Sunstone Hotel Investors, Inc.
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-32319

Sunstone Hotel Investors, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**20-1296886** (I.R.S. Employer Identification Number)
120 Vantis, Suite 350 **Aliso Viejo, California** (Address of Principal Executive Offices)	**92656** (Zip Code)

Registrant s telephone number, including area code: **(949) 330-4000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

136,777,892 shares of Common Stock, $0.01 par value, as of August 1, 2012

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended June 30, 2012

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SUNSTONE HOTEL INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 204,549	$ 150,533
Restricted cash	73,306	66,230
Accounts receivable, net	36,259	32,127
Inventories	2,666	2,608
Prepaid expenses	9,382	10,189
Investment in hotel property of discontinued operations, net	39,122	38,958
Other current assets of discontinued operations, net	2,861	2,223
Total current assets	368,145	302,868
Investment in hotel properties, net	2,810,409	2,738,868
Other real estate, net	12,057	11,859
Deferred financing fees, net	12,622	14,594
Goodwill	13,088	13,088
Other assets, net	20,083	19,963
Total assets	$ 3,236,404	$ 3,101,240
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 25,509	$ 26,800
Accrued payroll and employee benefits	18,662	20,863
Due to Third-Party Managers	9,252	9,227
Dividends payable	7,437	7,437
Other current liabilities	37,474	28,177
Current portion of notes payable	78,912	53,325
Note payable of discontinued operations	47,159	47,460
Other current liabilities of discontinued operations	224	342
Total current liabilities	224,629	193,631
Notes payable, less current portion	1,396,980	1,469,692
Capital lease obligations, less current portion	15,636	
Other liabilities	13,810	12,623
Total liabilities	1,651,055	1,675,946
Commitments and contingencies *(Note 14)*		

Preferred stock, Series C Cumulative Convertible Redeemable Preferred Stock, $0.01 par value, 4,102,564 shares authorized, issued and outstanding at June 30, 2012 and December 31, 2011, liquidation preference of $24.375 per share	100,000	100,000
Equity:		
Stockholders equity:		
Preferred stock, $0.01 par value, 100,000,000 shares authorized.		
8.0% Series A Cumulative Redeemable Preferred Stock, 7,050,000 shares issued and outstanding at June 30, 2012 and December 31, 2011, stated at liquidation preference of $25.00 per share	176,250	176,250
8.0% Series D Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at June 30, 2012 and December 31, 2011, stated at liquidation preference of $25.00 per share	115,000	115,000
Common stock, $0.01 par value, 500,000,000 shares authorized, 135,229,303 shares issued and outstanding at June 30, 2012 and 117,265,090 shares issued and outstanding at December 31, 2011	1,352	1,173
Additional paid in capital	1,491,639	1,312,566
Retained earnings	108,600	110,580
Cumulative dividends	(460,270)	(445,396)
Accumulated other comprehensive loss	(4,799)	(4,916)
Total stockholders equity	1,427,772	1,265,257
Non-controlling interest in consolidated joint ventures	57,577	60,037
Total equity	1,485,349	1,325,294
Total liabilities and equity	$ 3,236,404	$ 3,101,240

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
REVENUES				
Room	$ 164,398	$ 148,140	$ 298,536	$ 252,451
Food and beverage	56,202	49,786	106,534	87,820
Other operating	17,240	16,648	33,803	29,654
Total revenues	237,840	214,574	438,873	369,925
OPERATING EXPENSES				
Room	38,958	35,296	75,806	63,809
Food and beverage	37,169	35,136	72,908	63,855
Other operating	6,618	6,101	13,412	11,943
Advertising and promotion	11,135	10,190	22,043	18,589
Repairs and maintenance	8,642	8,080	17,090	15,171
Utilities	6,845	7,089	13,998	13,797
Franchise costs	8,320	7,396	14,967	12,558
Property tax, ground lease and insurance	18,338	14,316	34,851	28,092
Property general and administrative	26,565	24,515	51,256	44,031
Corporate overhead	7,686	6,305	12,983	13,958
Depreciation and amortization	34,793	32,287	69,079	58,155
Total operating expenses	205,069	186,711	398,393	343,958
Operating income	32,771	27,863	40,480	25,967
Equity in earnings of unconsolidated joint ventures				21
Interest and other income	74	1,319	137	1,427
Interest expense	(20,873)	(20,462)	(41,691)	(37,560)
Loss on extinguishment of debt			(191)	
Gain on remeasurement of equity interests				69,230
Income (loss) from continuing operations	11,972	8,720	(1,265)	59,085
Income (loss) from discontinued operations	(117)	30,209	152	31,179
NET INCOME (LOSS)	11,855	38,929	(1,113)	90,264
Income from consolidated joint venture attributable to non-controlling interest	(307)	(244)	(867)	(244)
Distributions to non-controlling interest	(8)	(7)	(16)	(14)
Preferred stock dividends	(7,437)	(7,310)	(14,874)	(12,447)
Undistributed income allocated to unvested restricted stock compensation	(47)	(291)		(717)

INCOME AVAILABLE (LOSS ATTRIBUTABLE) TO COMMON STOCKHOLDERS	$	4,056	$	31,077	$	(16,870)	$	76,842
COMPREHENSIVE INCOME (LOSS)	$	11,972	$	38,929	$	(996)	$	90,264
Basic per share amounts:								
Income (loss) from continuing operations available (attributable) to common stockholders	$	0.03	$	0.01	$	(0.14)	$	0.39
Income from discontinued operations		0.00		0.26		0.00		0.27
Basic income available (loss attributable) to common stockholders per common share	$	0.03	$	0.27	$	(0.14)	$	0.66
Diluted per share amounts:								
Income (loss) from continuing operations available (attributable) to common stockholders	$	0.03	$	0.01	$	(0.14)	$	0.39
Income from discontinued operations		0.00		0.26		0.00		0.27
Diluted income available (loss attributable) to common stockholders per common share	$	0.03	$	0.27	$	(0.14)	$	0.66
Weighted average common shares outstanding:								
Basic		120,029		117,227		118,728		117,151
Diluted		120,029		117,227		118,728		117,151
Dividends declared per common share	$		$		$		$	

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share data)

	Preferred Stock				Common Stock							
	Series A		Series D									
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid In Capital	Retained Earnings	Cumulative Dividends	Accumulated Other Comprehensive Loss	Non-Controlling Interest in Consolidated Joint Ventures	Total
Balance at December 31, 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
Issuance of common stock, net (unaudited)					17,597,437	176	177,086					177,262
Vesting of restricted common stock (unaudited)					366,776	3	1,987					1,990
Distributions to non-controlling interest (unaudited)											(3,327)	(3,327)
Series A preferred dividends and dividends payable at $1.00 per share year to date (unaudited)									(7,050)			(7,050)
Series C preferred dividends and dividends payable at $0.786 per share year to date (unaudited)									(3,224)			(3,224)
Series D preferred dividends and dividends payable at $1.00 per share year to date (unaudited)									(4,600)			(4,600)
Net income (loss) (unaudited)								(1,980)			867	(1,113)

Pension liability adjustment (unaudited)										117		117
Comprehensive loss (unaudited)												(996)
Balance at June 30, 2012 (unaudited)	7,050,000	$ 176,250	4,600,000	$ 115,000	135,229,303	$ 1,352	$ 1,491,639	$ 108,600	$ (460,270)	$ (4,799)	$ 57,577	$ 1,485,349

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,113)	$ 90,264
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense (recovery)	(55)	87
Gain on sales of hotel properties and other assets, net	(188)	(14,074)
(Gain) loss on extinguishment of debt	191	(18,145)
Gain on remeasurement of equity interests		(69,230)
Loss on derivatives	499	1,004
Depreciation	62,854	56,988
Amortization of franchise fees and other intangibles	9,260	5,780
Amortization and write-off of deferred financing fees	1,932	1,431
Amortization of loan discounts	524	522
Amortization of deferred stock compensation	1,842	1,473
Impairment loss		1,495
Equity in earnings of unconsolidated joint ventures		(21)
Changes in operating assets and liabilities:		
Restricted cash	(2,364)	16,511
Accounts receivable	(3,405)	(8,376)
Inventories	(44)	(16)
Prepaid expenses and other assets	2,945	5,064
Accounts payable and other liabilities	9,733	4,502
Accrued payroll and employee benefits	(2,201)	(1,426)
Due to Third-Party Managers	142	(1,618)
Discontinued operations		2,058
Net cash provided by operating activities	80,552	74,273
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of hotel properties and other assets	11	39,929
Restricted cash replacement reserve	(5,177)	(6,628)
Acquisition deposits	(3,000)	
Acquisitions of hotel properties and other assets	(29,694)	(263,264)
Renovations and additions to hotel properties and other real estate	(48,483)	(64,700)
Payment for interest rate derivative		(133)
Net cash used in investing activities	(86,343)	(294,796)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from preferred stock offering		115,000
Payment of preferred stock offering costs		(4,062)
Proceeds from common stock offering	126,533	
Payment of common stock offering costs	(431)	
Proceeds from note payable and credit facility	15,000	240,000
Payments on notes payable and credit facility	(58,524)	(246,603)
Payment for repurchase of notes payable and related costs	(4,570)	
Payments of deferred financing costs		(4,830)
Dividends paid	(14,874)	(10,274)
Distributions to non-controlling interest	(3,327)	(14)
Net cash provided by financing activities	59,807	89,217

Net increase (decrease) in cash and cash equivalents		54,016		(131,306)
Cash and cash equivalents, beginning of period		150,533		276,034
Cash and cash equivalents, end of period	$	204,549	$	144,728
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	$	40,371	$	35,155
NONCASH INVESTING ACTIVITY				
Accounts payable related to renovations and additions to hotel properties and other real estate	$	6,210	$	9,491
Amortization of deferred stock compensation construction activities	$	148	$	128
Amortization of deferred stock compensation unconsolidated joint venture	$		$	2
NONCASH FINANCING ACTIVITY				
Issuance of note receivable	$		$	90,000
Issuance of common stock in connection with acquisition of hotel property		51,160		
Assumption of debt in connection with acquisitions of hotel properties	$		$	545,952
Dividends payable	$	7,437	$	7,310

See accompanying notes to consolidated financial statements.

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SUNSTONE HOTEL INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

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

As a REIT, certain tax laws limit the amount of non-qualifying income the Company can earn, including income derived directly from the operation of hotels. As a result, the Company leases all of its hotels to its TRS Lessee, which in turn enters into long-term management agreements with third parties to manage the operations of the Company s hotels. As of June 30, 2012, the Company had interests in 33 hotels, including the Marriott Del Mar, which was classified as held for sale as of June 30, 2012 and included in discontinued operations due to its probable sale within the next year, leaving 32 hotels (the 32 hotels) held for investment. The Company s third-party managers included subsidiaries of Marriott International, Inc. or Marriott Hotel Services, Inc. (collectively, Marriott), managers of 11 of the Company s 32 hotels; a subsidiary of Interstate Hotels & Resorts, Inc., manager of 11 of the Company s 32 hotels; Highgate Hotels, manager of three of the Company s 32 hotels; Davidson Hotels & Resorts and Hilton Worldwide, each a manager of two of the Company s 32 hotels; and Fairmont Hotels & Resorts (U.S.), Hyatt Corporation, and Sage Hospitality Resources, each a manager of one of the Company s 32 hotels. In addition, the Company owns 100% of BuyEfficient, LLC (BuyEfficient), an electronic purchasing platform that allows members to procure food, operating supplies, furniture, fixtures and equipment.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of June 30, 2012 and December 31, 2011, and for the three and six months ended June 30, 2012 and 2011, include the accounts of the Company, the Operating Partnership, the TRS Lessee and their subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company consolidates subsidiaries when it has the ability to direct the activities that most significantly impact the economic performance of the entity. The Company also evaluates its subsidiaries to determine if they should be considered variable interest entities (VIEs). Typically, the entity that has the power to direct the activities that most significantly impact economic performance would consolidate the VIE. The Company considers an entity a VIE if equity investors own an interest therein that does not have the characteristics of a controlling financial interest or if such investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In accordance with the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company reviewed its subsidiaries to determine if (i) they should be considered VIEs, and (ii) whether the Company should change its consolidation determination based on changes in the characteristics of these entities.

Non-controlling interests at both June 30, 2012 and December 31, 2011 represent the outside equity interests in various consolidated affiliates of the Company.

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission. In the Company s opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. These financial statements should be read in conjunction with the financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on February 28, 2012.

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.

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Use of Estimates

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

Reporting Periods

The results the Company reports in its consolidated statements of operations and comprehensive income (loss) are based on results reported to the Company by its hotel managers. These hotel managers use different reporting periods. Marriott uses a fiscal year ending on the Friday closest to December 31 and reports twelve weeks of operations each for the first three quarters of the year, and sixteen or seventeen weeks of operations for the fourth quarter of the year. The Company s other hotel managers report operations on a standard monthly calendar. The Company has elected to adopt quarterly close periods of March 31, June 30 and September 30, and an annual year end of December 31. As a result, the Company s 2012 results of operations for the Marriott-managed hotels include results from December 31 through March 23 for the first quarter, March 24 through June 15 for the second quarter, June 16 through September 7 for the third quarter, and September 8 through December 28 for the fourth quarter. The Company s 2011 results of operations for the Marriott-managed hotels include results from January 1 through March 25 for the first quarter, March 26 through June 17 for the second quarter, June 18 through September 9 for the third quarter, and September 10 through December 30 for the fourth quarter.

Fair Value of Financial Instruments

As of June 30, 2012 and December 31, 2011, the carrying amount of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

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

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

As discussed in Note 7, during 2011, the Company entered into interest rate protection agreements to manage, or hedge, interest rate risks in conjunction with its acquisitions of the outside 62.0% equity interests in the Doubletree Guest Suites Times Square, the JW Marriott New Orleans, a 75.0% majority interest in the entity that owns the Hilton San Diego Bayfront and the refinancing of the debt secured by the Doubletree Guest Suites Times Square. The Company records interest rate protection agreements on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in the consolidated statements of operations and comprehensive income (loss) as they are not designated as hedges. In accordance with the Fair Value Measurements and Disclosure Topic of the FASB ASC, the Company estimates the fair value of its interest rate protection agreements based on quotes obtained from the counterparties, which are based upon the consideration that would be required to terminate the agreements. The Company has valued the derivative interest rate cap agreements related to the Doubletree Guest Suites Times Square and the Hilton San Diego Bayfront using Level 2 measurements as an asset of $0.1 million and $0.4 million as of June 30, 2012 and December 31, 2011, respectively. The interest rate cap agreements are included in other assets, net, on the accompanying consolidated balance sheets. The Company has valued the derivative interest rate swap agreement related to the JW Marriott New Orleans using Level 2 measurements as a liability of $1.8 million and $1.6 million as of June 30, 2012 and December 31, 2011, respectively. The interest rate swap agreement is included in other liabilities on the accompanying consolidated balance sheets.

The Company is responsible for paying the premiums, if any, for a $5.0 million split life insurance policy for its former Executive Chairman and Chief Executive Officer, Robert A. Alter. The Company has valued this policy using Level 2 measurements at $1.7 million and $1.9 million as of June 30, 2012 and December 31, 2011, respectively. These amounts are included in other assets, net in the accompanying consolidated balance sheets, and will be used to reimburse the Company for payments made to Mr. Alter

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associated with a Retirement Benefit Agreement. The Company has valued the Retirement Benefit Agreement using Level 2 measurements at $1.7 million as of both June 30, 2012 and December 31, 2011. The agreement calls for the balance of the Retirement Benefit Agreement to be paid out to Mr. Alter in 10 annual installments, beginning in 2011. As such, the Company paid Mr. Alter $0.2 million in 2011, which was reimbursed to the Company in April 2012 using funds from the split life insurance policy. These amounts are included in accrued payroll and employee benefits in the accompanying consolidated balance sheets.

On an annual basis and periodically when indicators of impairment exist, the Company has analyzed the carrying values of its hotel properties and other assets using Level 3 measurements, including a discounted cash flow analysis to estimate the fair value of its hotel properties and other assets taking into account each property s expected cash flow from operations, holding period and estimated proceeds from the disposition of the property. The factors addressed in determining estimated proceeds from disposition included anticipated operating cash flow in the year of disposition and terminal capitalization rate. The Company did not identify any properties or other assets with indicators of impairment during the six months ended June 30, 2012. In June 2011, the Company recognized a $1.5 million impairment on its commercial laundry facility located in Salt Lake City, Utah based on proceeds received from its sale in July 2011.

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. For the three and six months ended June 30, 2012 and 2011, the Company did not identify any goodwill with indicators of impairment.

As of June 30, 2012 and December 31, 2011, 71.8% and 72.6%, respectively, of the Company s outstanding debt included in continuing operations had fixed interest rates, including the effect of an interest rate swap agreement. The Company s carrying value of its debt secured by properties not classified as discontinued operations totaled $1.5 billion as of both June 30, 2012 and December 31, 2011. Using Level 3 measurements, including the Company s weighted average cost of debt ranging between 6.0% and 7.0%, the Company estimates that the fair market value of its debt included in continuing operations as of June 30, 2012 and December 31, 2011 totaled $1.4 billion and $1.5 billion, respectively.

The following table presents our assets measured at fair value on a recurring and non-recurring basis at June 30, 2012 and December 31, 2011 (in thousands):

		Fair Value Measurements at Reporting Date		
	Total	**Level 1**	**Level 2**	**Level 3**
June 30, 2012 (unaudited):				
Interest rate cap derivative agreements	$ 72	$	$ 72	$
Life insurance policy	1,689		1,689	
Total assets at June 30, 2012	$ 1,761	$	$ 1,761	$
December 31, 2011:				
Interest rate cap derivative agreements	$ 386	$	$ 386	$
Life insurance policy	1,877		1,877	
Total assets at December 31, 2011	$ 2,263	$	$ 2,263	$

The following table presents our liabilities measured at fair value on a recurring and non-recurring basis at June 30, 2012 and December 31, 2011 (in thousands):

	Total	Fair Value Measurements at Reporting Date Level 1	Level 2	Level 3
June 30, 2012 (unaudited):				
Interest rate swap derivative agreement	$ 1,753	$	$ 1,753	$
Retirement benefit agreement	1,689		1,689	
Total liabilities at June 30, 2012	$ 3,442	$	$ 3,442	$
December 31, 2011:				
Interest rate swap derivative agreement	$ 1,567	$	$ 1,567	$
Retirement benefit agreement	1,687		1,687	
Total liabilities at December 31, 2011	$ 3,254	$	$ 3,254	$

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The following table presents the gains and impairment charges included in earnings as a result of applying Level 3 measurements for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended