and 3.5% of total revenue of the managed hotels to the third-party managers each month as a basic management fee. Total basic management fees incurred by the Company during the years ended December 31, 2014, 2013 and 2012 were included in the Company's consolidated statements of operations as follows (in thousands):

	2014	2013	2012
Continuing operations—property general and administrative expense, and corporate overhead expense	\$31,485	\$25,218	\$22,807
Discontinued operations	<u>—</u>	<u>65</u>	<u>2,061</u>
	<u>\$31,485</u>	<u>\$25,283</u>	<u>\$24,868</u>

In addition to basic management fees, provided that certain operating thresholds are met, the Company may also be required to pay incentive management fees to certain of its third-party managers. Total incentive management fees incurred by the Company during the years ended December 31, 2014, 2013 and 2012 were included in the Company's consolidated statements of operations as follows (in thousands):

	2014	2013	2012
Continuing operations—property general and administrative expense	\$4,034	\$3,025	\$2,738
Discontinued operations	—	—	587
	<u>\$4,034</u>	<u>\$3,025</u>	<u>\$3,325</u>

LICENSE AND FRANCHISE AGREEMENTS

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

Total license and franchise fees incurred by the Company during the years ended December 31, 2014, 2013 and 2012 were included in the Company's consolidated statements of operations as follows (in thousands):

	2014	2013	2012
Continuing operations—franchise costs	\$38,271	\$32,932	\$30,067
Discontinued operations	—	73	2,996
	<u>\$38,271</u>	<u>\$33,005</u>	<u>\$33,063</u>

Total license and franchise costs included royalties of \$11.6 million, \$10.8 million and \$10.6 million incurred by the Company during the years ended December 31, 2014, 2013 and 2012, respectively. The remaining costs included advertising, reservation and priority club assessments.

RENOVATION AND CONSTRUCTION COMMITMENTS

At December 31, 2014, the Company had various contracts outstanding with third parties in connection with the renovation of certain of its hotel properties aimed at maintaining the appearance and quality of its hotels. The remaining commitments under these contracts at December 31, 2014 totaled \$56.5 million.

CAPITAL LEASES

The Hyatt Chicago Magnificent Mile is subject to a building lease which expires in December 2097. Upon acquisition of the hotel in June 2012, the Company evaluated the terms of the lease agreement and determined the lease to be a capital lease pursuant to the Leases Topic of the FASB ASC.

The Company leases certain printers and copiers which leases have been determined to be capital leases pursuant to the Leases Topic of the FASB ASC. All of the leases expired in December 2014.

Assets under capital lease were included in investment in hotel properties, net on the Company's consolidated balance sheets as follows (in thousands):

	December 31,	
	2014	2013
Buildings and improvements	\$58,799	\$58,799
Furniture, fixtures and equipment	104	104
	<u>58,903</u>	<u>58,903</u>
Accumulated depreciation	(3,841)	(2,356)
	<u>\$55,062</u>	<u>\$56,547</u>

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2014 are as follows (in thousands):

2015	\$ 1,409
2016	1,403
2017	1,403
2018	1,403
2019	1,403
Thereafter	109,414
Total minimum lease payments ⁽¹⁾	116,435
Less: Amount representing interest ⁽²⁾	(100,852)
Present value of net minimum lease payments ⁽³⁾	<u>\$ 15,583</u>

(1) Minimum lease payments do not include percentage rent which may be paid under the Hyatt Chicago Magnificent Mile building lease on the basis of 4.0% of the hotel's gross room revenues over a certain threshold. The Company recorded zero in percentage rent during both 2014 and 2013, and \$3,000 in percentage rent during 2012.

(2) Interest includes the amount necessary to reduce net minimum lease payments to present value calculated at the Company's incremental borrowing rate at lease inception.

(3) The present value of net minimum lease payments are reflected in the Company's consolidated balance sheet as of December 31, 2014 as a current obligation of \$7,000, which is included in accounts payable and accrued expenses, and as a long-term obligation of \$15.6 million, which is included in capital lease obligations, less current portion.

GROUND, BUILDING AND AIR LEASES

During 2014, 2013 and 2012, certain of the Company's 30 hotels were obligated to unaffiliated third parties under the terms of ground, building and air leases as follows:

	2014	2013	2012
Number of hotels with ground, building and/or air leases	9	10	10
Number of ground leases	8	9	9
Number of building leases ⁽¹⁾	1	1	1
Number of air leases	3	3	3
Total number of ground, building and air leases	12	13	13

(1) The building lease is considered by the Company to be a capital lease, as noted above.

At December 31, 2014, the ground, building and air leases mature in dates ranging from 2037 through 2097, excluding renewal options. One of the air leases requires a payment of \$1.00 annually, which the Company has paid in full for the life of the lease. Total rent expense incurred pursuant to ground, building and air lease agreements for the years ended December 31, 2014, 2013 and 2012 was included in property tax, ground lease and insurance in the Company's consolidated statements of operations as follows (in thousands):

	2014	2013	2012
Minimum rent, including straightline adjustments	\$14,999	\$15,228	\$14,950
Percentage rent ⁽¹⁾	2,718	2,131	2,000
	<u>\$17,717</u>	<u>\$17,359</u>	<u>\$16,950</u>

(1) Several of the Company's hotels pay percentage rent, which is calculated on operating revenues above certain thresholds.

Prior to the Company's June 2014 acquisition of the land underlying the Fairmont Newport Beach, the land was leased to the Company by a third party. The Company's acquisition of the land reduced its ground lease expense by \$0.6 million during 2014.

At December 31, 2014, the Company was obligated to an unaffiliated party under the terms of a sublease on the corporate facility, which matures in 2018. Rent expense incurred pursuant to leases on the corporate facility totaled \$0.4 million for each of the years ended December 31, 2014, 2013 and 2012, and was included in corporate overhead expense.

Future minimum payments under the terms of the ground and air leases, as well as the sublease on the corporate facility, in effect at December 31, 2014 are as follows (in thousands):

2015	\$ 8,438
2016	8,499
2017	11,523
2018	11,450
2019	11,236
Thereafter	<u>335,009</u>
Total	<u>\$386,155</u>

EMPLOYMENT AGREEMENTS

As of December 31, 2014, the Company has employment agreements with certain executive employees, which expire in August 2016. The terms of the agreements stipulate payments of base salaries and bonuses.

Approximate minimum future obligations under employment agreements are as follows as of December 31, 2014 (in thousands):

2015	\$6,319
2016	<u>706</u>
	<u>\$7,025</u>

COLLECTIVE BARGAINING AGREEMENTS

The Company is subject to exposure to collective bargaining agreements at certain hotels operated by its management companies. At December 31, 2014, approximately 29.2% of workers employed by the Company's third-party managers were covered by such collective bargaining agreements.

401(K) SAVINGS AND RETIREMENT PLAN

The Company's employees may participate, subject to eligibility, in the Company's 401(k) Savings and Retirement Plan (the "401(k) Plan"). Employees are eligible to participate in the 401(k) Plan after attaining 21 years of age and after the first of the month following the performance of six months of service. Three percent of eligible employee annual base earnings are contributed by the Company as a Safe Harbor elective contribution. Safe Harbor contributions made by the Company totaled \$0.3 million for the year ended December 31, 2014, and \$0.2 million for both of the years ended December 31, 2013 and 2012, and were included in corporate overhead expense.

The Company is also responsible for funding various retirement plans at certain hotels operated by its management companies. Property general and administrative expense on the Company's consolidated statements of operations includes matching contributions into these various retirement plans of \$1.5 million, \$1.1 million and \$0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Discontinued operations on the Company's consolidated statements of operations includes matching contributions into these retirement plans of zero for the year ended December 31, 2014, \$3,000 for the year ended December 31, 2013, and \$0.1 million for the year ended December 31, 2012.

CONCENTRATION OF RISK

The concentration of the Company's hotels in California, New York, Illinois, Massachusetts and the greater Washington DC area exposes the Company's business to economic conditions, competition and real and personal property tax rates unique to these locales. As of December 31, 2014, the Company's 30 hotels were concentrated in California, New York, Illinois, Massachusetts and the greater Washington DC area as follows:

	California	New York	Illinois	Massachusetts	Greater Washington DC Area
Number of hotels	9	3	3	3	3
Percentage of total rooms	31%	9%	8%	14%	13%
Percentage of total revenue for the year ended December 31, 2014	33%	13%	7%	14%	12%

OTHER

The Company has provided customary unsecured environmental indemnities to certain lenders. The Company has performed due diligence on the potential environmental risks, including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company to reimburse the indemnified parties for damages related to certain environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, the Company could have recourse against other previous owners or a claim against its environmental insurance policies.

At December 31, 2014, the Company had \$0.7 million of outstanding irrevocable letters of credit to guaranty the Company's financial obligations related to workers' compensation insurance programs from prior policy years. The beneficiaries of these letters of credit may draw upon these letters of credit in the event of a contractual default by the Company relating to each respective obligation. No draws have been made through December 31, 2014.

14. QUARTERLY OPERATING RESULTS (UNAUDITED)

The consolidated quarterly results for the years ended December 31, 2014 and 2013, of the Company are as follows (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>REVENUES—CONTINUING OPERATIONS</i>				
2014	\$243,483	\$300,852	\$307,783	\$289,880
2013	\$194,921	\$234,638	\$250,370	\$243,895
<i>OPERATING INCOME—CONTINUING OPERATIONS</i>				
2014	\$ 14,295	\$ 55,886	\$ 50,832	\$ 35,730
2013	\$ 3,568	\$ 36,622	\$ 34,368	\$ 24,640
<i>NET INCOME (LOSS)</i>				
2014	\$ (3,496)	\$ 43,535	\$ 33,643	\$ 14,257
2013	\$ 28,926	\$ 20,009	\$ 15,817	\$ 5,249
<i>INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS PER SHARE— BASIC AND DILUTED</i>				
2014	\$ (0.04)	\$ 0.22	\$ 0.14	\$ 0.05
2013	\$ 0.12	\$ 0.09	\$ 0.07	\$ 0.01

Income available (loss attributable) to common stockholders per share is computed independently for each of the quarters presented and therefore may not sum to the annual amount for the year.

15. SUBSEQUENT EVENTS

On February 13, 2015, the Company's board of directors approved a "Second Amendment" to Article XIV of the Amended and Restated Bylaws of the Company (the "Bylaws"). Prior to the adoption of the Second Amendment, the Bylaws could only be amended, altered, repealed or rescinded by the board of directors. Pursuant to the Second Amendment, the Bylaws may be amended, altered, repealed or rescinded by the board of directors or by the stockholders upon an affirmative vote of a majority of all the votes entitled to be cast generally in the election of directors.

STOCK
Information

Our common stock is traded on the NYSE under the symbol “SHO.” On February 12, 2015, the last reported price per share of common stock on the NYSE was \$17.63. The table below sets forth the high and low closing price per share of our common stock as reported on the NYSE and the cash dividends per share of common stock we declared with respect to each period.

	High	Low	Dividends Declared
2013:			
First Quarter	\$12.31	\$11.02	\$ —
Second Quarter	\$13.09	\$11.14	\$ —
Third Quarter	\$13.49	\$11.87	\$0.05
Fourth Quarter	\$14.06	\$12.50	\$0.05
2014:			
First Quarter	\$14.00	\$12.46	\$0.05
Second Quarter	\$15.25	\$13.22	\$0.05
Third Quarter	\$15.17	\$13.71	\$0.05
Fourth Quarter	\$17.17	\$13.42	\$0.36 ⁽¹⁾

(1) Paid in a combination of cash and shares of our common stock, pursuant to elections by individual stockholders.

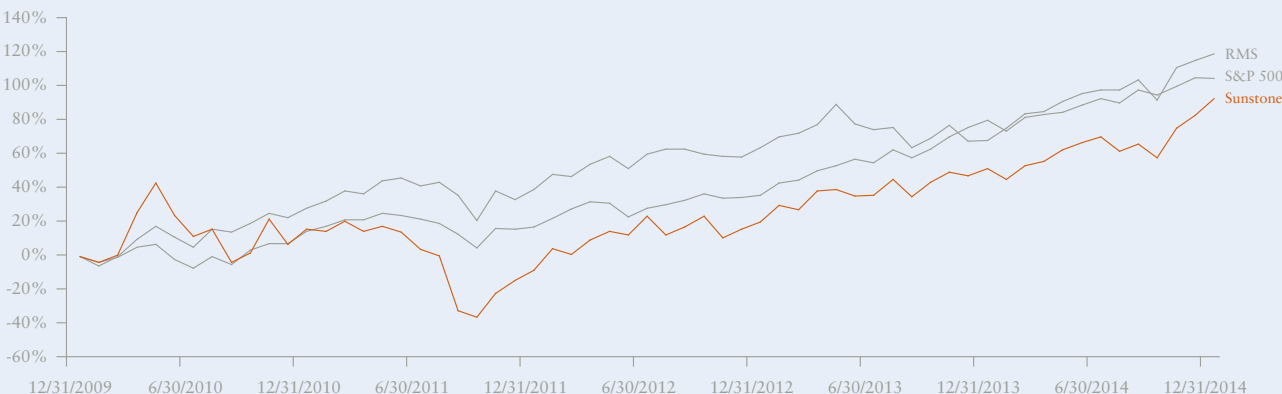
Subject to certain limitations, we intend to make dividends on our stock in amounts equivalent to 100% of our annual taxable income. The level of any future dividends will be determined by our board of directors after considering long-term operating projections, expected capital requirements and risks affecting our business; however, we expect to continue to pay a regular dividend of \$0.05 per share of common stock throughout 2015. To the extent that expected regular quarterly dividends for 2015 do not satisfy our annual distribution requirements, we expect to satisfy the annual distribution requirement by paying a “catch up” dividend in January 2016, which dividend may be paid in cash and/or shares of common stock. Any future common stock dividends may be comprised of cash only, or a combination of cash and stock, consistent with Internal Revenue Service guidelines.

As of February 9, 2015, we had approximately 23 holders of record of our common stock. However, because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe there are substantially more beneficial holders of our common stock than record holders. In order to comply with certain requirements related to our qualification as a REIT, our charter limits the number of common shares that may be owned by any single person or affiliated group to 9.8% of the outstanding common shares, subject to the ability of our board to waive this limitation under certain conditions.

HISTORICAL PERFORMANCE COMPARISON⁽¹⁾

December 31, 2009–December 31, 2014

Sunstone Hotel Investors, Inc., Morgan Stanley REIT Index, Standard & Poor’s 500 Composite Stock Index
Source: FactSet Research Systems as of 12/31/14



(1) This graph provides a comparison of cumulative total stockholder returns for the period from December 31, 2009 through December 31, 2014, among Sunstone Hotel Investors, Inc. (“Sunstone”), the Standard & Poor’s 500 Composite Stock Index (“S&P 500”) and the Morgan Stanley REIT Index (“RMS”).

The total return values were calculated assuming a \$100 investment on December 31, 2009 with reinvestment of all dividends in (i) our common stock, (ii) the S&P 500 and (iii) the RMS, respectively. The total return values do not include any dividends declared, but not paid, during the period.

CORPORATE
Information

BOARD OF DIRECTORS

John V. Arabia
*Director and President &
Chief Executive Officer
Sunstone Hotel Investors, Inc.*

Andrew M. Batinovich
*President & Chief Executive Officer
Glenborough, LLC*

Z. Jamie Behar
*Managing Director, Real Estate and
Alternative Investments
General Motors Investment
Management Corporation*

Keith M. Locker
*Non-Executive Chairman
Sunstone Hotel Investors, Inc.
President
Inlet Capital, LLC*

Thomas A. Lewis, Jr.
Director

Douglas M. Pasquale
*Vice Chairman
Sunstone Hotel Investors, Inc.*

Keith P. Russell
*President
Russell Financial, Inc.*

Lewis N. Wolff
*Chairman & Chief Executive Officer
Wolff Urban Management, Inc.*

EXECUTIVE OFFICERS

John V. Arabia
President & Chief Executive Officer

Marc A. Hoffman
*Executive Vice President &
Chief Operating Officer*

Bryan Giglia
Senior Vice President & Chief Financial Officer

Robert C. Springer
*Senior Vice President &
Chief Investment Officer*

Lindsay N. Monge
*Senior Vice President—Treasurer &
Chief Administrative Officer*

David R. Sloan
Senior Vice President & General Counsel

W. Guy Lindsey
Senior Vice President—Design & Construction

ANNUAL MEETING OF
STOCKHOLDERS

The Annual Meeting will be held at
1:30 P.M. on April 30, 2015 at:
Hyatt Regency Newport Beach
1107 Jamboree Road
Newport Beach, CA 92660

TRANSFER AGENT

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
(800) 937-5449

STOCK LISTING

Common Stock of the Company is traded
on the New York Stock Exchange under
the symbol “SHO”.

Series D Preferred Stock is traded on the
New York Stock Exchange under the sym-
bol “SHO PR D”.

INDEPENDENT
REGISTERED PUBLIC
ACCOUNTANTS

Ernst & Young LLP

FORM 10-K AND
OTHER MATERIALS

A copy of the Company’s Annual Report
on Form 10-K as filed with the Securities
and Exchange Commission, is available
free of charge to its stockholders. Such
requests should be made to:

INVESTOR RELATIONS

Sunstone Hotel Investors, Inc.
120 Vantis, Suite 350
Aliso Viejo, CA 92656
(949) 330-4000
investorrelations@sunstonehotels.com
www.sunstonehotels.com

CEO AND CFO
CERTIFICATIONS

In 2014, the Company’s Chief Executive
Officer (CEO) provided to the New York
Stock Exchange the annual CEO certifi-
cation regarding the Company’s compli-
ance with the New York Stock Exchange’s
corporate governance listing standards.
In addition, all required certifications
by the Company’s CEO and Chief Finan-
cial Officer regarding the quality of the
Company’s public disclosures in its fiscal
2014 reports were filed with the U.S.
Securities and Exchange Commission.

This is a Greener Annual Report. Sunstone Hotel Investors, Inc. is committed to reducing its impact on the environment.
The production of this annual report saved the following resources: *(estimates were made using the Mobawk Environmental Calculator)*

 MIX Paper from responsible sources FSC® C019076	 3 TREES preserved for the future	 2,199,269 BTUs energy not consumed	 287 LBS net greenhouse gases prevented	 1,319 GAL wastewater flow saved	 146 LBS solid waste not generated
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SUNSTONE HOTEL INVESTORS, INC.
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