

STRATEGIC HOTELS & RESORTS, INC
Form 10-Q
August 06, 2014
Table of Contents

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 June 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-32223

STRATEGIC HOTELS & RESORTS, INC.

(Exact name of registrant as specified in its charter)

Maryland	33-1082757
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 West Madison Street, Suite 1700, Chicago, Illinois	60606-3415
(Address of principal executive offices)	(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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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

The number of shares of common stock (par value \$0.01 per share) of the registrant outstanding as of August 5, 2014 was 247,379,370.

Table of Contents

STRATEGIC HOTELS & RESORTS, INC.
 FORM 10-Q
 FOR THE QUARTER ENDED JUNE 30, 2014
 INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>32</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>57</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>58</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>59</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>59</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>59</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>59</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>59</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>59</u>
<u>ITEM 6. EXHIBITS</u>	<u>59</u>
<u>SIGNATURES</u>	<u>60</u>

WHERE TO FIND MORE INFORMATION:

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.

This report (and Exhibit 99.1 hereto) contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Fairmont®, Four Seasons®, Hyatt®, InterContinental®, JW Marriott®, Loews®, Marriott®, Renaissance®, Ritz-Carlton® and Westin®. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees has or will have any liability or responsibility for any financial statements, projections or other financial information or other information contained in this report.

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)

	June 30, 2014	December 31, 2013
Assets		
Investment in hotel properties, net*	\$2,722,752	\$1,795,338
Goodwill	38,128	38,128
Intangible assets, net of accumulated amortization of \$3,716 and \$11,753	91,635	29,502
Assets held for sale	—	135,901
Investment in unconsolidated affiliates	22,910	104,973
Cash and cash equivalents*	245,468	73,655
Restricted cash and cash equivalents*	91,480	75,916
Accounts receivable, net of allowance for doubtful accounts of \$466 and \$606*	67,241	39,660
Deferred financing costs, net of accumulated amortization of \$12,686 and \$12,354*	9,852	8,478
Deferred tax assets	2,134	—
Prepaid expenses and other assets*	46,646	35,600
Total assets	\$3,338,246	\$2,337,151
Liabilities, Noncontrolling Interests and Equity		
Liabilities:		
Mortgages and other debt payable, net of discount*	\$1,636,450	\$1,163,696
Bank credit facility	—	110,000
Liabilities of assets held for sale	—	17,027
Accounts payable and accrued expenses*	204,171	189,889
Preferred stock redemption liability	95,693	—
Distributions payable	128	—
Deferred tax liabilities	45,778	46,137
Total liabilities	1,982,220	1,526,749
Commitments and contingencies (see note 13)		
Noncontrolling interests in SHR's operating partnership	9,336	7,534
Equity:		
SHR's shareholders' equity:		
8.50% Series A Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 0 and 4,148,141 shares issued and outstanding; liquidation preference \$25.00 per share plus accrued distributions and \$0 and \$103,704 in the aggregate)	—	99,995
8.25% Series B Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 3,615,375 shares issued and outstanding; liquidation preference \$25.00 per share plus accrued distributions and \$90,446 and \$90,384 in the aggregate)	87,064	87,064
8.25% Series C Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 3,827,727 shares issued and outstanding; liquidation preference \$25.00 per share plus accrued distributions and \$95,759 and \$95,693 in the aggregate)	—	92,489
Common stock (\$0.01 par value per share; 350,000,000 shares of common stock authorized; 247,371,386 and 205,582,838 shares of common stock issued and outstanding)	2,474	2,056
Additional paid-in capital	2,105,749	1,705,306
Accumulated deficit	(919,961)	(1,234,952)

Edgar Filing: STRATEGIC HOTELS & RESORTS, INC - Form 10-Q

Accumulated other comprehensive loss	(19,176	) (41,445)
Total SHR's shareholders' equity	1,256,150	710,513	
Noncontrolling interests in consolidated affiliates	90,540	92,355	
Total equity	1,346,690	802,868	
Total liabilities, noncontrolling interests and equity	\$3,338,246	\$2,337,151	
See accompanying notes to unaudited condensed consolidated financial statements.			

3

Table of Contents

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS - Continued
 (In Thousands)

	June 30, 2014	December 31, 2013
*Consolidated Variable Interest Entity's Assets and Liabilities included in the above balances (see note 5):		
Investment in hotel properties, net	\$338,198	\$340,136
Cash and cash equivalents	1,801	6,214
Restricted cash and cash equivalents	20,838	14,843
Accounts receivable, net of allowance for doubtful accounts of \$43 and \$91	5,092	4,520
Deferred financing costs, net of accumulated amortization of \$2,595 and \$1,871	1,805	2,529
Prepaid expenses and other assets	12,509	8,922
Mortgages and other debt payable	185,826	185,826
Accounts payable and accrued expenses	12,982	9,371
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
 (In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Rooms	\$ 148,874	\$ 127,484	\$ 251,974	\$ 225,748
Food and beverage	100,028	79,966	170,045	142,023
Other hotel operating revenue	25,942	18,491	46,181	38,150
Lease revenue	1,319	1,160	2,618	2,360
Total revenues	276,163	227,101	470,818	408,281
Operating Costs and Expenses:				
Rooms	41,268	36,087	74,975	67,850
Food and beverage	67,077	57,289	121,680	108,839
Other departmental expenses	66,238	53,285	119,817	104,466
Management fees	9,241	6,447	15,019	11,457
Other hotel expenses	15,572	15,234	31,250	30,123
Lease expense	1,260	1,206	2,518	2,382
Depreciation and amortization	28,058	24,691	50,263	49,599
Corporate expenses	7,198	7,209	14,391	12,972
Total operating costs and expenses	235,912	201,448	429,913	387,688
Operating income	40,251	25,653	40,905	20,593
Interest expense	(19,587)	) (19,460)	) (37,861)	) (39,123)
Interest income	50	20	77	30
Equity in earnings of unconsolidated affiliates	826	1,456	5,271	2,801
Foreign currency exchange (loss) gain	(8)	) 84	(6)	) (2)
Gain on consolidation of affiliates	65,349	—	143,466	—
Other income, net	795	745	1,218	877
Income (loss) before income taxes and discontinued operations	87,676	8,498	153,070	(14,824)
Income tax expense	(207)	) (72)	) (246)	) (85)
Income (loss) from continuing operations	87,469	8,426	152,824	(14,909)
Income from discontinued operations, net of tax	604	329	159,039	2,318
Net Income (Loss)	88,073	8,755	311,863	(12,591)
Net (income) loss attributable to the noncontrolling interests in SHR's operating partnership	(281)	) (36)	) (1,130)	) 51
Net loss attributable to the noncontrolling interests in consolidated affiliates	217	597	4,258	4,449
Net Income (Loss) Attributable to SHR	88,009	9,316	314,991	(8,091)
Preferred shareholder dividends	(7,169)	) (6,042)	) (16,993)	) (12,083)
Net Income (Loss) Attributable to SHR Common Shareholders	\$ 80,840	\$ 3,274	\$ 297,998	\$ (20,174)
Amounts Attributable to SHR:				
Income (loss) from continuing operations	\$ 87,405	\$ 8,987	\$ 156,560	\$ (10,409)
Income from discontinued operations	604	329	158,431	2,318
Net income (loss)	\$ 88,009	\$ 9,316	\$ 314,991	\$ (8,091)
Basic Income (Loss) Per Common Share:	\$ 0.36	\$ 0.02	\$ 0.65	\$ (0.11)

Edgar Filing: STRATEGIC HOTELS & RESORTS, INC - Form 10-Q

Income (loss) from continuing operations attributable to SHR common shareholders				
Income from discontinued operations attributable to SHR common shareholders	—	—	0.74	0.01
Net income (loss) attributable to SHR common shareholders	\$0.36	\$0.02	\$1.39	\$(0.10)
Weighted average shares of common stock outstanding	222,013	206,061	214,450	205,849
Diluted Income (Loss) Per Common Share:				
Income (loss) from continuing operations attributable to SHR common shareholders	\$0.35	\$0.01	\$0.60	\$(0.12)
Income from discontinued operations attributable to SHR common shareholders	—	—	0.70	0.01
Net income (loss) attributable to SHR common shareholders	\$0.35	\$0.01	\$1.30	\$(0.11)
Weighted average shares of common stock outstanding	233,463	219,227	225,900	217,006

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME (LOSS)
 (In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income (Loss)	\$88,073	\$8,755	\$311,863	\$(12,591)
Other comprehensive income:				
(Loss) gain on currency translation adjustments	(5	) 13	18,779	787
Gain on derivatives and other activity	3,157	5,415	3,490	10,404
Other comprehensive income	3,152	5,428	22,269	11,191
Comprehensive Income (Loss)	91,225	14,183	334,132	(1,400)
Comprehensive (income) loss attributable to the noncontrolling interests in SHR's operating partnership	(291	) (58	) (1,213	) 5
Comprehensive loss attributable to the noncontrolling interests in consolidated affiliates	217	597	4,258	4,449
Comprehensive Income Attributable to SHR	\$91,151	\$14,722	\$337,177	\$3,054
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)

	Six Months Ended June 30,	
	2014	2013
Operating Activities:		
Net income (loss)	\$311,863	\$(12,591)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (including discontinued operations):		
Deferred income tax expense	272	701
Depreciation and amortization	51,538	54,215
Amortization of deferred financing and other costs	6,549	6,678
Loss on early extinguishment of debt	272	—
Equity in earnings of unconsolidated affiliates	(5,271)	(2,801)
Share-based compensation	2,850	2,993
Gain on consolidation of affiliates	(143,466)	—
Gain on sale, net of tax	(156,429)	(273)
Income tax on sale of assets	(20,451)	—
Foreign currency exchange gain	(26)	(186)
Recognition of deferred gains	(107)	(102)
Mark to market of derivative financial instruments	(3,054)	(6,144)
Increase in accounts receivable	(8,808)	(21,732)
Increase in other assets	(7,449)	(4,023)
(Decrease) increase in accounts payable and accrued expenses	(4,679)	7,489
Net cash provided by operating activities	23,604	24,224
Investing Activities:		
Acquisition of hotel investments	(300,616)	—
Proceeds from sale of assets	411,503	1,232
Cash received from unconsolidated affiliates	2,221	17,193
Unrestricted cash sold	(15,634)	—
Unrestricted cash acquired	22,160	—
Capital expenditures	(35,619)	(36,504)
Decrease (increase) in restricted cash and cash equivalents	5,371	(7,537)
Net cash provided by (used in) investing activities	89,386	(25,616)
Financing Activities:		
Proceeds from issuance of common stock	434,700	—
Equity issuance costs	(17,947)	—
Preferred stock redemption	(103,788)	—
Borrowings under bank credit facility	123,000	39,000
Payments on bank credit facility	(233,000)	(28,000)
Proceeds from mortgages	12,000	—
Payments on mortgages and other debt	(130,133)	(7,296)
Contributions from holders of noncontrolling interests in consolidated affiliates	2,450	3,140
Debt financing costs	(4,199)	—
Interest rate swap termination	(22,325)	—
Distributions to preferred shareholders	(9,953)	(6,041)
Distributions to holders of noncontrolling interests in consolidated affiliates	(7)	(8)
Other financing activities	(989)	(4,310)
Net cash provided by (used in) financing activities	49,809	(3,515)

Edgar Filing: STRATEGIC HOTELS & RESORTS, INC - Form 10-Q

Effect of exchange rate changes on cash	111	(467)
Net change in cash and cash equivalents	162,910	(5,374)
Change in cash of assets held for sale	8,903	—	
Cash and cash equivalents, beginning of period	73,655	80,074	
Cash and cash equivalents, end of period	\$245,468	\$74,700	

See accompanying notes to unaudited condensed consolidated financial statements.

7

Table of Contents

STRATEGI