

STRATEGIC HOTEL CAPITAL INC

Form 10-Q

November 10, 2004

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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: September 30, 2004

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 HOTEL CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Maryland

33-1082757

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(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification no.)

77 West Wacker Drive, Suite 4600, Chicago, Illinois
(Address of principal executive offices)

60601
(Zip Code)

312-658-5000

(Registrant's telephone number, including area code)

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

* The registrant became subject to the Securities Exchange Act of 1934 on June 23, 2004.

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

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of November 9, 2004 was 30,035,701.

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STRATEGIC HOTEL CAPITAL, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

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	September 30,	December 31,
	2004	2003
Assets		
Property and equipment	\$ 953,904	\$ 1,881,840
Less accumulated depreciation	(210,616)	(472,645)
Net property and equipment	743,288	1,409,195
Goodwill and intangible assets (net of accumulated amortization of \$118 and \$0)	73,614	259,150
Assets of discontinued operations		80,519
Investment in hotel joint ventures	10,934	23,392
Cash and cash equivalents	32,123	107,437
Restricted cash and cash equivalents	27,114	85,697
Accounts receivable (net of allowance for doubtful accounts of \$346 and \$772)	23,486	31,030
Deferred financing costs (net of accumulated amortization of \$724 and \$8,609)	11,872	29,247
Other assets	75,602	53,854
Total assets	\$ 998,033	\$ 2,079,521
Liabilities and Owners Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 56,159	\$ 124,422
Distributions payable	8,721	
Bank credit facility	50,000	
Mortgages and other debt payable	490,017	1,505,984
Convertible debt		122,030
Liabilities of discontinued operations		68,153
Deferred fees on management contracts	2,377	12,256
Deferred gain on sale of hotels	110,057	
Total liabilities	717,331	1,832,845
Minority interests	66,554	107,608
Owners equity:		
Members capital		875,767
Distributions to members		(439,377)
Common shares (\$0.01 par value; 150,000,000 common shares authorized; 30,035,701 common shares issued and outstanding)	300	
Additional paid-in capital	483,212	
Deferred compensation	(2,193)	
Accumulated deficit	(262,455)	(285,206)
Accumulated distributions to owners	(6,652)	
Accumulated other comprehensive income (loss)	1,936	(12,116)

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Total owners' equity	214,148	139,068
Total liabilities and owners' equity	\$ 998,033	\$ 2,079,521

See notes to unaudited condensed consolidated financial statements.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Rooms	\$ 44,544	\$ 76,391	\$ 215,937	\$ 232,958
Food and beverage	25,030	35,992	110,148	117,057
Other hotel operating revenue	9,798	12,993	36,994	40,454
	<u>79,372</u>	<u>125,376</u>	<u>363,079</u>	<u>390,469</u>
Lease revenue	5,692	5,127	20,919	21,372
Total revenues	<u>85,064</u>	<u>130,503</u>	<u>383,998</u>	<u>411,841</u>
Operating Costs and Expenses:				
Rooms	11,314	20,419	54,922	59,695
Food and beverage	19,510	29,674	85,155	91,682
Other departmental expenses	26,057	36,604	103,554	108,284
Management fees	2,997	4,163	13,285	13,861
Other property level expenses	5,769	8,010	23,927	26,746
Lease expense	3,189	3,189	3,189	3,189
Depreciation and amortization	10,753	19,988	50,810	62,444
Corporate expenses	4,299	4,755	24,493	16,272
Total operating costs and expenses	<u>83,888</u>	<u>123,613</u>	<u>359,335</u>	<u>378,984</u>
Operating income	1,176	6,890	24,663	32,857
Interest expense	6,254	28,083	57,097	82,384
Interest income	(43)	(704)	(1,013)	(2,332)
Loss on early extinguishment of debt	17	2,977	21,963	14,528
Other (income) expenses, net	(1,359)	1,722	684	5,032
Loss before income taxes, minority interests and discontinued operations	<u>(3,693)</u>	<u>(25,188)</u>	<u>(54,068)</u>	<u>(66,755)</u>
Income tax expense (benefit)	405	(2,293)	760	(1,544)
Minority interests	(989)	155	(1,917)	2,834
Loss from continuing operations	<u>(3,109)</u>	<u>(23,050)</u>	<u>(52,911)</u>	<u>(68,045)</u>
Income from discontinued operations	775	775	75,662	25,684
Net (Loss) Income	<u>(3,109)</u>	<u>(22,275)</u>	<u>22,751</u>	<u>(42,361)</u>

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Mark to market of derivative instruments	(1,245)	171	(1,857)	(1,577)
Reclassification to earnings:				
Interest expense		3,062	384	3,092
Loss on early extinguishment of debt			1,740	1,767
Other expenses, net		2,467	83	2,467
Other currency translation adjustment activity	(264)	(2,912)	13,702	(1,831)
Comprehensive (Loss) Income	\$ (4,618)	\$ (19,487)	\$ 36,803	\$ (38,443)
Basic and Diluted (Loss) Income Per Share:				
Loss from continuing operations per share	\$ (0.11)	\$ (1.21)	\$ (2.36)	\$ (4.18)
Income from discontinued operations per share		0.04	3.38	1.58
Net (loss) income per share	\$ (0.11)	\$ (1.17)	\$ 1.02	\$ (2.60)
Weighted-average common shares outstanding	28,689,288	19,007,969	22,379,762	16,297,666

See notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTEL CAPITAL, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS