

STRATEGIC HOTELS & RESORTS, INC
Form 10-Q
May 10, 2006
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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, 2006

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)

Maryland

(State of Incorporation)

33-1082757

(I.R.S. Employer Identification No.)

77 West Wacker Drive,

Suite 4600,

Chicago, Illinois

60601

(Zip Code)

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(Address of Principal Executive Offices)

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

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

Former Name: Strategic Hotel Capital, Inc.

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer .

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

The number of shares of common stock (\$0.01 par value) of the registrant outstanding as of May 10, 2006 was 59,169,542.

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This quarterly report on Form 10-Q for the period ended March 31, 2006 contains a restatement of the Company's consolidated statement of cash flows for the three months ended March 31, 2005. Management concluded that \$8,000,000 of cash expended for escrow deposits related to a hotel acquisition should have been reported as net cash used in investing activities rather than as a reduction of net cash provided by operating activities. The restatement does not affect the total net change in cash and cash equivalents for the three months ended March 31, 2005, and has no impact on the Company's consolidated balance sheet, consolidated statement of operations and comprehensive income or the related income per share amounts. Conforming changes have been made to management's discussion and analysis of financial condition and results of operations included in Part I, Item 2 of this Form 10-Q. See footnote 17 in the notes to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information relating to the restatement. As discussed in Part II, Item 4 of this Form 10-Q, the Company has also restated the consolidated statements of cash flows for the years ended December 31, 2005 and 2004. In connection with the restatements, management has revised its assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2005 and accordingly has updated its prior disclosure concerning the Company's disclosure controls and procedures contained in its quarterly report of Form 10-Q for the quarterly period ended March 31, 2005 with additional disclosure in Part II, Item 4 of this Form 10-Q. The decision to restate the Company's statement of cash flows was previously announced in the Company's Current Report of Form 8-K filed with the Securities and Exchange Commission on May 3, 2006.

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We maintain a website at <http://www.strategichotels.com>. Through our website, we make available, free of charge, our annual proxy statement, our 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 Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The SEC maintains a website that contains these reports at <http://www.sec.gov>.

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

	March 31,	December 31,
	2006	2005
Assets		
Property and equipment	\$ 1,491,774	\$ 1,300,250
Less accumulated depreciation	(231,452)	(217,695)
Net property and equipment	1,260,322	1,082,555
Goodwill	106,667	66,656
Intangible assets (net of accumulated amortization of \$1,529 and \$1,340, respectively)	1,940	2,129
Investment in joint ventures	86,491	15,533
Cash and cash equivalents	77,801	65,017
Restricted cash and cash equivalents	23,741	32,115
Accounts receivable (net of allowance for doubtful accounts of \$464 and \$427, respectively)	46,864	31,286
Deferred financing costs (net of accumulated amortization of \$1,377 and \$969, respectively)	7,154	7,544
Other assets	89,471	119,687
Insurance recoveries receivable	31,398	25,588
Total assets	\$ 1,731,849	\$ 1,448,110
Liabilities and Shareholders' Equity		
Liabilities:		
Mortgages and other debt payable	\$ 625,710	\$ 633,380
Bank credit facility	30,000	26,000
Accounts payable and accrued expenses	120,664	90,486
Distributions payable	14,654	11,531
Deferred gain on sale of hotels	101,605	99,970
Total liabilities	892,633	861,367
Minority interests in SHR's operating partnership	11,504	76,030
Minority interests in consolidated hotel joint ventures	11,085	11,616
Shareholders' equity:		
8.50% Series A Cumulative Redeemable Preferred Stock (\$0.01 par value; 4,000,000 shares issued and outstanding; liquidation preference \$25.00 per share)	97,553	97,553
8.25% Series B Cumulative Redeemable Preferred Stock (\$0.01 par value; 4,600,000 shares issued and outstanding; liquidation preference \$25.00 per share)	110,878	
Common shares (\$0.01 par value; 150,000,000 common shares authorized; 59,133,344 and 43,878,273 common shares issued and outstanding, respectively)	591	439
Additional paid-in capital	908,839	688,250
Deferred compensation	(5,483)	(1,916)
Accumulated deficit	(239,330)	(241,613)

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Accumulated distributions	(70,607)	(53,142)
Accumulated other comprehensive income	14,186	9,526
Total shareholders' equity	816,627	499,097
Total liabilities and shareholders' equity	\$ 1,731,849	\$ 1,448,110

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME

(In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2006	2005
Revenues:		
Rooms	\$ 76,799	\$ 55,984
Food and beverage	46,301	34,011
Other hotel operating revenue	14,121	11,983
	137,221	101,978
Lease revenue	3,801	4,071
Total revenues	141,022	106,049
Operating Costs and Expenses:		
Rooms	17,993	12,026
Food and beverage	32,486	23,946
Other departmental expenses	37,320	27,582
Management fees	4,003	4,255
Other hotel expenses	18,819	5,683
Lease expense	3,224	3,573
Depreciation and amortization	14,513	9,677
Corporate expenses	5,673	4,757
Total operating costs and expenses	134,031	91,499
Operating income	6,991	14,550
Interest expense	(7,850)	(7,054)
Interest income	1,212	284
Equity in (losses) earnings of joint ventures	(1,619)	402
Other income, net	1,613	1,187
Income before income taxes, minority interests and discontinued operations	347	9,369
Income tax benefit (expense)	2,236	(940)
Minority interest expense in SHR's operating partnership	(116)	(1,996)
Minority interest expense in consolidated hotel joint ventures	(196)	
Income from continuing operations	2,271	6,433
Income from discontinued operations	12	666
Net Income	2,283	7,099
Mark to market of derivatives	4,459	1,114
Currency translation adjustment	(26)	830
Comprehensive Income	\$ 6,716	\$ 9,043

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Net Income	2,283	7,099
Preferred shareholder dividends	(3,706)	(349)
Net (Loss) Income Available to Common Shareholders	\$ (1,423)	\$ 6,750
Basic (Loss) Income Per Share:		
(Loss) income from continuing operations available to common shareholders per share	\$ (0.03)	\$ 0.20
Income from discontinued operations per share	0.00	0.02
Net (loss) income available to common shareholders per share	\$ (0.03)	\$ 0.22
Weighted-average common shares outstanding	46,763	30,247
Diluted (Loss) Income Per Share:		
(Loss) income from continuing operations available to common shareholders per share	\$ (0.03)	\$ 0.20
Income from discontinued operations per share	0.00	0.02
Net (loss) income available to common shareholders per share	\$ (0.03)	\$ 0.22
Weighted-average common shares outstanding	46,763	30,357

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2005	
	2006	(As restated, see note 17)
Operating Activities:		
Net income	\$ 2,283	\$ 7,099
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Minority interest expense in SHR's operating partnership	117	2,203
Minority interest expense in consolidated hotel joint ventures	196	
Deferred income tax (benefit) expense	(3,597)	1,652
Depreciation and amortization	14,513	10,587
Amortization of deferred financing costs	408	721
Equity in losses (earnings) of joint ventures	1,619	(402)
Deferred compensation expense	832	432
Gain on sale of assets	(13)	
Recognition of deferred and other gains, net	(699)	(1,142)
Mark to market of derivatives included in interest expense		3
Increase in accounts receivable	(15,039)	(2,308)
Increase in other assets	(1,375)	(340)
Increase (decrease) in accounts payable and accrued expenses	13,189	(478)
Net cash provided by operating activities	12,434	18,027
Investing Activities:		
Acquisition of hotel property and equipment	(169,702)	(188)
Acquisition of land held for development	(12,027)	
Acquisition of interest in unconsolidated joint venture	(50,092)	(112)
Escrow deposits		(8,000)
Restricted and unrestricted cash acquired	496	
Cash received from unconsolidated joint venture	921	
Decrease in security deposits related to sale-leasebacks	2,286	1,110
Capital expenditures	(24,354)	(2,965)
Decrease in restricted cash and cash equivalents	8,129	2,541
Other investing activities	166	
Net cash used in investing activities	(244,177)	(7,614)
Financing Activities:		
Proceeds from issuance of common stock, net of offering costs	151,900	
Proceeds from issuance of preferred stock, net of offering costs	110,878	97,540
Proceeds from bank credit facility	115,000	9,000
Payments on bank credit facility	(111,000)	(63,000)
Payments on mortgage and other debt	(7,670)	(506)
Distributions to common shareholders	(9,782)	