

STRATEGIC HOTELS & RESORTS, INC
Form 10-Q
November 08, 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 September 30, 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
(Address of Principal executive offices)

60601
(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: N/A

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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 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 November 8, 2006 was 75,403,107.

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FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 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)**

	September 30, 2006	December 31, 2005
Assets		
Property and equipment	\$ 2,594,674	\$ 1,300,250
Less accumulated depreciation	(243,494)	(217,695)
Net property and equipment	2,351,180	1,082,555
Goodwill	411,624	66,656
Intangible assets (net of accumulated amortization of \$2,645 and \$1,340, respectively)	44,566	2,129
Investment in joint ventures	73,177	15,533
Cash and cash equivalents	83,960	65,017
Restricted cash and cash equivalents	53,635	32,115
Accounts receivable (net of allowance for doubtful accounts of \$671 and \$427, respectively)	79,825	31,286
Deferred financing costs (net of accumulated amortization of \$2,435 and \$969, respectively)	10,199	7,544
Deferred tax assets	43,748	35,594
Other assets	56,751	84,093
Insurance recoveries receivable		25,588
Total assets	\$ 3,208,665	\$ 1,448,110
Liabilities and Shareholders' Equity		
Liabilities:		
Mortgages and other debt payable	\$ 1,425,757	\$ 633,380
Bank credit facility	106,000	26,000
Accounts payable and accrued expenses	170,672	85,247
Distributions payable	17,985	11,531
Deferred tax liabilities	23,608	5,239
Deferred gain on sale of hotels	104,334	99,970
Insurance proceeds received in excess of insurance recoveries receivable	5,618	
Total liabilities	1,853,974	861,367
Minority interests in SHR's operating partnership	14,039	76,030
Minority interests in consolidated affiliates	11,891	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)	110,775	
8.25% Series C Cumulative Redeemable Preferred Stock (\$0.01 par value; 5,750,000 shares issued and outstanding; liquidation preference \$25.00 per share)	138,943	
Common shares (\$0.01 par value; 150,000,000 common shares authorized; 75,299,448 and 43,878,273 common shares issued and outstanding, respectively)	753	439

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Additional paid-in capital	1,221,610	688,250
Deferred compensation		(1,916)
Accumulated deficit	(122,820)	(241,613)
Accumulated distributions	(118,946)	(53,142)
Accumulated other comprehensive income	893	9,526
Total shareholders' equity	1,328,761	499,097
Total liabilities and shareholders' equity	\$ 3,208,665	\$ 1,448,110

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
	2006	2005	2006	2005
Revenues:				
Rooms	\$ 108,577	\$ 56,934	\$ 258,772	\$ 164,657
Food and beverage	63,863	34,536	155,517	100,983
Other hotel operating revenue	21,062	10,212	46,828	30,689
	193,502	101,682	461,117	296,329
Lease revenue	7,938	5,514	15,707	13,493
Total revenues	201,440	107,196	476,824	309,822
Operating Costs and Expenses:				
Rooms	27,909	14,306	63,901	38,958
Food and beverage	46,513	25,086	109,604	70,827
Other departmental expenses	51,076	29,559	119,784	80,489
Management fees	7,698	2,888	16,289	10,807
Other hotel expenses	13,071	6,523	30,143	18,203
Lease expense	3,798	2,977	10,417	9,968
Depreciation and amortization	21,892	11,748	49,357	31,740
Corporate expenses	5,764	5,379	18,353	14,786
Total operating costs and expenses	177,721	98,466	417,848	275,778
Operating income	23,719	8,730	58,976	34,044
Interest expense	(15,835)	(9,384)	(30,311)	(25,204)
Interest income	843	357	3,264	1,063
Equity in earnings of joint ventures	1,201	757	254	2,315
Other income, net	1,010	1,436	3,688	4,346
Income before income taxes, minority interests and discontinued operations	10,938	1,896	35,871	16,564
Income tax benefit (expense)	114	18	(2,757)	(2,362)
Minority interest expense in SHR's operating partnership	(154)	(396)	(694)	(3,305)
Minority interest income (expense) in consolidated affiliates	58		(731)	
Income from continuing operations	10,956	1,518	31,689	10,897
Income (loss) from discontinued operations, net of tax and minority interests	87,932	(620)	87,104	3,232
Net Income	98,888	898	118,793	14,129
Mark to market of derivatives	(17,099)	4,919	(7,789)	2,623
Currency translation adjustment	296	375	(891)	2,588
Comprehensive Income	\$ 82,085	\$ 6,192	\$ 110,113	\$ 19,340
Net Income	98,888	898	118,793	14,129

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Preferred shareholder dividends		(7,461)	(2,125)	(17,081)	(4,628)
Net Income (Loss) Available to Common Shareholders	\$	91,427	\$ (1,227)	\$ 101,712	\$ 9,501
Basic Income (Loss) Per Share:					
Income (loss) from continuing operations available to common shareholders per share	\$	0.05	\$ (0.01)	\$ 0.22	\$ 0.19
Income (loss) from discontinued operations per share		1.16	(0.02)	1.33	0.10
Net income (loss) available to common shareholders per share	\$	1.21	\$ (0.03)	\$ 1.55	\$ 0.29
Weighted-average common shares outstanding		75,570	36,691	65,740	32,420
Diluted Income (Loss) Per Share:					
Income (loss) from continuing operations available to common shareholders per share	\$	0.05	\$ (0.01)	\$ 0.22	\$ 0.19
Income (loss) from discontinued operations per share		1.16	(0.02)	1.32	0.10
Net income (loss) available to common shareholders per share	\$	1.21	\$ (0.03)	\$ 1.54	\$ 0.29
Weighted-average common shares outstanding		75,780	36,691	66,008	32,605

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)**

	Nine Months Ended September 30,	
	2006	2005
Operating Activities:		
Net income	\$ 118,793	\$ 14,129
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Minority interest expense in SHR's operating partnership	1,825	4,339
Minority interest expense in consolidated affiliates	731	
Deferred income tax (benefit) expense	(3,493)	1,930
Depreciation and amortization	51,892	39,038
Amortization of deferred financing costs	1,350	2,415
Loss on early extinguishment of debt	937	
Equity in earnings of joint ventures	(254)	(2,315)
Deferred compensation expense	2,269	1,455
Gain on sale of assets	(89,278)	
Recognition of deferred and other gains, net	(2,530)	(2,701)
Mark to market of derivatives included in interest expense		70
Increase in accounts and insurance recoveries receivable	(26,902)	(13,913)
Increase in other assets	(6,821)	(3,707)
Increase in accounts payable and accrued expenses	27,808	18,756
Net cash provided by operating activities	76,327	59,496
Investing Activities:		
Proceeds from sales of assets	178,095	
Acquisition of hotel property and equipment	(1,565,515)	(158,217)
Acquisition of land held for development	(31,425)	
Acquisition of interest in unconsolidated joint venture	(50,110)	(112)
Acquisition of interest in consolidated joint ventures		(285,389)
Restricted and unrestricted cash acquired	16,771	7,399
Cash received from unconsolidated joint venture	921	
Decrease in security deposits related to sale-leasebacks	947	269
Insurance proceeds received	40,000	
Capital expenditures	(66,137)	(22,449)
Increase in restricted cash and cash equivalents	(13,235)	(1,135)
Other investing activities	(1,418)	
Net cash used in investing activities	(1,491,106)	(459,634)
Financing Activities:		
Proceeds from issuance of common stock, net of offering costs	470,180	217,466
Proceeds from issuance of preferred stock, net of offering costs	249,350	97,540
Proceeds from bank credit facility	482,500	101,500
Payments on bank credit facility	(402,500)	(155,500)
Proceeds from mortgage and other debt	765,377	202,000
Payments on mortgage and other debt	(64,909)	(2,079)
Financing costs	(4,959)	(2,758)
Distributions to common shareholders	(40,925)	(20,107)

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Distributions to preferred shareholders	(17,081)	(4,628)
Distributions to holders of minority interests in SHR s operating partnership	(2,359)	(6,207)
Distributions to holders of minority interests in consolidated joint ventures	(1,911)	
Distribution to SHC LLC		(37)
Other financing activities	515	
Net cash provided by financing activities	1,433,278	427,190
Effect of translation adjustment on cash	444	(1,011)
Net change in cash and cash equivalents	18,943	26,041
Cash of assets held for sale		(2,556)
Cash and cash equivalents, beginning of period	65,017	40,071
Cash and cash equivalents, end of period	\$ 83,960	\$ 63,556

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 Continued****(In Thousands)**

	Nine Months Ended September 30,	
	2006	2005
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Mark to market of derivative instruments (see notes 2 and 9)	\$ (7,726)	\$ 3,125
Acquisition of interests in consolidated hotel joint ventures		
- Investing	\$	\$ (15,612)
- Financing	\$	\$ 15,612
Redemption of units of non-managing member limited liability company interests in SH Funding (see note 8)	\$ 66,754	\$
Distributions payable to common shareholders (see note 8)	\$ 17,378	\$ 11,532
Distributions payable to holders of minority interests in SHR s operating partnership (see notes 7 and 8)	\$ 251	\$ 1,841
Distributions payable to holders of minority interests in consolidated affiliates (see notes 7 and 8)	\$ 340	\$
New Orleans property damage (see note 15)	\$ 3,000	\$ 29,685
Mortgage and other debt assumed upon acquisitions of properties (see note 6)	\$ 94,441	\$
Cash Paid For:		
Interest	\$ (32,787)	\$ (25,749)
Income taxes, net of refunds	\$ (3,670)	\$ (5,553)

See accompanying notes to unaudited condensed consolidated financial statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Strategic Hotels & Resorts, Inc. and subsidiaries (SHR or the Company), formerly known as Strategic Hotel Capital, Inc., is a real estate investment trust (REIT) that was formed in January 2004. SHR conducts its business activities through its operating subsidiary, Strategic Hotel Funding, L.L.C. (SH Funding).

SHR acquires luxury and upper upscale full-service hotels that are subject to long-term management contracts. SHR's portfolio includes 20 full-service hotel interests located in urban and resort markets in the United States; Paris, France; Mexico City and Punta Mita, Nayarit, Mexico; Hamburg, Germany; London, England and Prague, Czech Republic.

On June 29, 2004, SHR completed its initial public offering (the IPO) of common stock by issuing 17,600,000 shares at a price of \$14.00 per share. Prior to the IPO, 21 hotel interests were owned by Strategic Hotel Capital, L.L.C. (SHC LLC). Concurrent with the IPO, SHC LLC was restructured into two companies, a new SHC LLC, a privately-held entity, with interests, at that time, in seven hotels, and SHR, a public entity with interests in SH Funding, the operating partnership in an UPREIT structure that held interests, at that time, in the remaining 14 hotels. Contemporaneous with the IPO, SH Funding became owned by SHR, SHC LLC and Strategic Hotel Capital Limited Partnership (SHC LP). For accounting purposes, this transaction is presented as a reverse spin-off whereby SHR is treated as the continuing entity and the assets retained by the new SHC LLC, and not contributed to SH Funding, are accounted for as if they were distributed at their historical carrying value through a spin-off to the new SHC LLC.

Subsequent to the IPO, SHR exercises control over SH Funding as its managing member and majority membership interest holder and consolidates SH Funding. SHC LLC prior to the IPO is referred to as SHR's predecessor.

As of September 30, 2006, SH Funding owned or leased the following 20 hotels:

- | | |
|------------------------------------|---|
| 1. Fairmont Chicago | 11. Marriott Champs Elysees Paris |
| 2. Fairmont Scottsdale Princess | 12. Marriott Hamburg |
| 3. Four Seasons Mexico City | 13. Marriott Lincolnshire |
| 4. Four Seasons Punta Mita Resort | 14. Marriott London Grosvenor Square |
| 5. Four Seasons Washington D.C. | 15. Ritz-Carlton Half Moon Bay |
| 6. Hyatt Regency La Jolla | 16. Ritz-Carlton Laguna Niguel |
| 7. Hyatt Regency New Orleans | 17. Westin St. Francis |
| 8. Hyatt Regency Phoenix | 18. InterContinental Chicago Hotel (consolidated joint venture) |
| 9. InterContinental Prague | 19. InterContinental Miami Hotel (consolidated joint venture) |
| 10. Loews Santa Monica Beach Hotel | 20. Hotel del Coronado (unconsolidated joint venture) |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements include the financial position and the results of operations of SHR and its subsidiaries. At September 30, 2006, SH Funding owned the following interests in joint ventures, which are accounted for using the equity method of accounting: a 45% interest in the joint venture that owns the Hotel del Coronado and a 31% interest in the joint venture that owns the Resort Club Punta Mita (see note 5). At September 30, 2006, SH Funding also owned 85% controlling interests in two joint ventures that own the InterContinental Chicago and Miami hotels, which are consolidated in the accompanying financial statements.

Material intercompany transactions and balances have been eliminated in consolidation. Certain amounts included in the consolidated financial statements for prior periods have been reclassified to conform to the current financial statement presentation. These adjustments include reclassifying non-income related taxes

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

from income tax benefit (expense) on the statements of operations to other income, net and reclassifying the Mexican asset tax (which is a variant of income tax) from other income, net to income tax benefit (expense). On the consolidated balance sheet, these adjustments include reclassifying deferred tax assets from other assets and deferred tax liabilities from accounts payable and accrued expenses.

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (the Commission) applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the Commission. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of the Company and its results of operations and cash flows for the interim periods presented. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 and notes thereto which are included in the Company's Annual Report on Form 10-K/A.

Use of Estimates:

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Company considers all cash on hand, demand deposits with financial institutions and short-term highly liquid investments with purchased or original maturities of three months or less to be cash equivalents. As of September 30, 2006 and December 31, 2005, restricted cash and cash equivalents include \$22,197,000 and \$20,919,000, respectively, that will be used for property and equipment replacement in accordance with hotel management or lease agreements. At September 30, 2006 and December 31, 2005, restricted cash and cash equivalents also included reserves of \$31,438,000 and \$11,196,000, respectively, required by loan and other agreements.

Deferred Transaction Costs:

The Company incurs costs relative to potential hotel acquisitions, joint ventures or investment opportunities. These costs are included in other assets in the Company's consolidated balance sheet pending determination that a transaction will be consummated or abandoned. If a transaction is consummated, these costs are capitalized as hotel acquisition costs or investments in joint ventures. If a potential hotel acquisition, joint venture or other investment is abandoned, these deferred costs are charged to expense. At September 30, 2006, other assets include \$4,681,000 of deferred costs related to potential hotel acquisitions and a joint venture investment.

Per Share Data:

In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share, basic income (loss) per share for the three and nine months ended September 30, 2006 and 2005 is computed based on the weighted average common shares outstanding during each period. Diluted income (loss) per share is computed based on the weighted average common shares and restricted stock units and stock options (see note 10) deemed outstanding during the period plus the weighted average common shares that would be outstanding assuming the conversion of minority interests excluding the impact of conversions if they are anti-dilutive. Conversion of minority interests that could potentially dilute basic income (loss) per share in the future that were not included in the computation of diluted income (loss) per share because they would have been anti-dilutive, are 1,087,000 and 9,357,000 for the three months ended September 30, 2006 and 2005, respectively, and 1,607,000 and 9,387,000 for the nine months ended September 30, 2006 and 2005, respectively.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

Comprehensive Income:

Comprehensive income is a measure of all changes in equity of an enterprise that result from transactions or other economic events during the period other than transactions with shareholders. SHR's accumulated other comprehensive income results from unrealized gains on foreign currency translation adjustments (CTA) and the mark to market of certain derivative financial instruments.

The following table provides the detailed components of accumulated other comprehensive income (in thousands):

	Derivative Adjustment	Currency Translation Adjustment	Accumulated Other Comprehensive Income
Balance at January 1, 2006	\$ 4,988	\$ 4,538	\$ 9,526
Mark to market of derivative instruments	(7,854)		(7,854)
Reclassification to equity in losses of joint ventures	65		65
Other CTA activity (non-derivative)		(891)	(891)
Adjustment for minority interest ownership in SH Funding	63	(16)	47
Balance at September 30, 2006	\$ (2,738)	\$ 3,631	\$ 893

Income Taxes:

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). As a REIT, SHR generally will not be subject to U.S. federal income tax if it distributes 100% of its annual taxable income to its shareholders. As a REIT, SHR is subject to a number of organizational and operational requirements. If it fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if it qualifies for taxation as a REIT, it may be subject to foreign, state and local income taxes and to U.S. federal income tax and excise tax on its undistributed income. In addition, taxable income from SHR's taxable REIT subsidiaries is subject to federal, foreign, state and local income taxes. Also, the foreign countries where SHR has operations do not recognize REITs under their respective tax laws. Accordingly, SHR will be subject to tax in those jurisdictions.

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For the three and nine months ended September 30, 2006 and 2005, income tax benefit (expense) related to continuing operations is summarized as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Current tax (expense) benefit:				
Europe	\$ (492)	\$ 6	\$ 648	\$ 1,727
Mexico	(166)	(226)	(2,917)	(2,159)
	(658)	(220)	(2,269)	(432)
Deferred tax (expense) benefit:				
Europe	(451)	(320)	(1,097)	(995)
Mexico	904	558	990	(935)
United States	319		(381)	
	772	238	(488)	(1,930)
Total income tax benefit (expense)	\$ 114	\$ 18	\$ (2,757)	\$ (2,362)

In the first quarter of 2006, the Company recorded a \$4,000,000 deferred tax benefit. The benefit primarily relates to net operating loss carryforwards in SHR's taxable REIT subsidiaries. A significant portion of these carryforwards was generated from expenses associated with the termination of the hotel management agreement with Marriott Hotel Services, Inc. (see note 16) and was included in income (loss) from discontinued operations (see note 4). In the second quarter of 2006, SHR was able to utilize a portion of the carryforwards and recorded a deferred tax expense of \$1,000,000, of which \$800,000 was included in continuing operations and \$200,000 was included in income (loss) from discontinued operations. In the third quarter, SHR recorded a net deferred tax benefit of \$600,000, of which \$319,000 is included in continuing operations and \$281,000 is included in income (loss) from discontinued operations. As a result, the deferred tax benefit applicable to the United States amounted to \$3,600,000 for the nine months ended September 30, 2006.

In connection with the acquisition of its joint venture partner's 65% interest in the entity that owns the InterContinental Hotel in Prague, Czech Republic (which brought the Company's interest in the entity that owns the property to 100%), SHR recorded a deferred tax liability of \$18,343,000.

New Accounting Pronouncements:

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of this statement.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning in the first quarter of 2007. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company is currently evaluating the impact, if any, that the adoption of FIN 48 will have on the Company's consolidated financial statements.

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The following summarizes SHR's investment in property and equipment, excluding unconsolidated joint ventures (in thousands):

	September 30, 2006	December 31, 2005
Land	\$ 400,119	\$ 171,486
Land held for development	50,403	
Leasehold improvements	11,633	11,633
Buildings	1,704,937	866,037
Building improvements	22,391	23,965
Site improvements	53,125	14,197
Furniture, fixtures and equipment	294,158	192,889
Improvements in progress	57,908	20,043
Total property and equipment	2,594,674	1,300,250
Less accumulated depreciation	(243,494)	(217,695)
Net property and equipment	\$ 2,351,180	\$ 1,082,555
Consolidated hotel properties	19	15
Consolidated hotel rooms	9,327	