

Sunstone Hotel Investors, Inc.  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2011**

**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)

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**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**

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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  No

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

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

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

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

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

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118,672,242 shares of Common Stock, \$0.01 par value, as of November 1, 2011

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SUNSTONE HOTEL INVESTORS, INC.

QUARTERLY REPORT ON

FORM 10-Q

For the Quarterly Period Ended September 30, 2011

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SUNSTONE HOTEL INVESTORS, INC.****CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)*

	September 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (\$1,492 and \$1,365 related to VIEs)	\$ 159,974	\$ 276,034
Restricted cash (\$3,962 and \$3,581 related to VIEs)	63,767	54,954
Accounts receivable, net (\$2,843 and \$1,885 related to VIEs)	25,416	17,285
Due from affiliates	6	44
Inventories (\$215 and \$159 related to VIEs)	2,388	2,101
Prepaid expenses	9,611	7,808
Investment in hotel properties of discontinued operations, net	15,041	131,404
Investment in other real estate of discontinued operations, net		896
Other current assets of discontinued operations, net	3,249	5,128
<b>Total current assets</b>	<b>279,452</b>	<b>495,654</b>
Investment in hotel properties, net	2,793,900	1,902,819
Other real estate, net	11,945	11,116
Investments in unconsolidated joint ventures		246
Deferred financing fees, net	11,408	8,855
Interest rate cap derivative agreements	6	
Goodwill	13,088	4,673
Other assets, net (\$0 and \$3 related to VIEs)	99,757	12,743
<b>Total assets</b>	<b>\$ 3,209,556</b>	<b>\$ 2,436,106</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses (\$858 and \$713 related to VIEs)	\$ 26,257	\$ 20,889

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Accrued payroll and employee benefits (\$1,055 and \$1,123 related to VIEs)	19,520	12,674		
Due to Third-Party Managers	6,576	7,573		
Dividends payable	7,437	5,137		
Other current liabilities (\$3,361 and \$1,439 related to VIEs)	31,896	16,907		
Current portion of notes payable	324,279	16,196		
Note payable of discontinued operations	11,557	11,773		
Other current liabilities of discontinued operations, net	873	21,600		
<b>Total current liabilities</b>	<b>428,395</b>	<b>112,749</b>		
Notes payable, less current portion	1,342,022	1,115,334		
Interest rate swap derivative agreement	1,572			
Other liabilities (\$0 and \$30 related to VIEs)	10,723	8,724		
<b>Total liabilities</b>	<b>1,782,712</b>	<b>1,236,807</b>		
Commitments and contingencies ( <i>Note 13</i> )				
Preferred stock, Series C Cumulative Convertible Redeemable Preferred Stock, \$0.01 par value, 4,102,564 shares authorized, issued and outstanding at September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, 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 September 30, 2011 and zero issued and outstanding at December 31, 2010, stated at liquidation preference of \$25.00 per share	115,000			
Common stock, \$0.01 par value, 500,000,000 shares authorized, 117,265,090 shares issued and outstanding at September 30, 2011 and 116,950,504 shares issued and outstanding at December 31, 2010				
			El Paso Energy Corp., Senior Unsecured Medium-Term Notes, 7.80%, due 8/1/31	575,345
			770,000	
			El Paso Natural Gas Co., Senior Unsecured Notes, 8.38%, due 6/15/32	1,260,641
	1,325,000			
			Ferrellgas L.P., Senior Unsecured Notes, 6.75%, due 5/1/14	984,480
	1,172,000			
			Ferrellgas Partners L.P., Senior Unsecured Notes,	1,373,400
	1,635,000			

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	8.75%, due 6/15/12	
1,170,000	Ferrellgas Partners L.P., Senior Unsecured Notes, 6.75%, due 5/1/14	982,800ñ
1,605,000	Kinder Morgan, Inc., Senior Unsecured Notes, 6.50%, due 9/1/12	1,496,662
500,000	Kinder Morgan, Inc., Senior Unsecured Notes, 5.15%, due 3/1/15	420,000
1,530,000	MarkWest Energy Partners L.P., Guaranteed Notes, Ser. B, 8.75%, due 4/15/18	1,067,175
2,285,000	Regency Energy Partners L.P., Guaranteed Notes, 8.38%, due 12/15/13	1,942,250
595,000	Sabine Pass LNG L.P., Senior Secured Notes, 7.25%, due 11/30/13	419,475
2,640,000	Sabine Pass LNG L.P., Senior Secured Notes, 7.50%, due 11/30/16	1,768,800
125,000	Tennessee Gas Pipeline Co., Senior Notes, 8.00%, due 2/1/16	125,000ñ
2,025,000	Transcontinental Gas Pipe Line Corp., Senior Unsecured Notes, 7.25%, due 12/1/26	1,915,172
570,000	Williams Cos., Inc., Senior Unsecured Notes, 7.13%, due 9/1/11	567,150
415,000	Williams Cos., Inc., Senior Unsecured Notes, 8.75%, due 1/15/20	412,925ñ
		<b>17,293,200</b>
<b>Health Services (10.0%)</b>		
460,000	DaVita, Inc., Guaranteed Notes, 6.63%, due 3/15/13	446,200
80,000	Fresenius Medical Care Capital Trust IV, Guaranteed Notes, 7.88%, due 6/15/11	81,000
585,000	LVB Acquisition Merger, Inc., Guaranteed Notes, 11.63%, due 10/15/17	516,262
2,881,305	NMH Holdings, Inc., Senior Unsecured Floating Rate Notes, 8.45%, due 6/15/09	1,613,531ñμ
330,000		213,675



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	Select Medical Corp., Guaranteed Notes, 7.63%, due 2/1/15	
110,000	Service Corp. Int'l, Senior Unsecured Notes, 7.38%, due 10/1/14	102,300
280,000	Service Corp. Int'l, Senior Unsecured Notes, 6.75%, due 4/1/15	246,400
4,245,000	Service Corp. Int'l, Senior Unsecured Notes, 7.50%, due 4/1/27	3,120,075
750,000	Ventas Realty L.P., Guaranteed Notes, 6.63%, due 10/15/14	667,500
2,270,000	Ventas Realty L.P., Guaranteed Notes, 6.50%, due 6/1/16	1,963,550
700,000	Ventas Realty L.P., Guaranteed Notes, 6.75%, due 4/1/17	598,500
		<b>9,568,993</b>
<b>Hotels (0.6%)</b>		
705,000	Host Hotels & Resorts L.P., Guaranteed Notes, 7.13%, due 11/1/13	<b>569,288</b>
<b>Media - Broadcast (2.0%)</b>		
645,000	Belo Corp., Senior Unsecured Notes, 6.75%, due 5/30/13	435,375
1,690,000	LIN Television Corp., Guaranteed Notes, 6.50%, due 5/15/13	878,800
1,160,000	LIN Television Corp., Guaranteed Notes, Ser. B, 6.50%, due 5/15/13	603,200
		<b>1,917,375</b>
<b>Media - Cable (13.4%)</b>		
370,000	CSC Holdings, Inc., Senior Unsecured Notes, 7.88%, due 2/15/18	338,550
4,775,000	DirecTV Holdings LLC, Guaranteed Notes, 8.38%, due 3/15/13	4,828,719
2,360,000	EchoStar DBS Corp., Guaranteed Notes, 6.38%, due 10/1/11	2,277,400
1,195,000	Mediacom Broadband LLC, Senior Unsecured Notes, 8.50%, due 10/15/15	1,075,500
1,715,000		1,702,137

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	Shaw Communications, Inc., Senior Unsecured Notes, 7.20%, due 12/15/11	
480,000	Time Warner Cable, Inc., Guaranteed Notes, 8.25%, due 4/1/19	493,259
840,000	Time Warner Cable, Inc., Guaranteed Notes, 6.55%, due 5/1/37	706,945
490,000	Videotron Ltee, Guaranteed Notes, 6.88%, due 1/15/14	463,050
140,000	Videotron Ltee, Guaranteed Notes, 9.13%, due 4/15/18	142,275ñ
770,000	Videotron Ltee, Guaranteed Notes, 9.13%, due 4/15/18	782,512ñ
		<b>12,810,347</b>
<b>Media - Services (1.8%)</b>		
855,000	Lamar Media Corp., Senior Notes, 9.75%, due 4/1/14	832,556ñ
1,155,000	WMG Acquisition Corp., Guaranteed Notes, 7.38%, due 4/15/14	794,063
325,000	WMG Holdings Corp., Senior Discount Notes, Step-Up, 0.00%/9.50%, due 12/15/14	117,000^^
		<b>1,743,619</b>
<b>Metals/Mining Excluding Steel (4.0%)</b>		
1,735,000	Arch Western Finance Corp., Senior Secured Notes, 6.75%, due 7/1/13	1,587,525
710,000	Freeport-McMoRan Copper & Gold, Senior Unsecured Notes, 8.38%, due 4/1/17	663,850
865,000	Massey Energy Co., Guaranteed Notes, 6.88%, due 12/15/13	752,550
890,000	Peabody Energy Corp., Guaranteed Notes, 5.88%, due 4/15/16	792,100
		<b>3,796,025</b>
<b>Non-Food &amp; Drug Retailers (0.8%)</b>		
1,730,000	Blockbuster, Inc., Guaranteed Notes, 9.00%, due 9/1/12	<b>778,500</b>
<b>Packaging (4.0%)</b>		
2,275,000	Ball Corp., Guaranteed Unsecured Notes, 6.88%, due 12/15/12	2,297,750
820,000		594,500μ

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	Berry Plastics Corp., Senior Secured Floating Rate Notes, 5.84%, due 4/15/09	
1,425,000	Graham Packaging Co., Inc., Guaranteed Notes, 9.88%, due 10/15/14	919,125
		<b>3,811,375</b>
<b>Real Estate Dev. &amp; Mgt. (2.1%)</b>		
1,305,000	American Real Estate Partners L.P., Senior Unsecured Notes, 8.13%, due 6/1/12	1,109,250
1,095,000	American Real Estate Partners L.P., Guaranteed Notes, 7.13%, due 2/15/13	870,525
		<b>1,979,775</b>
<b>Real Estate Investment Trusts (1.5%)</b>		
605,000	HCP, Inc., Senior Unsecured Medium-Term Notes, 6.30%, due 9/15/16	421,273
1,590,000	HCP, Inc., Senior Unsecured Medium-Term Notes, 6.70%, due 1/30/18	1,072,422
		<b>1,493,695</b>
<b>Restaurants (0.5%)</b>		
635,000	NPC Int'l, Inc., Guaranteed Notes, 9.50%, due 5/1/14	<b>495,300</b>
<b>Software/Services (4.6%)</b>		
2,090,000	First Data Corp., Guaranteed Notes, 9.88%, due 9/24/15	1,222,650
2,270,000	Lender Processing Services, Inc., Guaranteed Notes, 8.13%, due 7/1/16	2,252,975
440,000	Sungard Data Systems, Inc., Guaranteed Notes, 10.63%, due 5/15/15	385,000
730,000	Sungard Data Systems, Inc., Guaranteed Notes, 10.25%, due 8/15/15	511,000
		<b>4,371,625</b>
<b>Steel Producers/Products (1.8%)</b>		
1,305,000	ArcelorMittal, Senior Unsecured Notes, 5.38%, due 6/1/13	1,012,954
1,684,618	Metals U.S.A. Holdings Corp., Senior Unsecured Floating Rate Notes, 7.69%, due 4/1/09	395,885
1,820,000	Tube City IMS Corp., Guaranteed Notes, 9.75%,	277,550

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due 2/1/15

		<b>1,686,389</b>
<b>Support - Services (3.3%)</b>		
2,345,000	Cardtronics, Inc., Guaranteed Notes, 9.25%, due 8/15/13	1,500,800
785,000	Cardtronics, Inc., Guaranteed Notes, Ser. B, 9.25%, due 8/15/13	502,400
1,445,000	Knowledge Learning Corp., Inc., Guaranteed Notes, 7.75%, due 2/1/15	1,163,225ñ
		<b>3,166,425</b>
<b>Telecom - Integrated/Services (6.6%)</b>		
495,000	Dycom Investments, Inc., Guaranteed Notes, 8.13%, due 10/15/15	391,050
1,485,000	Frontier Communications Corp., Senior Unsecured Notes, 6.25%, due 1/15/13	1,345,781
440,000	Intelsat Jackson Holdings, Ltd., Guaranteed Notes, 11.25%, due 6/15/16	426,800
70,000	Intelsat Subsidiary Holding Co., Ltd., Guaranteed Notes, Ser. B, 8.88%, due 1/15/15	64,925ñ
3,112,000	Qwest Corp., Senior Unsecured Notes, 8.88%, due 3/15/12	3,073,100
475,000	Windstream Corp., Guaranteed Notes, 8.63%, due 8/1/16	466,688
660,000	Windstream Corp., Guaranteed Notes, 7.00%, due 3/15/19	580,800
		<b>6,349,144</b>
<b>Telecom - Wireless (5.7%)</b>		
745,000	Crown Castle Int'l Corp., Senior Unsecured Notes, 9.00%, due 1/15/15	746,862
1,310,000	Nextel Communications, Inc., Guaranteed Notes, Ser. E, 6.88%, due 10/31/13	746,700
5,525,000	Sprint Capital Corp., Guaranteed Notes, 6.88%, due 11/15/28	3,370,250
235,000	Telesat Canada/Telesat LLC, Senior Unsecured	195,050ñ

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	Notes, 11.00%, due 11/1/15	
	Telesat Canada/Telesat LLC, Senior Subordinated Notes, 12.50%, due 11/1/17	407,000ñ
550,000		<b>5,465,862</b>
<b>Tobacco (2.1%)</b>		
	Altria Group, Inc., Guaranteed Notes, 10.20%, due 2/6/39	<b>1,976,674</b>
1,935,000		
<b>Transportation Excluding Air/Rail (2.4%)</b>		
	ERAC USA Finance Co., Guaranteed Notes, 7.00%, due 10/15/37	<b>2,334,069ñ</b>
4,010,000		
	<b>Total Corporate Debt Securities</b>	
	<b>(Cost \$150,848,756)</b>	125,769,366
<b>NUMBER OF SHARES</b>		
<b>Preferred Stocks (0.1%)</b>		
	GMAC 7.00%, due 12/31/49 <b>(Cost \$50,427)</b>	<b>50,371ñ</b>
253		
<b>Short-Term Investments (6.5%)</b>		
	Neuberger Berman Prime Money Fund Trust Class <b>(Cost \$6,226,062)</b>	<b>6,226,062@ØØ</b>
6,226,062		
	<b>Total Investments (158.7%) (Cost \$178,481,200)</b>	152,090,382##
	Liabilities, less cash, receivables and other assets [(45.9%)]	(43,984,231)@@
	Liquidation Value of Perpetual Preferred Shares [(12.8%)]	(12,300,000)
	<b>Total Net Assets (100.0%)</b>	<b>\$95,806,151</b>

See Notes to Schedule of Investments

MARCH 31, 2009 (UNAUDITED)

**Notes to Schedule of Investments**

Investments in debt securities and interest rate swaps by Neuberger Berman High Yield Strategies Fund (the “Fund”) are valued daily by obtaining valuations from independent pricing services based on readily available bid quotations, or if quotations are not available, by methods which include considerations such as: yields or prices of securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. If a valuation is not available from an independent pricing service, the Fund seeks to obtain quotations from principal market makers. If such quotations are not readily available, securities are valued using methods the Board of Trustees of the Fund has approved on the belief that they reflect fair value. Numerous factors may be considered when determining the fair value of a security, including available analyst, media or other reports, trading in futures or ADRs and whether the issuer of the security being fair valued has other securities outstanding. Fair value prices are necessarily estimates, and there is no assurance that such a price will be at or close to the price at which the security is next quoted or next trades.

In accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”), “fair value” is defined as the price that the Fund would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of the Fund’s investments.

In addition to defining fair value, FAS 157 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, amortized cost, etc.)

Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing an investment are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund’s investments as of March 31, 2009:

<b>Valuation Inputs</b>	<b>Investments in Securities</b>	<b>Other Financial Instruments*</b>
Level 1 - Quoted Prices	\$50,371	\$ -
Level 2 - Other Significant Observable Inputs	151,213,535	(1,567,287)
Level 3 – Significant Unobservable Inputs	826,476	-
<b>Total</b>	<b>\$152,090,382</b>	<b>\$(1,567,287)</b>

\*Other financial instruments include interest rate swap contracts.

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Following is a reconciliation between the beginning and ending balances of investments in which significant unobservable inputs (Level 3) were used in determining value:

	<b>Investments in Securities</b>
<b>Beginning Balance, as of 1/1/09</b>	\$63,250
Accrued discounts/premiums	1,277
Realized gain/loss and change in unrealized appreciation/depreciation	(79,995)
Net purchases/sales	892,315
Net transfers in and/or out of Level 3	(50,371)
<b>Balance, as of 3/31/09</b>	<b>\$826,476</b>
Net change in unrealized appreciation/depreciation from investments still held as of 3/31/09	\$(79,830)

## At March 31, 2009, the cost of investments for U.S. federal income tax purposes was \$179,210,212. Gross unrealized appreciation of investments was \$1,950,071 and gross unrealized depreciation of investments was \$29,069,901, resulting in net unrealized depreciation of \$27,119,830, based on cost for U.S. federal income tax purposes.

@ Neuberger Berman Prime Money Fund (“Prime Money”) is also managed by Neuberger Berman Management LLC and may be considered an affiliate since it has the same officers, Board members, and investment manager as the Fund and because, at times, the Fund may own 5% or more of the outstanding voting securities of Prime Money.

ñ Restricted security subject to restrictions on resale under federal securities laws. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers under Rule 144A under the Securities Act of 1933, as amended, and have been deemed by the investment manager to be liquid. At March 31, 2009, these securities amounted to \$21,931,787 or 22.9% of net assets applicable to common shareholders.

^^ Denotes a step-up bond: a zero coupon bond that converts to a fixed rate of interest at a designated future date.

μ Floating rate securities are securities whose yields vary with a designated market index or market rate. These securities are shown at their current rates as of March 31, 2009.

∅∅ All or a portion of this security is segregated in connection with obligations for interest rate swap contracts and delayed delivery purchase commitments.

@@ At March 31, 2009, the Fund had outstanding interest rate swap contracts as follows:

Swap Counter Party	Notional Amount	Termination Date	Rate Type		Accrued Net Interest Receivable (Payable)	Unrealized Appreciation (Depreciation)	Total Fair Value
			Fixed-rate Payments Made by the Fund	Variable-rate Payments Received by the Fund <sup>(1)</sup>			

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Citibank, N.A.	\$45,000,000	January 28, 2011	2.92%	0.52%	\$(5,994)	\$(1,561,184)	\$(1,567,178)
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(1)30 day LIBOR (London Interbank Offered Rate) at March 26, 2009.

<sup>^</sup> All or a portion of this security was purchased on a delayed delivery basis. At March 31, 2009, the Fund had an unfunded loan commitment of \$570,122, pursuant to the following loan agreement:

<b>Borrower</b>	<b>Principal Amount</b>	<b>Unfunded Commitment</b>
United Airlines, Inc., Term Loan B, 3.46%, due 2/1/14	\$1,205,000	\$570,122

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**Item 2. Controls and Procedures.**

- (a) Based on an evaluation of the disclosure controls and procedures (as defined in Rule 30a-3(c) under the 1940 Act) as of a date within 90 days of the filing date of this document, the Chief Executive Officer and Treasurer and Principal Financial and Accounting Officer of the Registrant have concluded that such disclosure controls and procedures are effectively designed to ensure that information required to be disclosed by the Registrant on Form N-CSR and Form N-Q is accumulated and communicated to the Registrant's management to allow timely decisions regarding required disclosure.
- (b) There were no significant changes in the Registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 3. Exhibits.**

The certifications required by Rule 30a-2(a) of the 1940 Act are filed herewith.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Neuberger Berman High Yield Strategies Fund

By: /s/ Robert Conti

Robert Conti

Chief Executive Officer

Date: June 1, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Robert Conti

Robert Conti

Chief Executive Officer

Date: June 1, 2009

By: /s/ John M. McGovern

John M. McGovern

Treasurer and Principal Financial

and Accounting Officer

Date: June 1, 2009