

STRATEGIC HOTELS & RESORTS, INC
Form 10-Q
May 06, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the Transition period from _____ to _____

Commission File No. 001-32223

STRATEGIC HOTELS & RESORTS, INC.

(Exact name of registrant as specified in its charter)

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Maryland
(State of Incorporation)

33-1082757
(I.R.S. Employer Identification No.)

200 West Madison Street, Suite 1700, Chicago, Illinois
(Address of Principal Executive Offices)

60606-3415
(Zip Code)

Registrant's telephone number, including area code: (312) 658-5000

Former name, former address and former fiscal year, if changed since last report:

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. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer 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 .

The number of shares of common stock (par value \$0.01 per share) of the registrant outstanding as of May 4, 2010 was 75,377,509.

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We maintain a website at www.strategichotels.com. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The SEC maintains a website that contains these reports at www.sec.gov.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share Data)**

	March 31, 2010	December 31, 2009
Assets		
Investment in hotel properties, net	\$ 2,126,126	\$ 2,162,584
Goodwill	75,138	75,758
Intangible assets, net of accumulated amortization of \$4,811 and \$4,400	33,342	34,046
Investment in joint ventures	45,992	46,745
Cash and cash equivalents	96,659	116,310
Restricted cash and cash equivalents	27,741	22,829
Accounts receivable, net of allowance for doubtful accounts of \$2,380 and \$2,657	45,324	54,524
Deferred financing costs, net of accumulated amortization of \$14,320 and \$12,543	9,331	11,225
Deferred tax assets	34,324	34,244
Other assets	37,601	39,878
Total assets	\$ 2,531,578	\$ 2,598,143
Liabilities and Equity		
Liabilities:		
Mortgages payable	\$ 1,279,903	\$ 1,300,745
Exchangeable senior notes, net of discount	170,558	169,452
Bank credit facility	195,000	178,000
Accounts payable and accrued expenses	235,197	236,269
Deferred tax liabilities	16,750	16,940
Deferred gain on sale of hotels	94,726	101,852
Total liabilities	1,992,134	2,003,258
Noncontrolling interests in SHR s operating partnership	4,058	2,717
Equity:		
SHR s shareholders equity:		
8.50% Series A Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 4,488,750 shares issued and outstanding; liquidation preference \$25.00 per share and \$124,142 in the aggregate)	108,206	108,206
8.25% Series B Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 4,600,000 shares issued and outstanding; liquidation preference \$25.00 per share and \$126,859 in the aggregate)	110,775	110,775
8.25% Series C Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 5,750,000 shares issued and outstanding; liquidation preference \$25.00 per share and \$158,574 in the aggregate)	138,940	138,940
Common shares (\$0.01 par value per share; 150,000,000 common shares authorized; 75,377,509 and 75,253,252 common shares issued and outstanding)	754	752
Additional paid-in capital	1,232,349	1,233,856
Accumulated deficit	(986,813)	(954,208)
Accumulated other comprehensive loss	(90,376)	(69,341)
Total SHR s shareholders equity	513,835	568,980

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Noncontrolling interests in consolidated affiliates	21,551	23,188
Total equity	535,386	592,168
Total liabilities and equity	\$ 2,531,578	\$ 2,598,143

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE LOSS****(In Thousands, Except Per Share Data)**

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Rooms	\$ 90,019	\$ 91,092
Food and beverage	57,896	54,629
Other hotel operating revenue	20,295	25,203
	168,210	170,924
Lease revenue	1,187	1,120
Total revenues	169,397	172,044
Operating Costs and Expenses:		
Rooms	26,443	26,000
Food and beverage	42,212	40,849
Other departmental expenses	50,703	52,723
Management fees	5,969	6,292
Other hotel expenses	13,576	13,251
Lease expense	4,241	3,966
Depreciation and amortization	35,857	32,579
Impairment losses and other charges		459
Corporate expenses	6,400	10,296
Total operating costs and expenses	185,401	186,415
Operating loss	(16,004)	(14,371)
Interest expense	(24,692)	(23,966)
Interest income	158	412
Loss on early extinguishment of debt		(883)
Equity in (losses) earnings of joint ventures	(560)	139
Foreign currency exchange gain	6,186	1,941
Other income (expenses), net	232	(39)
Loss before income taxes and discontinued operations	(34,680)	(36,767)
Income tax benefit (expense)	778	(1,532)
Loss from continuing operations	(33,902)	(38,299)
(Loss) income from discontinued operations, net of tax	(709)	1,631
Net Loss	(34,611)	(36,668)
Gain (loss) on currency translation adjustments	365	(6,659)
(Loss) gain on mark to market of derivatives	(21,400)	8,019
Comprehensive Loss	(55,646)	(35,308)
Comprehensive loss attributable to the noncontrolling interests in SHR's operating partnership	709	429

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Comprehensive loss attributable to the noncontrolling interests in consolidated affiliates	1,599	753
Comprehensive Loss Attributable to SHR	\$ (53,338)	\$ (34,126)
Net Loss	\$ (34,611)	\$ (36,668)
Net loss attributable to the noncontrolling interests in SHR's operating partnership	442	446
Net loss attributable to the noncontrolling interests in consolidated affiliates	1,599	753
Net Loss Attributable to SHR	(32,570)	(35,469)
Preferred shareholder dividends	(7,721)	(7,721)
Net Loss Attributable to SHR Common Shareholders	\$ (40,291)	\$ (43,190)
Amounts Attributable to SHR:		
Loss from continuing operations	\$ (31,870)	\$ (37,079)
(Loss) income from discontinued operations	(700)	1,610
Net loss	\$ (32,570)	\$ (35,469)
Basic and Diluted Loss Per Share:		
Loss from continuing operations attributable to SHR common shareholders	\$ (0.52)	\$ (0.59)
(Loss) income from discontinued operations attributable to SHR common shareholders	(0.01)	0.02
Net loss attributable to SHR common shareholders	\$ (0.53)	\$ (0.57)
Weighted average common shares outstanding	75,572	75,166

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)**

	Three Months Ended March 31,	
	2010	2009
Operating Activities:		
Net loss	\$ (34,611)	\$ (36,668)
Adjustments to reconcile net loss to net cash provided by operating activities (including discontinued operations):		
Deferred income tax benefit	(1,669)	(757)
Depreciation and amortization	35,857	34,103
Amortization of deferred financing costs, discount and interest rate swap costs	10,978	3,242
Non-cash impairment losses and other charges		459
Loss on early extinguishment of debt		883
Equity in losses (earnings) of joint ventures	560	(139)
Share-based compensation	864	4,710
Gain on sale of assets		(2)
Foreign currency exchange gain	(6,068)	(2,015)
Recognition of deferred gains	(1,219)	(1,151)
Decrease in accounts receivable	5,483	6,765
Decrease in other assets	1,352	1,674
Decrease in accounts payable and accrued expenses	(444)	(10,350)
Net cash provided by operating activities	11,083	754

Investing Activities: