

STRATEGIC HOTELS & RESORTS, INC
Form 10-K
February 24, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

(State or other jurisdiction of incorporation or organization)

200 West Madison Street, Suite 1700, Chicago, Illinois

(Address of principal executive offices)

33-1082757

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

60606-3415

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock (\$0.01 par value per share)

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$2.85 billion as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sale price of the common stock on the New York Stock Exchange on such date).

The number of shares of common stock (\$0.01 par value per share) of the registrant outstanding as of February 20, 2015 was 274,783,338.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year.

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This report 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®, Montage®, 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, other financial information or other information contained in this report.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

On one or more occasions, we may make statements regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements other than statements of historical facts included or incorporated by reference in this annual report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “projects,” “should,” “targets,” “will,” “will continue,” “will likely result” or other comparable expressions or the negative of the terms identify forward-looking statements. Forward-looking statements reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. We caution that while we make such statements in good faith and we believe such statements are based on reasonable assumptions, including without limitation, management’s examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved.

Our actual results may differ significantly from any results expressed or implied by these forward-looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the factors discussed in this report set forth in Item 1A under the section titled “Risk Factors”;
- the effects of economic conditions and disruptions in financial markets upon business and leisure travel and the hotel markets in which we invest;
- our liquidity and refinancing demands;
- our ability to obtain, refinance or extend maturing debt, including the \$117.0 million mortgage debt related to the Fairmont Scottsdale Princess hotel that matures April 9, 2015;
- our ability to maintain compliance with covenants contained in our debt facilities;
- stagnation or deterioration in economic and market conditions, particularly impacting business and leisure travel spending in the markets where our hotels and resorts operate and in which we invest, including luxury and upper upscale product;
- general volatility of the capital markets and the market price of our shares of common stock;
- availability of capital;
- our ability to dispose of properties in a manner consistent with our investment strategy and liquidity needs;
- hostilities and security concerns, including future terrorist attacks, or the apprehension of hostilities, in each case that affect travel within or to the United States, Germany, or other countries where we invest;
- difficulties in identifying properties to acquire and completing acquisitions;
- our failure to maintain effective internal control over financial reporting and disclosure controls and procedures;
- risks related to natural disasters;
- increases in interest rates and operating costs, including insurance premiums and real property taxes;
- contagious disease outbreaks;
- delays and cost-overruns in construction and development;
- marketing challenges associated with entering new lines of business or pursuing new business strategies;
- our failure to maintain our status as a real estate investment trust, or REIT;
- changes in the competitive environment in our industry and the markets where we invest;
- changes in real estate and zoning laws or regulations;

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legislative or regulatory changes, including changes to laws governing the taxation of REITs;
changes in generally accepted accounting principles, policies and guidelines; and
litigation, judgments or settlements.

Any forward-looking statement speaks only as of the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all such factors. We do not intend, and disclaim any duty or obligation, to update or revise any industry information or forward-looking statements set forth in this annual report on Form 10-K to reflect new information, future events or otherwise, except as required by law. Readers are urged to carefully review and consider the various disclosures made in this annual report on Form 10-K and in our other documents filed with the Securities and Exchange Commission, or the SEC, that attempt to advise interested parties of the risks and other factors that may affect our business, prospects and results of operations and financial condition.

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PART I

ITEM 1. BUSINESS.

Overview

Strategic Hotels & Resorts, Inc., or SHR, was incorporated in Maryland in January 2004 to acquire and asset-manage upper upscale and luxury hotels that are subject to long-term management contracts. The terms upper upscale and luxury are classifications of hotels by brand that are defined by Smith Travel Research, an independent provider of lodging industry statistical data. We completed our initial public offering in June 2004. We own interests in or lease our properties through our investment in Strategic Hotel Funding, L.L.C., our operating partnership, which we refer to herein as SH Funding, and its subsidiaries.

We operate as a self-administered and self-managed real estate investment trust, or REIT, managed by our board of directors and executive officers and conduct our operations through our direct and indirect subsidiaries including SH Funding. We are the managing member of SH Funding and hold approximately 99.7% of its membership units as of February 23, 2015. We manage all business aspects of SH Funding, including the sale and purchase of hotels, the investment in such hotels and the financing of SH Funding and its assets.

As of February 23, 2015, we:

- wholly own or lease 16 hotels and have 53.5% and 51.0% interests in affiliates that each own one hotel where we asset manage such hotels;

- own land held for development including:

- 50.7 acres of oceanfront land in Nayarit, Mexico;

- 13.8 acres of land in Scottsdale, Arizona adjacent to our Four Seasons Resort Scottsdale at Troon North entitled for development and residential usage; and

- a 20,000 square-foot oceanfront land parcel in Santa Monica, California adjacent to our Loews Santa Monica Beach Hotel entitled for development and residential units.

We do not operate any of our hotels directly; instead we employ internationally known hotel management companies to operate them for us under management contracts or operating leases. Our existing hotels are operated under the widely-recognized upper upscale and luxury brands of Fairmont®, Four Seasons®, Hyatt®, InterContinental®, JW Marriott®, Loews®, Marriott®, Montage®, Ritz-Carlton® and Westin®. The Hotel del Coronado is operated by a specialty management company, KSL Resorts.

We seek to maximize asset values and operating results through asset management. Although we have no imperative to grow, we will opportunistically seek to acquire additional properties that meet our disciplined investment criteria.

As used in this report, references to “we”, “our”, “us”, and “the Company” are references to SHR together, except as the context otherwise requires, with its consolidated subsidiaries, including SH Funding.

Business Strategy

We have a unique portfolio of high-quality luxury and upper upscale assets and a highly regarded asset management platform that delivers industry leading operating results. The key tenets of our strategy include a commitment to the luxury and upper upscale sector; a focus on complex, multi-use properties in urban or resort areas with high barriers to entry; internal growth through operational excellence, expense management, and robust asset management; initiatives to continually elevate the guest experience; conservative balance sheet management; disciplined capital allocation; and opportunistic dispositions of hotels upon completion of our value enhancement and cash flow generating strategies.

Internal Growth Strategy

We believe we have significant embedded growth prospects and extensive opportunities to generate value through internal initiatives and exceptional asset management.

Embedded Growth - Many of our hotels are located in markets with significant barriers to entry, including lack of available land, high development costs and long development and entitlement lead times, which minimize

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the supply of luxury assets. We believe the implications of limited supply, coupled with sustained economic growth, is significant embedded growth in our portfolio from upside in rate, occupancy, ancillary revenue and continued margin expansion.

Internal Initiatives - A key component of our strategy is our inherent drive to improve and elevate the guest experience. Each of our hotels is a complex, multi-faceted property that serves sophisticated guests. Our vision is that our properties not only offer luxurious, high-quality accommodations, but also provide a vibrant environment for group meetings, dining, recreation, spa, and wellness. We strive to enhance revenue through all components of our mixed-use hotels and resorts. Our goal is to create incremental sources of income and enhance the guest experience through thoughtfully executed initiatives based on consumer market research.

Asset Management - We believe that we can enhance our cash flow and earnings growth through expert asset management, which we expect will ultimately generate increased operating margins and higher investment returns. Our value-added asset management strategy includes working in partnership with the hotel management companies that operate our hotels. We have multi-property relationships with a select group of hotel management companies that, in our opinion, have strong brand recognition, superior marketing capabilities, management depth and an ability to work with our team to create efficient operations. We improve hotel operating performance through the application of value-added programs that include state-of-the-art staffing systems, research-driven guest initiatives, margin-improving food procurement programs, and market-specific enhancements that appeal to our guests. We provide rigorous oversight of our properties and the hotel management companies that operate them to ensure the alignment of the hotel management companies' and our interests, and to monitor compliance with the management contracts relating to our properties. This oversight allows us to maximize operating margins and enhance property values.

External Growth Strategy

We continue to review external growth opportunities that meet our rigorous standards both for our strategic and investment criteria.

One of our core competencies is a diligent approach to acquisitions that includes continuous research-based selection of target markets and individual properties. We target upper upscale and luxury hotels in select urban and resort markets located in North America, including major business centers and leisure destinations, with strong growth characteristics and high barriers to entry. We believe that the upper upscale and luxury hotel sector is an extremely attractive sector for long-term investment, especially considering the supply constraints characteristic of that sector. We concentrate our acquisition efforts on complex properties with multiple revenue streams. We target multi-faceted properties because they provide opportunities for our asset management team to maximize returns, provide a more diversified revenue mix, and provide a more complete guest experience that helps sustain the core accommodation business. We identify underperforming properties with substantial upside where we can leverage our asset management skill set to implement value-added programs.

We focus on opportunities where we can generate a return that exceeds our cost of capital. We are committed to being disciplined, prudent acquirers of properties that meet our rigorous standards with respect to quality. We intend to manage any external growth opportunities within the confines of our broader, disciplined balance sheet management and capital allocation strategies.

- Asset Disposition Strategy

We recycle capital for future investments through opportunistic dispositions. We would consider the disposition of all or part of our investment in a property in circumstances where we believe our asset management strategy has maximized the property's value, the proceeds of the disposition are unusually attractive, the market in which the property is located is declining or static, or competition in the market requires substantial capital investment that will not generate returns that meet our criteria.

Proceeds from dispositions would generally be intended to be reinvested in redevelopment activities in our existing portfolio, the acquisition of additional hotel properties where the application of our life cycle-based investment strategy can begin again, or enhancement of our balance sheet.

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Balance Sheet Management Strategy

We are committed to reducing our debt and improving our liquidity. We thoughtfully consider transactions that will reduce leverage and reduce the risk to equity created by credit exposure, which include raising additional equity, refinancing or restructuring property-level mortgage debt to create a well-staggered debt maturity profile with long-date maturities, and disposing of select assets.

Capital Allocation Strategy

Our capital allocation strategy is focused on maintaining a strong and flexible balance sheet while making strategic investments in our business to create shareholder value. We are committed to having a disciplined capital allocation strategy and prudently manage our leverage within stated ranges and intend to consider acquisitions generally on a leverage-neutral basis. We regularly evaluate our policies to ensure that they reflect our commitment to maximizing shareholder value.

Competition

The hotel industry is highly competitive and the hotels in which we invest are subject to competition from other hotels for guests. Competition is based on a number of factors, most notably quality of rooms, convenience of location, brand affiliation, price, range of services, guest amenities and quality of customer service. Competition is often specific to the individual markets in which our properties are located and includes competition from existing and new hotels operated under brands in the upper upscale and luxury segments. Increased competition could have a material adverse effect on the occupancy rate, average daily room rate and room revenue per available room of our hotels or may require us to make capital improvements that we otherwise would not have to make, which may result in decreases in our profitability.

Because our hotels operate in the upper upscale and luxury segment of the market, we face increased competition from providers of less expensive accommodations, such as limited service hotels or independent owner-managed hotels, during periods of economic downturn when leisure and business travelers become more sensitive to room rates. As a result, there is pressure to lower average daily rates during such periods to compete for these guests. In executing our external growth strategy, we face competition from institutional pension funds, private equity investors, other REITs and numerous local, regional and national owners in each of our markets. Some of these entities may have substantially greater financial resources and may be able to accept more risk than we can prudently manage. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell their properties to us.

Seasonality

For information relating to the seasonality of our business, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Seasonality.”

Employees

As of February 23, 2015, we had 33 full-time and two part-time corporate employees. We believe that our relations with our employees are good. None of our corporate employees are unionized.

Environmental

Environmental consultants retained by us or our lenders have conducted environmental site assessments on many of our properties. These environmental assessments often relied on older environmental assessments prepared in connection with a prior financing or acquisition. The environmental assessments are designed to evaluate the potential for environmental contamination on properties, but these assessments will not necessarily reveal the existence or extent of all environmental conditions, liabilities or compliance concerns at the properties.

Although the environmental assessments that have been conducted with respect to certain of our properties disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of environmental contamination or liability, we are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial position, results of operations or cash flows.

See “Item 1A. Risk Factors—Environmental and other governmental laws and regulations could increase our compliance costs and liabilities and adversely

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affect our financial condition and results of operations” and “Item 1A. Risk Factors—The presence of any environmental conditions at our properties could result in remediation and other costs and liabilities and adversely affect our financial condition and results of operations.”

Insurance

Our management believes that our properties are adequately covered by insurance, subject to the risks described under “Item 1A. Risk Factors,” including, among others, the factors described under “Uninsured and underinsured losses could adversely affect our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.” We are responsible for arranging the insurance for most of our hotels, although in certain cases, the hotel management companies that operate our hotels assume responsibility for arranging insurance under the relevant management agreement. The majority of our properties are covered by blanket insurance policies, which cover multiple properties. In the event that these blanket policies are drawn on to cover certain losses on certain properties, the amount of insurance coverage available under such policies could thereby be reduced and could be insufficient to cover the remaining properties’ insurable risks.

REIT Structure

Subject to certain limitations, REITs may own, directly or indirectly, up to 100% of the stock of a taxable REIT subsidiary, or TRS, that can engage in businesses prohibited to a REIT. Thus, hotel REITs may own TRSs that lease hotels from the REIT, rather than requiring the lessee to be a separate, unaffiliated party. However, hotels leased to a TRS must be managed by an unaffiliated third party. The TRS provisions are complex and impose several conditions on the use of TRSs. No more than 25% of a REIT’s assets may consist of securities of TRSs, and no more than 25% of a REIT’s assets may consist of non-qualifying assets, including securities of TRSs and other taxable subsidiaries. The rent and the lease terms between the REIT and the TRS must be at arm’s length and comparable to the market. In addition, REITs may generally not own more than 10% of the voting power or value of a corporation that is not treated as a TRS.

Ownership of Hotels

Where we have an ownership interest in a hotel, the entity through which we hold such ownership interest (a Strategic Ownership Entity) will generally lease the hotel to one of our TRSs and the TRS will enter into a management agreement with an independent third party for such party to operate the hotel. A lease between a Strategic Ownership Entity and one of our TRSs (an Affiliate Lease) provides for the TRS to pay to the Strategic Ownership Entity a base rent plus a percentage rent (as more fully described below). An Affiliate Lease must contain economic terms that are similar to a lease between unrelated parties or the Strategic Ownership Entity may have to pay a 100% penalty tax on some of the payments it receives from our TRS under such Affiliate Lease.

Each Affiliate Lease has a non-cancelable term of three years, subject to earlier termination upon the occurrence of certain contingencies such as damage or destruction that renders the hotel unsuitable for our TRS’ use and occupancy, condemnation or our sale or disposition of the hotel.

During the term of each Affiliate Lease, our TRS is obligated to pay a fixed annual base rent and a percentage rent to the applicable Strategic Ownership Entity. Percentage rent is calculated by multiplying fixed percentages by gross room revenues and other revenues, subject to certain adjustments. Percentage rent is paid quarterly. Base rent accrues and is paid monthly. Base rents and percentage rents are adjusted annually for changes in the consumer price index or similar indices.

Fixed charges, including real estate and personal property taxes, capital expenditures and a reserve for capital expenditures are obligations of the lessor under our Affiliate Lease. Our TRSs are required to pay rent, all costs and expenses and all utility and other charges incurred in the operation of the hotels we own. The party responsible for maintaining insurance on a property is dependent on the specific lease.

Third Party Lease Agreements

We are the tenant under a lease with a third-party landlord for the Marriott Hamburg hotel. We are also the tenant under a ground lease with a third-party landlord where we lease the land for the Marriott Lincolnshire Resort.

Additionally, we are a tenant under a ground lease for a parcel of land that is part of the Fairmont Scottsdale Princess hotel property. The remaining life on the initial terms of these third party leases range from 15 to 98 years. These third party lease agreements require us to make annual rental payments comprised of a minimum rental amount (subject to

indexation) and may also include additional rent comprised of a percentage of hotel operating profit, less minimum rent.

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Hotel Management Agreements

Most of our hotels are managed and operated by third parties pursuant to management agreements entered into between our TRSs and hotel management companies. These management agreements generally provide for the payment of base management fees within a range of 1.25% to 4.0% of revenues, as defined in the applicable agreements. In addition, an incentive fee may be paid if certain criteria are met. Certain of the management agreements also provide for the payment by us of advisory fees or license fees. The remaining terms (not including renewal options) of these management agreements range from three years to 28 years and average 12 years. A management agreement with one of our operators typically has the terms described below.

Operational services. The manager has exclusive authority to supervise, direct and control the day-to-day operation and management of the hotel, including establishing all room rates, processing reservations, procuring inventories, supplies and services, and preparing public relations, publicity and marketing plans for the hotel.

Compensation of manager. The manager receives compensation in the form of a base management fee and an incentive management fee, typically calculated as percentages of gross revenues and operating profits, respectively. In some cases, the incentive management fee is paid only after we have received a certain level of income.

Executive supervision and management services. The manager supervises all managerial and other employees for the hotel, reviews the operation and maintenance of the hotel, prepares reports, budgets and projections and provides other administrative and accounting support services to the hotel. In some cases, we maintain authority to approve the appointment of the hotel's general manager.

Chain services. Our management agreements require the managers to furnish chain services that are generally made available to other hotels managed by such operators. Such services include: (1) the development and operation of computer systems and reservation services, (2) management and administrative services, (3) marketing and sales services, (4) human resources training services and (5) such additional services as may from time to time be more efficiently performed on a national, regional or group level.

Working capital. Our management agreements typically require us to maintain working capital for a hotel and to fund the cost of fixed asset supplies such as linens and other similar items. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from hotel operations are insufficient to meet the financial requirements of the hotel.

Furniture, fixtures and equipment replacements. Our management agreements generally provide that once each year the manager will prepare a list of furniture, fixtures and equipment to be acquired and certain routine repairs to be performed in the next year and an estimate of the funds that are necessary, subject to our review and approval. In addition, we are required to provide to the manager all necessary furniture, fixtures and equipment for the operation of a hotel (including funding any required furniture, fixtures and equipment replacements). For purposes of funding the furniture, fixtures and equipment replacements, a specified percentage of the gross revenues of the hotel is deposited by the manager in a separate account (typically 4.0% to 5.0%).

Building alterations, improvements and renewals. Our management agreements generally require the manager to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of a hotel. In addition to the foregoing, the management agreements generally provide that the manager may propose such changes, alterations and improvements to the hotel as are required by reason of laws or regulations or, in the manager's reasonable judgment, to keep the hotel in a safe, competitive and efficient operating condition.

Sale of the hotel. Most of our management agreements limit our ability to sell, lease, or otherwise transfer a hotel unless the transferee is not a competitor of the manager, and unless the transferee assumes the related management agreement and meets specified other conditions.

Service marks. During the term of our management agreements, the service mark, symbols and logos currently used by the manager may be used in the operation of the hotel. Any right to use the service marks, logo and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the management agreement with respect to such hotel.

JW Marriott Essex House Hotel performance guarantee. A provision of this management agreement, entered into with an affiliate of Marriott, requires that Marriott provide us with a limited performance guarantee that will ensure,

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subject to certain limitations, a target level of net operating profit. The guarantee period began on September 17, 2012 and will continue through the earlier of (a) December 31, 2020, (b) the date at which the maximum guarantee has been funded, or (c) the termination of the management agreement.

We lease one of our hotels, the Marriott Hamburg hotel, pursuant to a lease agreement whereby rent is paid by the hotel management company that operates the hotel, as lessee, to us for an amount equal to a fixed base rent plus a specified percentage of profits in excess of the base rent. Otherwise, the terms of the lease are similar to the terms of our management contracts described above.

Code of Business Conduct and Ethics and Corporate Governance Documents

We have adopted a code of business conduct and ethics that applies to all of our employees, directors and officers, including our principal executive officer and principal financial and accounting officer. This code of business conduct and ethics is designed to comply with SEC regulations and New York Stock Exchange, or NYSE, corporate governance rules related to codes of conduct and ethics and is posted on our corporate website at www.strategichotels.com. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions granted to directors and specified officers, on our website within four business days following the date of such amendment or waiver. In addition, our corporate governance guidelines and charters for our audit, compensation and corporate governance and nominating committees are also posted on our corporate website. Copies of our code of business conduct and ethics, our corporate governance guidelines and our committee charters are also available free of charge upon request directed to Corporate Secretary, Strategic Hotels & Resorts, Inc., 200 West Madison Street, Suite 1700, Chicago, Illinois 60606.

Geographic and Business Segment Information

For information with respect to revenues from and our long-lived assets located in different geographic areas, refer to “Item 8. Financial Statements and Supplementary Data—19. Geographic and Business Segment Information.”

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, 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 SEC. The SEC maintains a website that contains these reports at www.sec.gov.

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ITEM 1A. RISK FACTORS.

In addition to the information and factors discussed elsewhere in this annual report on Form 10-K, including our consolidated financial statements and the related notes, the factors disclosed below could cause our actual results to differ materially from those projected in any forward-looking statements and could affect our future financial performance.

Risks related to our business

Economic conditions and disruptions in the financial markets may adversely affect our business, results of operations and liquidity.

The United States and global equity and credit markets have at times experienced significant price volatility, dislocations and liquidity disruptions since 2008, all of which caused market prices of the stock of many companies to fluctuate substantially and the spreads on prospective and outstanding debt financings to widen considerably. These circumstances led to a decline in business and consumer confidence, resulted in a decline of real estate values, and impacted liquidity in the global financial markets, which made terms for financings less attractive, and, in some cases, resulted in the lack of availability of certain types of financing. Continued uncertainty in the equity and credit markets may impact negatively our ability to access additional short-term and long-term financing on reasonable terms or at all, which would impact negatively our liquidity and financial condition. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing and may impact negatively our ability to enter into derivative contracts in order to hedge risks associated with changes in interest rates. In addition, a downturn and/or uncertainty in U.S. and global financial markets could, directly or indirectly, adversely affect the value of our properties and lodging demand and therefore our business, financial condition and results of operations.

The ultimate impact of these events and the effects they may have on our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

We incurred losses in recent fiscal years due to the recent economic downturn, and we may incur losses in the future. We incurred net losses of \$58.3 million, \$4.9 million and \$230.8 million for our 2012, 2011 and 2010 fiscal years, respectively, due to the recent economic downturn that negatively impacted business and leisure travel. In the event the current economic recovery stalls and negative economic conditions return, we will likely incur additional losses. There can be no assurance that we will maintain profitable operations and generate net income for our stockholders in the near term or at all.

Our financial covenants may adversely affect our financial position, results of operations and liquidity.

The agreement governing our bank credit facility and certain other agreements include financial and other covenants that must be met for us to remain in compliance with those agreements. Those agreements also contain customary restrictions, requirements and other limitations, including restrictions on our ability to incur additional indebtedness. Importantly, our bank credit facility contains financial covenants that must be met, including the maintenance of stipulated minimum levels of tangible net worth and fixed charge coverage, and maximum levels of leverage and borrowing base availability. Availability under our bank credit facility is based on, among other factors, the lesser of the calculation of 1.4 times debt service coverage based on the greater of the in-place interest rate or 7.0% debt constant for the borrowing base assets or a 55% advance rate against the appraised value of the borrowing base assets. Our ability to borrow under our bank credit facility is subject to compliance with these financial and other covenants, and our ability to comply with these covenants will be impacted by, among other things, any deterioration in our operations brought on by the recent economic downturn, potential further declines in our property values and additional borrowings to maintain our liquidity and fund our capital and financing obligations.

Our available capacity under the bank credit facility and compliance with financial covenants in future periods will depend substantially on the financial results of our hotels and resorts, and in particular, the results of the borrowing base assets, which include the Four Seasons Jackson Hole hotel, the Four Seasons Silicon Valley hotel, the Marriott Lincolnshire Resort, the Ritz-Carlton Half Moon Bay hotel and the Ritz-Carlton Laguna Niguel hotel. If the financial results of our hotels and resorts deteriorate, or if our property values decline, the maximum availability under the bank credit facility may decline to a level below our short-term borrowing needs. If that were to occur, outstanding borrowings exceeding the maximum availability under the bank credit facility would need to be repaid to avoid a default under the bank credit facility, absent an amendment or waiver. If we are unable to borrow under our bank

credit facility or to refinance existing indebtedness, we may be prevented from funding our working capital needs. In the event that the economic recovery stalls and negative economic conditions return and our business significantly deteriorates, we may be required to take further steps to acquire the funds necessary to satisfy our short-term cash needs, including possibly liquidating some of our assets on terms that would be less attractive than would be obtainable after conditions in the economy, the credit markets and the hotel markets improve. If negative conditions return, our business deteriorates and we do not achieve a successful disposition of assets or increase our liquidity through alternative channels or

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modify or obtain a waiver to certain terms of our bank credit facility, we may breach one or more of our financial covenants or the maximum availability under the bank credit facility may fall below our short-term borrowing needs. A default under the bank credit facility would allow the lenders to declare all amounts outstanding under the facility to become due and payable.

We have substantial debt, a portion of which is variable-rate debt, and upon maturity, we plan to extend or refinance with new debt, which may not be available when required on optimal terms or at all.

We have a substantial amount of outstanding indebtedness, a portion of which bears interest at a variable-rate, and to the extent available, we may borrow additional variable-rate debt under our bank credit facility. When we seek to refinance our outstanding indebtedness, our interest expense may increase. Increases in interest rates on our existing variable-rate indebtedness, or on new indebtedness we incur when refinancing our existing indebtedness, would increase our interest expense, which could harm our cash flow and our ability to pay distributions. As of December 31, 2014, we had total debt of approximately \$1.71 billion, and approximately 66.2% of our total debt had variable interest rates.

Our significant debt may negatively affect our business and financial results, including:

- requiring us to use a substantial portion of our funds from operations to make required payments on principal and interest, which reduces the amounts available for distributions to our stockholders and funds available for operations, capital expenditures, future business opportunities and other purposes;
- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;
- limiting our ability to borrow more money for operations, capital or to finance acquisitions in the future; and
- requiring us to dispose of properties to make required payments of interest and principal.

Since we anticipate that our internally generated cash will be adequate to repay only a portion of our indebtedness prior to maturity, we expect that we will be required to repay debt through refinancings and/or equity offerings. The amount of our existing indebtedness may adversely affect our ability to repay debt through refinancings. See the discussion under the subheading “Debt Maturity:” in Note 10 of the Notes to our Consolidated Financial Statements included in Item 8 of Part II of this annual report on Form 10-K for quantified information regarding our debt maturities as of December 31, 2014. There can be no assurance that we will be able to refinance our debt with new borrowings on favorable terms or at all or raise capital through the sale of equity. If we are unable to refinance or restructure our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on disadvantageous terms, or forfeit the property securing such indebtedness, which might result in losses to us and which might adversely affect cash available for distributions to our stockholders. Alternatively, any debt we may arrange may carry a higher rate of interest or the shares we issue in any equity offering may require a higher rate of dividends or other dilutive terms. As a result, certain growth initiatives could prove more costly or not economically feasible. A failure to retain or refinance our bank credit facility or to add new or replacement debt facilities could have a material adverse effect on our business, financial condition and results of operations. The \$117.0 million mortgage debt related to the Fairmont Scottsdale Princess hotel matures April 9, 2015. There can be no assurance that we will be able to refinance this indebtedness.

We also could incur additional debt in connection with future acquisitions of real estate. We may, in some instances, to the extent available, borrow under our bank credit facility or borrow new funds to acquire properties. In addition, we may incur mortgage debt by obtaining loans secured by a portfolio of some or all of the real estate properties we acquire. If necessary or advisable, we may also borrow funds to satisfy the requirement that we distribute to stockholders at least 90% of our annual REIT taxable income or to ensure otherwise that we maintain our qualification as a REIT for U.S. federal income tax purposes.

Our working capital and liquidity reserves may not be adequate to cover all of our cash needs and we may have to obtain financing from either affiliated or unaffiliated sources. If the United States and global financial markets experience another downturn or turmoil, sufficient financing may not be available or, if available, may not be available on reasonable terms. Additional borrowings for working capital purposes will increase our interest expense, and therefore may harm our financial condition and results of operations.

Our organizational documents do not limit the amount of indebtedness that we may incur. To the extent we become more leveraged, the resulting increase in our debt service obligations would reduce cash available for distributions to our stockholders and could adversely affect our ability to make payments on our outstanding indebtedness and harm our financial condition.

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We own primarily upper upscale and luxury hotels and resorts, and the upper upscale and luxury segments of the lodging market are highly competitive and generally subject to greater volatility than other segments of the market, which could negatively affect our profitability.

The upper upscale and luxury segments of the hotel business are highly competitive. Our hotels and resorts compete on the basis of location, room rates and quality, service levels, reputation and reservations systems, among many other factors. There are many competitors in our hotel chain scale segments, and many of these competitors have substantially greater marketing and financial resources than we have. This competition could reduce occupancy levels and room revenue at our hotels and resorts, which would harm our operations. Over-building in the hotel industry may increase the number of rooms available and may decrease occupancy and room rates. We also face competition from nationally recognized hotel brands with which we are not associated. In addition, in periods of weak demand, profitability is negatively affected by the relatively high fixed costs of operating upper upscale and luxury hotels and resorts when compared to other classes of hotels and resorts.

The illiquidity of real estate investments and the lack of alternative uses of hotel properties could significantly limit our ability to respond to adverse changes in the performance of our properties and harm our financial condition. Because real estate investments are relatively illiquid, our ability to promptly sell one or more of our properties in response to changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

In addition, hotel properties may not readily be converted to alternative uses if they were to become unprofitable due to competition, age of improvements, decreased demand or other factors. The conversion of a hotel to alternative uses would also generally require substantial capital expenditures.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We may not have funds available to correct those defects or to make those improvements and as a result our ability to sell the property would be limited. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could significantly harm our financial condition and results of operations.

Certain of our long-lived assets, intangible assets, investments in unconsolidated affiliates and goodwill have in the past become impaired and may become impaired in the future.

We periodically review each of our hotels and resorts and any related goodwill for possible impairment. Based on the results of these analyses, in fiscal years 2013 and 2012 we wrote off \$0.7 million and \$14.6 million, respectively, to impairment losses to reduce the carrying value of long-lived assets to their estimated fair values. Our other hotels and related goodwill may become impaired, or our hotels which have previously become impaired may become further impaired, in the future, which may adversely affect our financial condition and results of operations.

We rely to a significant extent on our president and chief executive officer, Mr. Raymond L. Gellein, Jr., the loss of whom could have a material adverse effect on our business.

Our continued success will depend to a significant extent on the efforts and abilities of our president and chief executive officer, Mr. Raymond L. Gellein, Jr. Mr. Gellein has served as our president and chief executive officer since November 2012 and has served as our chairman of the board since August 2010. Mr. Gellein is an experienced hotel industry senior executive and operator. As chairman of the board, president and chief executive officer, Mr. Gellein is actively engaged in our management and determines our strategic direction, especially with regard to our operational, financing, acquisition and disposition activities. Mr. Gellein's departure could have a material adverse effect on our operations, financial condition and operating results. Pursuant to Mr. Gellein's employment agreement, as amended, Mr. Gellein will serve as our president and chief executive officer through December 31, 2015, subject to earlier termination under certain circumstances described in the agreement. We can make no assurance that Mr. Gellein's employment agreement will be extended beyond its current expiration date.

The geographic concentration of our hotels in California makes us more susceptible to an economic downturn or natural disaster in that state.

As of February 23, 2015, eight of the hotels and resorts we own were located in California, the greatest concentration of our portfolio of properties in any state. California has been historically at greater risk to certain acts of nature, such as fire, floods and earthquakes, than other states, and has also been subject to a more pronounced economic downturn than other states. It is also possible that a change in California laws applicable to hotels and resorts and the lodging industry may have a greater

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impact on us than a change in comparable laws in another jurisdiction where we have hotels and resorts. Accordingly, our business, financial condition and results of operations may be particularly susceptible to a natural disaster, downturn or changes in the California economy.

We have suspended the payment of dividends on our common stock.

In November 2008, we suspended payment of our dividend on our shares of common stock. We can provide no assurance as to when we will resume paying dividends on our common stock, if ever.

If we fail to maintain effective internal control over financial reporting and disclosure controls and procedures in the future, we may not be able to accurately report our financial results, which could have an adverse effect on our business.

If our internal control over financial reporting and disclosure controls and procedures are not effective, we may not be able to provide reliable financial information. If we discover deficiencies in our internal controls, we will make efforts to remediate these deficiencies; however, there is no assurance that we will be successful either in identifying deficiencies or in their remediation. Any failure to maintain effective controls in the future could adversely affect our business or cause us to fail to meet our reporting obligations. Such non-compliance could also result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements. In addition, perceptions of our business among customers, suppliers, rating agencies, lenders, investors, securities analysts and others could be adversely affected.

Rising operating expenses and costs of capital improvements could reduce our cash flow, earnings before interest expense, taxes, depreciation and amortization (EBITDA) and funds available for future distributions.

Our properties are subject to operating risks common to the lodging industry in general. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we could be required to spend additional funds for that property's operating expenses. Our properties are continually subject to increases in real estate and other tax rates, wages and benefits, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which may reduce our cash flow, EBITDA and funds available for future distributions to our stockholders.

Our hotel properties have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. Some of these capital improvements are mandated by health, safety or other regulations. These capital improvements may give rise to (i) a possible shortage of available cash to fund capital improvements, (ii) the possibility that financing for these capital improvements may not be available to us on affordable terms and (iii) uncertainties as to market demand or a loss of market demand after capital improvements have begun. The costs of these capital improvements could adversely affect our financial condition and amounts available for distributions to our stockholders.

Our business and operating results depend in large part upon the performance of third-party hotel management companies that manage our hotels and resorts.

Our hotels and resorts are managed by third-party hotel management companies pursuant to management agreements or, with respect to the Marriott Hamburg hotel, the lease applicable to that property. Therefore, our business and operating results depend in large part upon the performance of these hotel management companies under these management agreements.

Under the terms of these management agreements, the third-party hotel managers control the daily operations of our hotels and resorts. We do not have the authority to require any hotel or resort to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels and resorts are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, net revenue per available room or average daily rate, we may not be able to force the hotel management companies in question to change their methods of operation of our hotels and resorts. Additionally, in the event that we need to replace any hotel management company, we may be required by the terms of the applicable management agreement to pay a substantial termination fee and may experience disruptions at any affected hotel. The effectiveness of the hotel management companies in managing our hotels and resorts will, therefore, significantly affect the revenues, expenses and value of our hotels and resorts. Occasionally, we have discovered accounting and other errors at some of our properties relating to the improper recording of income statement expenses, misstated

inventories and other items apparently caused by poor accounting practices and oversight. In the event our third-party hotel management companies are not able to implement and maintain appropriate accounting or other controls with respect to our properties, our business, results of operations and financial condition could be adversely affected. Additionally, the hotel management companies that operate our hotels and resorts and their affiliates own, operate, or franchise properties other than our properties, including properties that directly compete with our properties. Therefore, a hotel

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management company may have different interests than our own with respect to short-term or long-term goals and objectives, including interests relating to the brand under which such hotel management company operates. Such differences may be significant depending upon many factors, including the remaining term of the applicable management agreement, trade area restrictions with respect to competitive practices by the hotel management company or its affiliates or differing policies, procedures or practices. Any of these factors may adversely impact the operation and profitability of a hotel or resort, which could harm our financial condition and results of operations. All revenues generated at our hotels and resorts, including credit card receivables, are deposited by the payors into accounts maintained and controlled by the relevant hotel management company, which pays operating and other expenses for the relevant hotel (including real and personal property taxes), pays itself management fees in accordance with the terms of the applicable management agreement and makes deposits into any reserve funds required by the applicable management agreement. In the event of a bankruptcy or insolvency involving a hotel management company, there is a risk that the payment of operating and other expenses for the relevant hotel and payment of revenues to us may be delayed or otherwise impaired. The bankruptcy or insolvency of a hotel management company may significantly impair its ability to provide services required under the management agreement.

Certain of the employees at our hotels and resorts are covered by collective bargaining agreements and labor disputes may disrupt operations or increase costs at our hotels and resorts.

Our hotel management companies act as employer of the hotel-level employees. At certain of our hotels, these employees are covered by collective bargaining agreements. At the current time, the collective bargaining agreement at the Hotel del Coronado has expired. At this time, we cannot predict when or whether a new agreement will be reached and what the impact of prolonged negotiations could be. If an agreement is reached, or if any of our hotels not currently operating under a collective bargaining agreement enters into one, such agreements may cause us to incur additional expenses related to the employees at our hotels, thereby reducing our profits and impacting our financial results negatively. Additionally, if agreements are not reached and there are labor disputes, including strikes, operations at our hotels could suffer due to the diversion of business to other hotels or increased costs of operating the hotels during such a labor dispute, thereby impacting our financial results negatively.

The outbreak of an epidemic or pandemic disease may have an adverse impact on our financial results.

An outbreak of an epidemic or pandemic disease may have a significant adverse impact on travel and the lodging industry. As a consequence, our financial results of operations may be adversely effected.

Our renovation and development activities are subject to timing, budgeting and other risks.

We are in the process of renovating several of our properties and expect to continue similar activities in the future. In addition, we have in the past, and may in the future, develop and redevelop certain properties. These renovation, development, and redevelopment activities and the pursuit of acquisition and other corporate opportunities expose us to certain risks, including those relating to:

- construction delays or cost overruns that may increase project costs and, as a result, make the project uneconomical;
- displacement in revenue during the period of renovation;
- defects in design or construction that may result in additional costs to remedy or require all or a portion of a property to be closed during the period required to rectify any such situation;
- the failure to complete construction of a property on schedule;
- insufficient occupancy rates at a completed project impeding our ability to pay operating expenses or achieve targeted rates of return on investment;
- the incurrence of acquisition and/or predevelopment costs in connection with projects that are delayed or not pursued to completion;
- natural disasters such as earthquakes, hurricanes, floods or fires that could adversely impact a project;
- receipt of zoning, occupancy, building, land-use or other required governmental permits and authorizations; and
- governmental restrictions on the nature or size of a project or timing of completion.

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In the case of an unsuccessful project, we may be required to write off capitalized costs associated with the project and such write-offs may be significant and adversely affect our financial condition and results of operations.

We face competition for the acquisition of real estate properties.

We compete with institutional pension funds, private equity investors, other REITs, owner-operators of hotels and resorts and others who are engaged in real estate investment activities that focus on the acquisition of hotels and resorts. These competitors may drive up the price we must pay for real estate property, other assets or other companies we seek to acquire or may succeed in acquiring those real estate properties, other assets or other companies themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable investment properties may increase in the future. This would result in increased demand for these real estate properties, other assets or other companies and therefore increase the prices required to be paid for them. If we pay higher prices for real estate properties, other assets or other companies, our profitability may be reduced. Also, future acquisitions of real property, other assets or other companies may not yield the returns we expect and, if financed using our equity, may result in stockholder dilution. We also may not be successful in identifying or consummating acquisitions and investments in unconsolidated affiliates on satisfactory terms. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for intangible assets. We also may incur significant expenses in connection with acquisition or other corporate opportunities we pursue but do not consummate.

Investing through partnerships decreases our ability to manage risk.

In addition to acquiring or developing hotels and resorts directly, we have from time to time invested, and expect to continue to invest in hotels and ancillary businesses, as a partner. Partners often have shared control over the operation of the assets. Therefore, investments may involve risks such as the possibility that the partner in an investment might become bankrupt or not have the financial resources to meet its obligations, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Consequently, actions by a partner might subject hotels, resorts and businesses to additional risk. We may be unable to take action without the approval of our partners, and alternatively, our partners could take actions without our consent. Additionally, should a partner become bankrupt, we could become liable for our partner's share of liabilities.

Our business and operations would suffer in the event of system failures.

Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

Cyber security risks and cyber incidents could adversely affect our business and disrupt operations.

The hospitality industry is under increasing attack by cyber-criminals in the United States and other jurisdictions in which we operate. These attacks can be deliberate attacks or unintentional events that could cause interruptions or delays in our business, loss of data, or render our management companies unable to process reservations. Accordingly, an extended interruption in the ability of any system to function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

While we carry property and business operation interruption insurance, we may not be sufficiently compensated for all losses we may incur. These losses include not only a loss of revenues but also potential reputational damage to the brands which manage our hotels, our brand and litigation, fines or regulatory action against us. Furthermore, we may also incur substantial remediation costs to repair system damage as well as satisfy liabilities for stolen assets or information that may further reduce our profits.

Risks related to the lodging and real estate industries

A number of factors, many of which are common to the lodging industry and beyond our control, could affect our business, including those described elsewhere herein as well as the following:

increased competition from new supply or existing hotel properties in our markets, which would likely adversely affect occupancy and revenues at our hotels and resorts;

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dependence on business, commercial and leisure travelers and tourism;
dependence on group and meeting/conference business;
increases in energy costs, airline bankruptcies, airline strikes or other factors that may affect travel patterns and reduce the number of business and commercial travelers and tourists;
risks generally associated with the ownership of hotel properties and real estate, as we discuss in more detail below;
general economic and business conditions affecting the lodging and travel industry, both nationally and locally, including a prolonged U.S. recession;
increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs (including the impact of the Patient Protection and Affordable Care Act), utility costs, insurance and unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; and
adverse effects of international market conditions, which may diminish the desire for leisure travel or the need for business travel, as well as national, regional and local economic and market conditions in which our hotels and resorts operate and where our customers live.

These factors could have an adverse effect on our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.

Uninsured and underinsured losses could adversely affect our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.

Various types of catastrophic losses, such as losses due to wars, terrorist acts, earthquakes, floods, hurricanes or pollution or other environmental matters generally are either uninsurable or not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. Although our earthquake insurance coverage is limited, as of February 23, 2015, eight of our hotels and resorts were located in California, which has been historically at a greater risk for certain acts of nature (such as fire, floods and earthquakes) than other states. Our InterContinental Miami hotel is located in an area that is prone to hurricanes and/or floods.

In the event of a catastrophic loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. In the event of a significant loss that is covered by insurance, our deductible may be high and, as a consequence, it could materially adversely affect our financial condition. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position in the damaged or destroyed property.

Certain events, such as Hurricanes Katrina and Rita in 2005, have historically made it more difficult and expensive to obtain property and casualty insurance, including coverage for windstorm, flood and earthquake damage, and such events could occur again. We may encounter difficulty in obtaining or renewing property insurance, including coverage for windstorm, flood and earthquake damage, or casualty insurance on our properties at the same levels of coverage, under similar terms and in a timely manner due to a lack of capacity in the insurance markets or a lack of availability of such insurance at commercially reasonable rates. Insurance we would be able to obtain may be more limited and for some catastrophic risks (e.g., earthquake, flood, windstorm and terrorism) may not be generally available to fully cover potential losses. Even if we would be able to obtain new policies with desired levels and with limitations, we cannot be sure that we would be able to obtain such insurance at premium rates that are commercially reasonable or that there would not be gaps in our coverage. If we did not obtain adequate insurance on our properties for certain risks or in a timely manner, it would expose us to uninsured losses and could cause us to be in default under specific covenants on certain of our indebtedness or other contractual commitments which require us to maintain adequate insurance on our properties to protect against the risk of loss. If this were to occur, or if we were

unable to obtain adequate insurance and our properties experienced damage which would otherwise have been covered by insurance, it could materially adversely affect our financial condition and the operations of our properties.

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We obtain terrorism insurance to cover any property damage caused by any terrorism act under a separate stand-alone policy of insurance, and also have terrorism insurance under our general liability program and in our program for directors' and officers' coverage. We may not be able to recover fully under our existing terrorism insurance for losses caused by some types of terrorist acts, and federal terrorism legislation does not ensure that we will be able to obtain terrorism insurance in adequate amounts or at acceptable premium levels in the future. Many insurers only provide terrorism coverage to the extent mandated by the Terrorism Risk Insurance Program Reauthorization Act of 2015, or TRIPRA, which extended the Terrorism Risk Insurance Act of 2002 through the end of 2020. While TRIPRA will reimburse insurers for losses resulting from nuclear, radiological, biological and chemical perils, TRIPRA does not require insurers to offer coverage for these perils and, to date, insurers are not willing to provide this coverage, even with government reinsurance. Any damage related to war and to nuclear, biological and chemical incidents, therefore, is excluded under our policies. In addition, we have no assurance that this legislation will be extended beyond 2020. As a result of the above, there remains uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks that impact our properties.

The threat of terrorism has historically adversely affected the lodging industry generally and these adverse effects may worsen if there are further terrorist events.

The threat of terrorism has historically caused a significant decrease in hotel occupancy and average daily rates due to disruptions in business and leisure travel patterns and concerns about travel safety. Future terrorist acts, terrorism alerts or outbreaks of hostilities could have a negative effect on travel and on our business.

Seasonal variations in revenue at our hotels and resorts can be expected to cause quarterly fluctuations in our revenues.

Revenues for hotels and resorts in tourist areas generally are substantially greater during tourist season than other times of the year. To the extent that cash flows from operations are insufficient during any quarter, due to seasonal fluctuations in revenues, we may have to enter into short-term borrowings to fund operations, pay interest expense or make distributions to our stockholders.

We consider acquisition opportunities in the ordinary course of our business, which may not perform as anticipated. In the ordinary course of our business and when our liquidity position permits, we consider strategic acquisitions. The acquisition of properties involves risks, including the risk that the acquired property will not perform as anticipated and the risk that any actual costs for rehabilitating, repositioning, renovating and improving identified in the pre-acquisition process will exceed estimates.

Environmental and other governmental laws and regulations could increase our compliance costs and liabilities and adversely affect our financial condition and results of operations.

Our properties are subject to various U.S. federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if the contamination pre-dated our ownership of the property or we did not know of or were not responsible for the contamination. These laws may also force a party who owned a property at the time of its contamination, but no longer owns the property, to be responsible for the cleanup. In addition to the costs of clean-up, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property. These laws can also impose liability on parties that arrange for the disposal of wastes at an offsite property that becomes contaminated.

In addition, some of these environmental laws can restrict the use of a property and place conditions on various activities. An example would be laws that require a business using hazardous substances on a property (such as swimming pool and lawn care chemicals) to manage them carefully and to notify local officials that the chemicals are being used. Failure to comply with these laws could result in fines and penalties or expose us to third-party liability. From time to time, the United States Environmental Protection Agency, or EPA, designates certain sites affected by hazardous substances as Superfund sites. Superfund sites can cover large areas, affecting many different parcels of land. The EPA may choose to pursue parties regardless of their actual contribution to the contamination. The Los Angeles Marriott Burbank Airport hotel, which we sold in September 2006, is located within a federal Superfund site. The area was designated as a Superfund site because groundwater underneath the area is contaminated. We have not been named, and do not expect to be named, as a party responsible for the clean-up of the groundwater contamination;

however, there can be no assurance regarding potential future developments concerning this site.

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The presence of any environmental conditions at our properties could result in remediation and other costs and liabilities and adversely affect our financial condition and results of operations.

We have reviewed environmental reports prepared by our consultants and consultants retained by our lenders at various times, which disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of environmental contamination or impose liability on us. At some properties these include on-site dry cleaning operations, petroleum storage in underground storage tanks, past tank removals and the known or suspected presence of asbestos, mold or thorium.

The costs to clean up a contaminated property or defend against a related claim or to comply with environmental laws could be material and could adversely affect the funds available for distributions to our stockholders. Future laws or regulations may impose material environmental liabilities on us, the current environmental condition of our properties may be affected by the condition of the properties in the vicinity of our properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us and currently unknown environmental liabilities related to our properties may be identified.

If we are not in compliance with the Americans with Disabilities Act of 1990, we may face significant costs to modify our properties and/or be subject to fines.

Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. If we are required to make substantial modifications to our hotels and resorts, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and ability to make distributions to our stockholders could be adversely affected.

We derive revenues from outside the United States, which subjects us to different legal, monetary and political risks, as well as currency exchange risks, and may cause unpredictability in our cash flows.

A portion of our investments are in properties located outside the United States. International investments and operations generally are subject to various political and other risks that are different from and in addition to those for U.S. investments and operations, including:

enactment of laws prohibiting or restricting the foreign ownership of property;

laws restricting us from removing profits earned from activities within the country to the United States (i.e., nationalization of assets located within a country);

- changes in laws, regulations and policies, including land use, zoning and environmental laws, and in real estate and other tax rates;

exchange rate fluctuations;

change in the availability, cost and terms of mortgage funds resulting from varying national economic policies or changes in interest rates;

high administrative costs; and

terrorism, war or civil unrest.

Unfavorable legal, regulatory, economic or political changes such as those described above could adversely affect our financial condition and results of operations.

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Risks related to our organization and structure

Provisions of our organizational documents may limit the ability of a third party to acquire control of our company and may depress our stock price.

In order for us to maintain our status as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. To make sure that we will not fail to qualify as a REIT under this test, subject to some exceptions, our charter prohibits any individual from owning beneficially or constructively more than 9.8% of the value of outstanding shares of our stock or more than 9.8% of the value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock. Any attempt to own or transfer shares of our capital stock in excess of the ownership limit without the consent of our board of directors will be void, and could result in the shares being automatically transferred to a charitable trust. This ownership limitation may prevent an acquisition of control of our company by a third party without our board of directors' grant of an exemption from the ownership limitation, even if our stockholders believe the change of control is in their interest.

Our charter authorizes our board of directors to cause us to issue up to 350,000,000 shares of common stock and up to 150,000,000 shares of preferred stock. Additionally, our charter authorizes our board of directors to amend our charter without stockholder approval to increase or decrease the aggregate number of shares of stock or the number of shares of any class or series of our stock that we have authority to issue, to classify or reclassify any unissued shares of common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Issuances of additional shares of stock may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our stock, even if stockholders believe that a change of control is in their interest.

Our charter permits the removal of a director only upon the affirmative vote of two-thirds of the votes entitled to be cast, generally in the election of directors, and provides that vacancies may only be filled by a majority of the remaining directors. Our bylaws require advance notice of a stockholder's intention to nominate directors or present business for consideration by stockholders at an annual meeting of our stockholders. These provisions may delay, defer or prevent a transaction or change in control that involves a premium price for our common stock or that for other reasons may be desired by our stockholders.

Provisions of Maryland law may limit the ability of a third party to acquire control of our company.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares, including:

“business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special super majority stockholder voting requirements on these combinations;

“control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares; and

“unsolicited takeover” provisions of Maryland law permit our board of directors, without stockholder approval, to implement a classified board as well as impose other restrictions on the ability of a third party to acquire control.

We have opted out of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, we may, by amendment to our bylaws, become subject to the control share provisions of the MGCL in the future.

You have limited control as a stockholder regarding any changes we make to our policies.

Our board of directors approves our major policies, including our investment objectives, financing, growth and distributions. Our board of directors may amend or revise these and other policies without a vote of our stockholders. This means that our stockholders will have limited control over changes in our policies.

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Tax risks

If we fail to maintain our status as a REIT, our distributions will not be deductible by us, and our income will be subject to U.S. federal taxation, reducing our earnings available for distribution.

We currently qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to herein as the Tax Code. The requirements for this qualification, however, are complex and require annual distributions to our stockholders tied to our taxable income (irrespective of available cash from operations), quarterly asset tests and diversity of stock ownership rules. If we fail to meet these requirements, our distributions to our stockholders will not be deductible by us and we will have to pay a corporate U.S. federal level tax on our income. This would substantially reduce our cash available to pay distributions to our stockholders. In addition, such a tax liability might cause us to borrow funds, liquidate some of our investments or take other steps, which could negatively affect our results of operations. Moreover, if our REIT status is terminated because of our failure to meet a technical REIT requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

Even if we maintain our status as a REIT, we may become subject to U.S. federal, state, local or foreign taxes on our income or property reducing our earnings available for distribution.

Even if we maintain our status as a REIT, we may become subject to U.S. federal income and other taxes and state and local taxes. For example, if we have net income from a “prohibited transaction,” that income will be subject to a 100% tax. A “prohibited transaction” is, in general, the sale or other disposition of inventory or property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay U.S. federal income tax directly on that income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of that tax liability. In addition, the REIT rules impose various taxes and penalties on transactions with taxable REIT subsidiaries that are determined not to be priced at an arm’s length, and on a REIT that has to avail itself of certain cure provisions in the Tax Code for the failure to meet all of the REIT qualification requirements. We cannot assure you that we will be able to continue to satisfy the REIT requirements, or that it will be in our best interests to continue to do so.

We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating partnerships or at the level of the other companies through which we indirectly own our assets. Foreign countries impose taxes on our hotels and resorts and our operations within their jurisdictions. We may not fully benefit from a foreign tax credit against our U.S. federal income tax liability for the foreign taxes we pay. As a result, our foreign taxes may reduce our income and available cash flow from our foreign hotels and resorts, which, in turn, could reduce our ability to make distributions to our stockholders.

Certain of our entities, including our foreign entities, are subject to corporate income taxes. Consequently, these entities are subject to potential audit. There can be no assurance that certain tax positions the entities have taken will not be challenged by taxing authorities and if the challenge is successful, could result in increased tax expense, which could be material.

If the leases of our hotels and resorts to our taxable REIT subsidiaries, or Affiliate Leases, are not respected as true leases for federal income tax purposes, we would fail to maintain our status as a REIT.

To continue to qualify as a REIT, we must satisfy two gross income tests under which specified percentages of our gross income must be certain types of passive income, such as rent. The rent paid pursuant to our Affiliate Leases will only qualify for purposes of the gross income tests if such Affiliate Leases are respected as true leases for U.S. federal income tax purposes and are not treated as service contracts, transfers between unconsolidated affiliates or some other type of arrangement. If our Affiliate Leases are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT.

Our taxable REIT subsidiaries, or TRSs, are subject to special rules that may result in increased taxes.

The REIT has to pay a 100% penalty tax on certain payments that it receives from a TRS if the economic arrangements between the REIT and the TRS are not comparable to similar arrangements between unrelated parties.

The Internal Revenue Service, or IRS, may successfully assert that the economic arrangements of any of our inter-company transactions, including our Affiliate Leases, are not comparable to similar arrangements between unrelated parties.

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We may be required to pay a penalty tax upon the sale of a hotel.

The U.S. federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a “prohibited transaction” that is subject to a 100% penalty tax. Under current laws, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of a hotel (or other property) constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We may make sales that do not satisfy the requirements of the safe harbors or the IRS may successfully assert that one or more of our sales are prohibited transactions; consequently, we may be required to pay a penalty tax if we have gains on any such transactions.

Dividends payable by REITs do not qualify for the reduced tax rates applicable to certain dividends.

The maximum federal tax rate for certain dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this reduced rate. Although this legislation does not directly adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular qualified corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less competitive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the comparative value of the stock of REITs, including our common stock.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy requirements and tests under the tax law concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego or limit attractive business or investment opportunities. For example, we may not lease to our TRS any hotel where gaming or wagering activities are conducted. Therefore, compliance with the REIT requirements may hinder our ability to operate solely to maximize profits.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Offices. We lease our headquarters located at 200 West Madison Street, Suite 1700, Chicago, Illinois 60606.

Property Overview and Performance. The following table presents certain information related to our hotel properties for the year ended December 31, 2014. All of the hotel properties in the following table relate to our one reportable business segment, hotel ownership.

Hotel	Location	Date Acquired	Number of Rooms	Year Ended December 31, 2014				% Change 2014 – 2013(1)				
				Average Occupancy	Average Daily Rate	RevPAR	Total RevPAR	RevPAR	Total RevPAR			
Fee Simple Property Interest												
Westin St. Francis(*)	San Francisco, CA	6/2006	1,195	87.6 %	\$ 269.68	\$ 236.25	\$ 371.63	10.1 %		8.7 %		
InterContinental Chicago(*)	Chicago, IL	4/2005	792	80.8 %	\$ 193.11	\$ 156.03	\$ 266.02	0.2 %		0.1 %		
Hotel del Coronado(2)(*)	Coronado, CA	1/2006	757	64.2 %	\$ 424.07	\$ 272.23	\$ 588.04	7.2 %		9.4 %		
Fairmont Chicago(*)	Chicago, IL	9/2005	687	66.4 %	\$ 224.89	\$ 149.27	\$ 258.23	0.8 %		9.3 %		
Fairmont Scottsdale Princess(3)(*)	Scottsdale, AZ	9/2006	649	73.3 %	\$ 250.14	\$ 183.38	\$ 453.70	9.6 %		15.4 %		
InterContinental Miami(*)	Miami, FL	4/2005	641	84.5 %	\$ 196.44	\$ 165.92	\$ 300.23	8.7 %		10.2 %		
JW Marriott Essex House Hotel(4)(*)	New York, NY	9/2012	510	82.5 %	\$ 447.38	\$ 368.99	\$ 536.43	2.9 %		1.9 %		
Hyatt Regency La Jolla(5)(*)	La Jolla, CA	7/1999	417	68.6 %	\$ 173.08	\$ 118.66	\$ 224.76	(4.4)%		0.7 %		
Ritz-Carlton Laguna Niguel(6)	Dana Point, CA	7/2006	396	69.3 %	\$ 420.85	\$ 291.82	\$ 649.85	9.4 %		13.0 %		
Loews Santa Monica Beach Hotel(*)	Santa Monica, CA	3/1998	347	83.9 %	\$ 371.24	\$ 311.60	\$ 445.14	6.7 %		3.6 %		
Ritz-Carlton Half Moon Bay(6)	Half Moon Bay, CA	8/2004	261	69.4 %	\$ 438.11	\$ 303.83	\$ 708.36	6.8 %		8.7 %		
Four Seasons Washington, D.C.(*)	Washington, D.C.	3/2006	222	72.6 %	\$ 592.42	\$ 429.78	\$ 880.68	3.2 %		3.8 %		
Four Seasons Resort Scottsdale at Troon North(7)	Scottsdale, AZ	12/2014	210	62.8 %	\$ 415.70	\$ 261.21	\$ 525.66	10.5 %		11.7 %		
Four Seasons Silicon Valley(6)	East Palo Alto, CA	3/2011	200	74.5 %	\$ 404.95	\$ 301.80	\$ 526.41	11.9 %		6.6 %		
Four Seasons Jackson Hole(6)	Teton Village, WY	3/2011	124	59.7 %	\$ 644.10	\$ 384.45	\$ 959.08	6.0 %		6.7 %		
Ground Lease Property Interest												
Marriott Lincolnshire Resort(6)	Lincolnshire, IL	9/1997	389	60.5 %	\$ 134.95	\$ 81.70	\$ 246.64	18.2 %		9.4 %		
Leasehold Property Interest												
		6/2000	278	85.8 %	\$ 200.85	\$ 172.23	\$ 230.08	7.8 %		4.9 %		

Marriott Hamburg,
Hamburg(8) Germany

Total (9) 8,075 75.7 % \$ 296.20 \$224.29 \$420.75 6.5 % 7.8 %

(1) The year-over-year comparisons are calculated using full year results which may include prior ownership periods.

Prior to June 11, 2014, we indirectly owned a 36.4% equity interest in the affiliate that owns this property. On June 11, 2014, we acquired the remaining 63.6% equity interest in the affiliate that owns this property. See "Item 8.

(2) Financial Statements and Supplementary Data—3. Investment in Hotel Properties, Net" for further detail. The statistical information includes full year results.

Prior to March 31, 2014, we indirectly owned a 50.0% equity interest in the affiliate that owns this property. On

(3) March 31, 2014, we acquired the remaining 50.0% equity interest in the affiliate that owns this property. We have a ground lease interest in one land parcel at this property. See "Item 8. Financial Statements and Supplementary

Data—3. Investment in Hotel Properties, Net" for further detail. The statistical information includes full year results.

(4) We own a 51.0% controlling interest in an affiliate that owns this property. See "Item 8. Financial Statements and Supplementary Data—6. Variable Interest Entity" for further detail.

(5) We own a 53.5% controlling interest in an affiliate that owns this property.

(6) These properties are borrowing base assets under our bank credit facility. See "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Bank Credit Facility" for further detail.

The table includes statistical information for the year ended December 31, 2014 only for our period of ownership.

(7) However, the year-over-year comparisons are calculated using full year results which include prior ownership periods.

This property was originally acquired on the date indicated in the table but was subsequently sold to a third party

(8) and leased back to us in a transaction that is more fully described under "Item 8. Financial Statements and Supplementary Data—9. Operating Lease Agreements."

(9) The property table excludes information related to the Montage Laguna Beach resort, which we acquired on January 29, 2015.

(*) These properties are subject to mortgages as more fully described under "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Mortgages and Other Debt Payable, Net of Discount."

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Principal Terms of Management Agreements. As of December 31, 2014, 16 of our hotel properties are subject to management agreements with third party hotel managers and one is subject to a lease agreement with a third party hotel manager. For the management agreements, the principal terms are described below:

Base Management Fees. Our agreements generally provide for the payment of base management fees between 1.25% and 4.0% of the applicable hotel's revenues, as determined in the agreements.

Incentive Management Fees. Our agreements generally provide the opportunity for the hotel manager to earn incentive management fees, which are typically a percentage of a hotel's profit for the year. In certain instances, a level of return to us or performance of the hotel is required before a hotel manager is entitled to an incentive fee.

Additionally, notwithstanding the specific formulas for the incentive fee calculations in the agreements, in certain instances, the incentive management fee to be earned by the hotel manager is capped.

Terms. As of December 31, 2014, the remaining terms of the management agreements, not including renewal options, range from three years to 28 years and average 12 years. Generally, we do not have the right to exercise renewal options for the agreements. Instead, the term of an agreement either renews automatically, unless the hotel manager provides notice of termination, or is otherwise renewable within the discretion of the hotel manager.

Services. The agreements require the hotel managers to furnish the hotels with certain services, which include on-site management and may include central training, advertising and promotion, national reservations systems, payroll and accounting services and such additional services as needed. We are responsible for payment of the operating expenses related to the hotel.

Annual Budget. The agreements require the hotel manager to prepare and implement annual budgets, subject to our review and approval.

Ability to Terminate. The agreements generally are not subject to early termination by us unless certain conditions exist, including the failure of the hotel manager to satisfy yearly performance-related criteria in 13 of our agreements.

Working Capital. Our agreements typically require us to maintain working capital for the related hotel. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from the hotel operations are insufficient to meet the financial requirements of the hotel.

Furniture, Fixtures and Equipment Reserves. We are required to provide to the hotel manager all of the necessary furniture, fixtures and equipment for the operations of the hotel. Our agreements generally provide that between 4.0% and 5.0% of revenues of the hotel be reserved by the manager or deposited into a separate account held by us each year.

Sale of Hotel. Generally, our agreements limit our ability to sell, lease or otherwise transfer each hotel unless the transferee is not a competitor of the manager, assumes the management agreement, and meets other specified conditions.

JW Marriott Essex House Hotel Performance Guarantee. A provision of this management agreement, entered into with an affiliate of Marriott, requires that Marriott provide the Company with a limited performance guarantee that will ensure, subject to certain limitations, a target level of net operating profit. The guarantee period began on September 17, 2012 and will continue through the earlier of (a) December 31, 2020, (b) the date at which the maximum guarantee has been funded, or (c) the termination of the management agreement.

Mortgage Debt Pertaining to Our Properties. For information relating to the mortgage debt pertaining to our properties, refer to "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Mortgages and Other Debt Payable, Net of Discount" and "Item 8. Financial Statements and Supplementary Data—21. Subsequent Events."

ITEM 3. LEGAL PROCEEDINGS.

We are not involved in any material litigation, and, to our knowledge, there is no material litigation threatened against us, other than routine litigation arising in the ordinary course of business or which is expected to be covered by insurance.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed and traded on the NYSE under the symbol "BEE". As of February 20, 2015, the number of registered holders of record of our common stock was 63. However, because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe that there are considerably more beneficial holders of our common stock than record holders.

The following table sets forth the high and low sale prices for our common stock as reported on the NYSE composite transaction tape and the per share cash dividends declared on our common stock for the period January 1, 2013 through December 31, 2014.

	2014 Per Share of Common Stock			2013 Per Share of Common Stock		
	Market Price		Dividend	Market Price		Dividend
	High	Low	Paid	High	Low	Paid
First Quarter	\$10.57	\$8.89	\$—	\$8.55	\$6.44	\$—
Second Quarter	11.84	9.66	—	9.69	7.63	—
Third Quarter	12.38	11.27	—	9.20	8.09	—
Fourth Quarter	13.68	11.01	—	9.61	8.19	—
Year	\$13.68	\$8.89	\$—	\$9.69	\$6.44	\$—

We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) to our stockholders to comply with REIT provisions of the Tax Code. If necessary for REIT qualification purposes, we may need to distribute any taxable income in cash or by a special dividend. Our dividend policy is subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend on our taxable income, our financial condition, our maintenance of REIT status and other factors as our board of directors deems relevant.

On November 4, 2008, our board of directors elected to suspend the quarterly dividend to holders of shares of common stock. Our board of directors has continued the suspension of the quarterly dividend to holders of shares of our common stock as a measure to preserve liquidity. Our board of directors will continue to evaluate the dividend policy in light of the REIT provisions of the Tax Code, restrictions under the bank credit facility, the overall economic climate, and our improving financial results.

For a description of restrictions on the payment of dividends, see "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Bank Credit Facility."

Equity Compensation Plan Information

There are 9,700,000 shares of common stock authorized for issuance under our Second Amended and Restated 2004 Incentive Plan (the Amended and Restated Plan). As of December 31, 2014, there have been 2,448,724 securities issued into common stock. The following table sets forth certain information with respect to securities authorized and available for issuance under the Amended and Restated Plan as of December 31, 2014.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under the Amended and Restated Plan (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders:			3,665,530
Restricted stock units (RSUs)(1)	3,076,329	N/A	
Total	3,076,329		3,665,530

(1) Excludes 509,417 potential above-target RSUs that could be earned from existing grants under the Amended and Restated Plan.

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ITEM 6. SELECTED FINANCIAL DATA.

The following sets forth our selected consolidated financial and operating information on a historical basis. The following information should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto, which are included in “Item 8. Financial Statements and Supplementary Data.”

	Years Ended December 31,				
	2014(1)	2013(1)	2012(1)	2011(1)	2010(1)
	(In thousands, except per share data)				
Operating Data:					
Revenue:					
Rooms	\$582,969	\$479,734	\$401,305	\$365,598	\$317,058
Food and beverage	385,623	287,557	257,298	250,215	221,423
Other hotel operating revenue	115,084	91,355	73,585	72,297	69,428
Lease revenue	5,406	5,161	4,778	5,422	4,991
Total revenues	1,089,082	863,807	736,966	693,532	612,900
Operating costs and expenses:					
Rooms	168,256	138,946	116,093	105,605	96,888
Food and beverage	277,962	221,388	190,106	181,892	161,227
Other departmental expenses	270,219	213,714	193,154	189,131	180,883
Management fees	36,331	25,000	20,732	20,545	18,020
Other hotel expenses	67,058	58,435	50,795	47,513	42,124
Lease expense	4,873	4,818	4,580	4,865	4,566
Depreciation and amortization	119,688	96,712	90,659	96,340	114,608
Impairment losses and other charges	—	728	18,406	—	141,858
Corporate expenses	26,898	25,176	31,098	39,043	33,852
Total operating costs and expenses	971,285	784,917	715,623	684,934	794,026
Operating income (loss)	117,797	78,890	21,343	8,598	(181,126)
Interest expense	(82,119)	(77,189)	(70,311)	(76,133)	(78,210)
Equity in earnings (losses) of unconsolidated affiliates	5,237	2,987	(13,485)	(9,215)	13,025
Income (loss) from continuing operations	181,672	4,313	(61,686)	(100,603)	(264,307)
Income from discontinued operations, net of tax	159,378	5,574	3,425	95,751	33,507
Net income (loss)	341,050	9,887	(58,261)	(4,852)	(230,800)
Net (income) loss attributable to the noncontrolling interests in SHR’s operating partnership	(1,221)	(38)	184	29	1,687
Net loss (income) attributable to the noncontrolling interests in consolidated affiliates	4,654	1,126	2,771	(383)	(1,938)
Preferred shareholder dividends	(24,084)	(24,166)	(24,166)	(18,482)	(30,886)
Net income (loss) attributable to SHR common shareholders	320,399	(13,191)	(79,472)	(23,688)	(261,937)
Income (loss) from continuing operations attributable to SHR common shareholders per share—basic	\$0.69	\$(0.09)	\$(0.41)	\$(0.67)	\$(2.40)
Income (loss) from continuing operations attributable to SHR common shareholders per share—diluted	\$0.65	\$(0.09)	\$(0.41)	\$(0.67)	\$(2.40)

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	As of the Years Ended December 31,					
	2014(1)	2013(1)	2012(1)	2011(1)	2010(1)	
	(In thousands, except statistical data)					
Balance Sheet Data:						
Total assets	\$3,619,157	\$2,337,151	\$2,406,417	\$2,086,689	\$2,162,316	
Long-term debt obligations	1,705,778	1,273,696	1,322,297	1,050,385	1,146,281	
Total liabilities	2,066,908	1,526,749	1,597,969	1,419,686	1,511,922	
Noncontrolling interests in SHR's operating partnership	10,500	7,534	5,463	4,583	5,050	
Noncontrolling interests in consolidated affiliates	94,292	92,355	95,657	8,222	25,082	
SHR's shareholders' equity	1,447,457	710,513	707,328	654,198	620,262	
Statistical Data:						
Number of hotels at the end of the year excluding unconsolidated affiliates	17	16	16	15	15	
Number of rooms at the end of the year excluding unconsolidated affiliates	8,075	6,866	6,865	6,356	6,873	
Average occupancy rate	76.1	% 76.9	% 74.1	% 72.2	% 69.5	%

(1) We sold two hotel properties in 2014, one hotel property in 2011, and one hotel property in 2010. The operations of these hotels are included as discontinued operations in the operating data above for all years presented.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS.

The following discussion and analysis is based primarily on the consolidated financial statements of Strategic Hotels & Resorts, Inc. (SHR) and its subsidiaries for the years presented and should be read together with the notes thereto contained in this annual report on Form 10-K. Terms employed herein as defined terms, but without definition, have meanings set forth in the notes to the consolidated financial statements (see "Item 8. Financial Statements and Supplementary Data").

Overview

Our core business is to acquire and asset-manage upper upscale and luxury hotels (as defined by Smith Travel Research, an independent provider of lodging industry statistical data). We own a unique portfolio of hotels that includes complex assets with multiple revenue streams located in select urban and resort markets that have strong growth characteristics and high barriers to entry. See "Item 8. Financial Statements and Supplementary Data—1. General" for the hotel interests owned or leased by us as of December 31, 2014. We are committed to enhancing shareholder value through a disciplined strategy that includes internal growth through exceptional asset management; conservative balance sheet management; disciplined capital allocation; and opportunistic dispositions of hotels upon completion of our value enhancement and cash flow generating strategies.

We were incorporated in Maryland in January 2004 and completed our initial public offering of our common stock in June 2004. We made an election to be taxed as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Tax Code). A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. To continue to qualify as a REIT, we cannot operate hotels; instead we employ internationally known hotel management companies to operate our hotels under management contracts. We operate as a self-administered and self-managed REIT, which means that we are managed by our board of directors and executive officers. We conduct our operations through our direct and indirect subsidiaries including our operating partnership, Strategic Hotel Funding, L.L.C. (SH Funding), which currently holds substantially all of our assets. We are the managing member of SH Funding and hold approximately 99.7% of its membership units as of December 31, 2014. We manage all business aspects of SH Funding, including the sale and purchase of hotels, the investment in such hotels and the financing of SH Funding and its assets.

Throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, references to "we", "our", "us", and "the Company" are references to SHR together, except as the context otherwise requires, with its consolidated subsidiaries, including SH Funding.

When presenting the U.S. dollar equivalent amount for any amounts expressed in a foreign currency, the U.S. dollar equivalent amount has been computed based on the exchange rate on the date of the transaction or the exchange rate prevailing on December 31, 2014, as applicable, unless otherwise noted.

Key Indicators of Operating Performance

We evaluate the operating performance of our business using a variety of operating and other information that includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) such as total revenues, operating income (loss), net income (loss), and earnings per share, as well as non-GAAP financial information. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the performance of individual hotels, groups of hotels, and/or our business as a whole. Key indicators that we evaluate include average daily occupancy, average daily rate (ADR), revenue per available room (RevPAR), and Total RevPAR, which are more fully discussed under "—Factors Affecting Our Results of Operations—Revenues." We also evaluate Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Comparable EBITDA, Funds from Operations (FFO), FFO-Fully Diluted, and Comparable FFO as supplemental non-GAAP measures to GAAP performance measures. We provide a more detailed discussion of the non-GAAP financial measures under "—Non-GAAP Financial Measures."

Outlook

The lodging industry began its recovery in the first quarter of 2010, after one of the worst downturns in its history. Luxury demand, in which our portfolio has the highest concentration of assets, has experienced positive

RevPAR growth since that time. RevPAR gains continued throughout 2014, including the fourth quarter, driven by improved group demand and increases in average room rates.

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The fourth quarter of 2014 represented the nineteenth consecutive quarter of RevPAR growth and profit margin expansion for our same store United States portfolio of 15 hotels, which excludes the Four Seasons Resort Scottsdale at Troon North. For the quarter ended December 31, 2014, RevPAR for our same store United States portfolio increased 7.3%, driven by a 5.9% increase in ADR and a 1.0 percentage point increase in occupancy, compared to the quarter ended December 31, 2013. Group occupied room nights increased 6.6% while transient occupied room nights decreased 2.2%. Transient ADR increased 6.4% compared to the quarter ended December 31, 2013 and group ADR increased 5.7%.

For the full year December 31, 2014, RevPAR for our same store United States portfolio increased 6.3%, driven by a 5.5% increase in ADR and a 0.6 percentage point increase in occupancy, compared to the year ended December 31, 2013. Group occupied room nights increased 6.5% while transient occupied room nights decreased 3.4%. Transient ADR increased 7.0% compared to the year ended December 31, 2013 and group ADR increased 4.3%

The key indicators of operating performance of our same store United States portfolio, including RevPAR and ADR, differ from the key indicators of operating performance of our Same Store Assets portfolio (which is defined within "-Factors Affecting Our Results of Operations - Total Portfolio and Same Store Assets Definitions"), which are discussed in the remainder of this "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our same store United States portfolio includes 100.0% of the results of operations of the Fairmont Scottsdale Princess hotel and the Hotel del Coronado for periods prior to our full ownership, and the Same Store Assets portfolio excludes the results of the Fairmont Scottsdale Princess hotel, the Hotel del Coronado, and the Four Seasons Resort Scottsdale at Troon North, which were acquired and consolidated in 2014.

As we assess lodging supply and demand dynamics looking forward, we are optimistic about the long-term prospects for a sustained recovery, particularly in the product niche and markets in which we own assets. Group bookings pace remains our best forward indicator of demand. For our same store United States portfolio of hotels, definite group room nights for 2015 as of December 31, 2014 are down 0.7% compared to the same time last year; however, they are booked at 2.9% higher rates. New supply in the luxury and upper upscale segments remains very well contained in our markets and the current significant gap between hotel trading values and replacement costs bodes favorably for very limited supply growth into the future.

During the lodging downturn we implemented hotel specific contingency plans designed to reduce costs and maximize efficiency at each hotel. These include, but are not limited to, adjusting variable labor, eliminating certain fixed labor, and reducing the hours of room service operations and other food and beverage outlets. We believe the cost structures of our hotels have been fundamentally redesigned to sustain many of the cost reductions, even during periods of rising lodging demand. Therefore, we are optimistic that improving lodging demand will lead to increases in ADR and drive significant profit margin expansion throughout our portfolio.

European Strategy

We previously announced our intention to exit our assets in Europe in an orderly process designed to maximize proceeds. Since that time, we sold the Renaissance Paris Hotel LeParc Trocadero (Renaissance Paris), the InterContinental Prague hotel, our leasehold interest in the Paris Marriott hotel and the Marriott London Grosvenor Square hotel. With the closing of the sale of the Marriott London Grosvenor Square hotel on March 31, 2014, we have effectively completed our exit from Europe as our only remaining European asset is our leasehold interest in the Marriott Hamburg hotel. We continue to opportunistically explore options to exit this investment and still intend to be North American-centric with respect to any new acquisitions.

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Factors Affecting Our Results of Operations

The table below summarizes the changes to our consolidated hotel properties and rooms as of December 31, 2014, 2013 and 2012 and includes assets held for sale as of December 31, 2013:

	2014	2013	2012
Hotels			
Number of hotels, beginning of year	16	16	15
Acquisitions	3	—	1
Dispositions	(2) —	—
Number of hotels, end of year	17	16	16
Rooms			
Number of rooms, beginning of year	6,866	6,865	6,356
Acquisitions	1,616	—	509
Net room expansions	3	1	—
Dispositions	(410) —	—
Number of rooms, end of year	8,075	6,866	6,865

Acquisition of Interests in Consolidated Properties. During the years ended December 31, 2014, 2013 and 2012, we acquired interests in the following consolidated properties and paid net purchase prices, including proration adjustments related to assets and liabilities of the hotels, as shown below:

Hotel	Date Acquired	Net Purchase Price (in millions)
Four Seasons Resort Scottsdale at Troon North	December 9, 2014	\$140.9
Hotel del Coronado(a)	June 11, 2014	\$805.0
Fairmont Scottsdale Princess(b)	March 31, 2014	\$315.5
JW Marriott Essex House Hotel(c)	September 14, 2012	\$350.3

On May 27, 2014, we entered into an agreement with certain affiliates of Blackstone Real Estate Partners VI L.P. (Blackstone), whereby we agreed to acquire Blackstone's 63.6% equity interests in the entity that owns the Hotel (a)del Coronado, BSK Del Partners, L.P. (the Hotel del Coronado Venture) for a cash payment of \$210.0 million. We also became fully obligated under the entire \$475.0 million mortgage and mezzanine loans outstanding. Effective as of the closing of the transaction on June 11, 2014, we own 100.0% of the Hotel del Coronado Venture.

On March 31, 2014, we entered in an agreement with an affiliate of Walton Street Capital, L.L.C. (Walton Street), whereby we agreed to acquire Walton Street's 50.0% equity interests in the entities that own the Fairmont (b) Scottsdale Princess hotel, Walton/SHR FPH Holdings, L.L.C. and FMT Scottsdale Holdings, L.L.C. (the Fairmont Scottsdale Princess Venture) for a payment of \$90.6 million. We also became fully obligated under the entire \$117.0 million mortgage loan outstanding. Effective as of the closing of the transaction of March 31, 2014, we own 100.0% of the Fairmont Scottsdale Princess Venture.

On September 14, 2012, we entered into joint venture agreements with affiliates of KSL Capital Partners, LLC (the (c)Essex House Hotel Venture) to fund the equity portion of the purchase price. We have a 51% controlling interest in the Essex House Hotel Venture and serve as managing member and asset manager.

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Sale of Interests in Consolidated Properties. During the years ended December 31, 2014, 2013 and 2012, we sold our interests in the following consolidated properties and received net sales proceeds, net of working capital prorations and closing costs, as shown below:

Hotel	Date Sold	Net Sales Proceeds (in millions)
Marriott London Grosvenor Square(a)	March 31, 2014	\$209.4
Four Seasons Punta Mita Resort and La Solana land parcel	February 28, 2014	\$206.9

There was an outstanding balance of £67.3 million (\$112.2 million) on the mortgage loan secured by the Marriott (a)London Grosvenor Square hotel, which was repaid at the time of closing. We received net proceeds of approximately \$97.2 million.

The results of operations of hotels sold have been classified as discontinued operations for all periods presented.

Unconsolidated Affiliates. On June 14, 2013, we entered into an amended and restated venture agreement with an unaffiliated third party, forming the Lot H5 Venture. The Lot H5 Venture owns the Lot H5 land parcel, an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico. We have a preferred position in the Lot H5 Venture that entitles us to receive the first \$12.0 million of distributions generated from the Lot H5 Venture, with any excess distributions split equally between the partners. We jointly control the Lot H5 Venture with our partner and account for our interest in the Lot H5 Venture as an equity method investment.

Total Portfolio and Same Store Asset Definitions. We define our Total Portfolio as properties that we wholly or partially own or lease and whose operations are included in our consolidated operating results. The Total Portfolio excludes all sold properties and assets held for sale, if any, included in discontinued operations.

We present certain information about our hotel operating results on a comparable hotel basis, which we refer to as our Same Store analysis. We define our Same Store Assets as those hotels (a) that are owned or leased by us, and whose operations are included in our consolidated operating results and (b) for which we reported operating results throughout the entire reporting periods presented.

Our Same Store Assets for purposes of the comparison of the years ended December 31, 2014 and 2013 exclude the Four Seasons Resort Scottsdale at Troon North, the Hotel del Coronado, and the Fairmont Scottsdale Princess hotel, unconsolidated affiliates, and all sold properties and assets held for sale, if any, included in discontinued operations. Our Same Store Assets for purposes of the comparison of the years ended December 31, 2013 and 2012 exclude the JW Marriott Essex House Hotel, unconsolidated affiliates, and all sold properties and assets held for sale, if any, included in discontinued operations.

We present these results of Same Store Assets because we believe that doing so provides useful information for evaluating the period-to-period performance of our hotels and facilitates comparisons with other hotel REITs and hotel owners. In particular, these measures assist in distinguishing whether increases or decreases in revenues and/or expenses are due to operations of the Same Store Assets or from acquisition or disposition activity.

Revenues. Substantially all of our revenue is derived from the operation of our hotels. Specifically, our revenue for the years ended December 31, 2014, 2013 and 2012 consisted of:

	Total Portfolio			Same Store Assets		
	% of Total Revenues			% of Total Revenues		
	2014	2013	2012	2014	2013	
Revenues:						
Rooms	53.5	% 55.5	% 54.5	% 55.2	% 55.5	%
Food and beverage	35.4	% 33.3	% 34.9	% 34.5	% 33.3	%
Other hotel operating revenue	10.6	% 10.6	% 10.0	% 9.7	% 10.6	%
Lease revenue	0.5	% 0.6	% 0.6	% 0.6	% 0.6	%
Total revenues	100.0	% 100.0	% 100.0	% 100.0	% 100.0	%

Rooms revenue. Occupancy and ADR are the major drivers of rooms revenue.

Food and beverage revenue. Occupancy, local catering and banquet events are the major drivers of food and beverage revenue.

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Other hotel operating revenue. Other hotel operating revenue consists primarily of cancellation fees, spa, telephone, parking, golf course, internet access, space rentals, retail and other guest services and is also driven by occupancy. Lease revenue. We sublease our interest in the Marriott Hamburg hotel to a third party and earn annual base rent plus additional rent contingent on the hotel meeting performance thresholds.

Changes in our revenues are most easily explained by performance indicators that are used in the hotel real estate industry:

• average daily occupancy;

• ADR, which stands for average daily rate, is equal to rooms revenue divided by the number of occupied rooms;

• RevPAR, which stands for revenue per available room, is equal to rooms revenue divided by the number of rooms available; and

• Total RevPAR, which stands for total revenue per available room, is equal to the sum of rooms revenue, food and beverage revenue and other hotel operating revenue, divided by the number of rooms available.

For purposes of calculating our Total Portfolio RevPAR for the years ended December 31, 2014, 2013 and 2012, we exclude unconsolidated affiliates, discontinued operations, if any, and the Marriott Hamburg hotel because we sublease the operations of the hotel and only record lease revenue. Same Store Assets RevPAR is calculated in the same manner as Total Portfolio RevPAR but also excludes the Four Seasons Resort Scottsdale at Troon North, the Hotel del Coronado and the Fairmont Scottsdale Princess hotel for the comparison of the years ended December 31, 2014 and 2013 and excludes the JW Marriott Essex House Hotel for the comparison of the years ended December 31, 2013 and 2012. These methods for calculating RevPAR each period are consistently applied through the remainder of this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and should be taken into consideration wherever RevPAR results are disclosed.

We generate a significant portion of our revenue from two broad categories of customers, transient and group.

Our transient customers include individual or group business and leisure travelers that occupy fewer than 10 rooms per night. Transient customers for our Total Portfolio accounted for approximately 58.3%, 62.1% and 59.3% of the rooms sold during the years ended December 31, 2014, 2013 and 2012, respectively. We divide our transient customers into the following subcategories:

• Transient Leisure—This category generates the highest room rates and includes travelers that receive published rates offered to the general public that do not have access to negotiated or discounted rates.

• Transient Negotiated—This category includes travelers, who are typically associated with companies and organizations that generate high volumes of business, that receive negotiated rates that are lower than the published rates offered to the general public.

Our group customers include groups of 10 or more individuals that occupy 10 or more rooms per night. Group customers for our Total Portfolio accounted for approximately 41.7%, 37.9% and 40.7% of the rooms sold during the years ended December 31, 2014, 2013 and 2012, respectively. We divide our group customers into the following subcategories:

• Group Association—This category includes group bookings related to national and regional association meetings and conventions.

• Group Corporate—This category includes group bookings related to corporate business.

• Group Other—This category generally includes group bookings related to social, military, education, religious, fraternal and youth and amateur sports teams.

Fluctuations in revenues, which, for our domestic hotels, historically have been correlated with changes in the United States gross domestic product (U.S. GDP), are driven largely by general economic and local market conditions, which in turn affect levels of business and leisure travel. Guest demographics also affect our revenues. During the three years ended December 31, 2014, demand at our hotels has been strong, which we believe reflects the relative strength of our primary customer demographics, particularly U.S. based corporations and affluent transient travelers.

In addition to economic conditions, supply is another important factor that can affect revenues. Room rates and occupancy tend to fall when supply increases unless the supply growth is offset by an equal or greater increase in demand. One

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reason we target upper upscale and luxury hotels in select urban and resort markets, including major business centers and leisure destinations, is because they tend to be in locations that have greater supply constraints such as lack of available land, high development costs, long development and entitlement lead times, and brand trade area restrictions that prevent the addition of a certain brand or brands in close proximity. Nevertheless, our hotels are not insulated from competitive pressures and our hotel operators will lower room rates to compete more aggressively for guests in periods when occupancy declines.

Hotel Operating Expenses. Our hotel operating expenses for the years ended December 31, 2014, 2013 and 2012 consisted of the costs and expenses to provide hotel services, including:

	Total Portfolio % of Total Hotel Operating Expenses			Same Store Assets % of Total Hotel Operating Expenses		
	2014	2013	2012	2014	2013	
Hotel Operating Expenses:						
Rooms	20.5	% 21.1	% 20.4	% 21.0	% 21.2	%
Food and beverage	33.9	% 33.7	% 33.3	% 34.3	% 33.7	%
Other departmental expenses	33.0	% 32.5	% 33.8	% 32.1	% 32.6	%
Management fees	4.4	% 3.8	% 3.6	% 4.3	% 3.8	%
Other hotel expenses	8.2	% 8.9	% 8.9	% 8.3	% 8.7	%
Total hotel operating expenses	100.0	% 100.0	% 100.0	% 100.0	% 100.0	%

Rooms expense. Occupancy is a major driver of rooms expense, which has a significant correlation with rooms revenue.

Food and beverage expense. Occupancy, local catering and banquet events are the major drivers of food and beverage expense, which has a significant correlation with food and beverage revenue.

Other departmental expenses. Other departmental expenses consist of general and administrative, marketing, repairs and maintenance, utilities and expenses related to earning other operating revenue.

Management fees. We pay base and incentive management fees to our hotel operators. Base management fees are computed as a percentage of revenue. Incentive management fees are incurred when operating profits exceed levels prescribed in our management agreements.

Other hotel expenses. Other hotel expenses consist primarily of insurance costs and property taxes.

Salaries, wages and related benefits are included within the categories of hotel operating expenses described above and represented approximately 49.1%, 51.0% and 48.1% of the Total Portfolio total hotel operating expenses for the years ended December 31, 2014, 2013 and 2012, respectively.

Most categories of variable operating expenses, such as utilities and certain labor such as housekeeping, fluctuate with changes in occupancy. Increases in RevPAR attributable to increases in occupancy are accompanied by increases in most categories of variable operating costs and expenses while increases in RevPAR attributable to increases in ADR typically only result in increases in limited categories of operating costs and expenses, such as management fees charged by our operators, which are based on hotel revenues. Therefore, changes in ADR have a more significant impact on operating margins.

Lease Expense. As a result of the sale-leaseback transaction of the Marriott Hamburg hotel, we record lease expense in our statements of operations. In conjunction with the sale-leaseback transaction, we also recorded a deferred gain, which is amortized as an offset to lease expense.

Corporate Expenses. Corporate expenses include payroll and related costs, professional fees, travel expenses, office rent, and acquisition costs.

Recent Events. In addition to the changes to the consolidated hotel properties and unconsolidated affiliates noted above, we expect that the following events will cause our future results of operations to differ from our historical performance:

Hotel Acquisition. On January 29, 2015, we closed on the acquisition of the Montage Laguna Beach resort. The acquisition was funded through the issuance of 7,347,539 shares of SHR's common stock to an affiliate of the seller, the assumption of a \$150.0 million existing mortgage loan encumbering the property, and a cash payment of

approximately \$110.4 million, which includes proration and closing costs.

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Mortgage Loan Agreements. On December 30, 2014, the Essex House Hotel Venture refinanced the mortgage loan secured by the JW Marriott Essex House Hotel and entered into a new \$225.0 million limited recourse loan agreement. The initial mortgage loan maturity was extended to January 2018 with two, one-year extension options, subject to certain conditions. The interest rate decreased to an annual rate of one-month London InterBank Offered Rate (LIBOR) plus 2.95% from the previous annual rate of LIBOR plus 4.00%, subject to a 0.75% LIBOR floor. On July 7, 2014, we paid off the outstanding balance of an \$85.0 million mortgage loan secured by the InterContinental Miami hotel. On August 29, 2014, we entered into a new \$115.0 million mortgage loan secured by the InterContinental Miami hotel. The mortgage loan maturity was extended to September 2024. The interest rate changed to an annual fixed rate of 3.99% from the previous annual rate of one-month LIBOR plus 3.50%. On June 30, 2014, we refinanced the loan secured by the Four Seasons Washington, D.C. hotel. The principal was reduced to \$120.0 million and the interest rate was reduced to one-month LIBOR plus 2.25% from one-month LIBOR plus 3.15%. The initial mortgage loan maturity date was extended to June 2017 with two, one-year extension options, subject to certain conditions.

On May 29, 2014, we refinanced the loan secured by the Loews Santa Monica Beach Hotel. The principal was increased to \$120.0 million and the interest rate was reduced to one-month LIBOR plus 2.55% from one-month LIBOR plus 3.85%. The initial mortgage loan maturity date was extended to May 2017 with four, one-year extension options, subject to certain conditions.

Bank Credit Facility. On April 25, 2014, we entered into a new \$300.0 million secured bank credit facility, which also includes a \$100.0 million accordion feature. This new facility replaced the \$300.0 million secured bank credit facility that was set to expire in June 2015 (assuming all extension options were exercised). The facility's interest rate is based upon a leverage-based pricing grid ranging from LIBOR plus 1.75% to LIBOR plus 2.50%, which are lower spreads than the prior facility. The facility expires in April 2018, with a one-year extension available, subject to certain conditions. See “—Liquidity and Capital Resources—Bank credit facility.”

Preferred Stock Redemptions. On January 5, 2015, we redeemed all of the outstanding 3,615,375 shares of our 8.25% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock). The shares of the Series B Preferred Stock were redeemed at a redemption price of \$25.00 per share, plus accrued and unpaid dividends from January 1, 2015 up to and including January 5, 2015 in the amount of \$0.028646 per share, for a total redemption cost of approximately \$90.5 million. Following the redemption, dividends on the Series B Preferred Stock ceased to accrue. On July 3, 2014, we redeemed all of the outstanding 3,827,727 shares of our 8.25% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock). The shares of the Series C Preferred Stock were redeemed at a redemption price of \$25.00 per share, plus accrued and unpaid dividends from July 1, 2014 up to and including July 3, 2014 in the amount of \$0.01719 per share, for a total redemption cost of approximately \$95.8 million. Following the redemption, dividends on the Series C Preferred Stock ceased to accrue.

On April 3, 2014, we redeemed all of the outstanding 4,148,141 shares of our 8.50% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock). The shares of the Series A Preferred Stock were redeemed at a redemption price of \$25.00 per share, plus accrued and unpaid dividends up to and including April 3, 2014 in the amount of \$0.54896 per share, for a total redemption cost of approximately \$106.0 million. Following the redemption, dividends on the Series A Preferred Stock ceased to accrue.

Common Stock. In December 2014, we completed an underwritten public offering of common stock by issuing 20.0 million shares at a price of \$12.57 per share. After transaction expenses, we raised net proceeds of approximately \$250.9 million. These proceeds were used to fund the acquisition of the Four Seasons Resort Scottsdale at Troon North, to redeem all of the issued and outstanding shares of our Series B Preferred Stock on January 5, 2015, and for general corporate purposes, including, without limitation, reducing debt and funding capital expenditures and working capital.

In June 2014, we completed an underwritten public offering of common stock by issuing 41.4 million shares at a public offering price of \$10.50 per share. After underwriting discounts and commissions and transaction expenses, we raised net proceeds of approximately \$416.7 million. These proceeds were used to fund the acquisition of the remaining equity interest in the Hotel del Coronado, to redeem all of the issued and outstanding shares of our Series C Preferred Stock, and for general corporate purposes, including, without limitation, reducing our borrowings under our

bank credit facility, repaying other debt and funding capital expenditures and working capital.

Interest Rate Swap Terminations. On April 21, 2014, we paid \$22.7 million, including accrued and unpaid interest, to terminate all of our remaining interest rate swaps with a combined notional amount of \$400.0 million.

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Comparison of Year Ended December 31, 2014 to Year Ended December 31, 2013

Operating Results

The following table presents the operating results for the years ended December 31, 2014 and 2013, including the amount and percentage change in these results between the two years of our Total Portfolio and Same Store Assets (in thousands, except operating data).

	Total Portfolio		Change (\$)		Change (%)		Same Store Assets		Change (\$)		Change (%)	
	2014	2013	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	2014	2013	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	2014	2013	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
Revenues:												
Rooms	\$582,969	\$479,734	\$103,235	21.5	%	\$507,482	\$479,734	\$27,748	5.8	%		
Food and beverage	385,623	287,557	98,066	34.1	%	317,253	287,557	29,696	10.3	%		
Other hotel operating revenue	115,084	91,355	23,729	26.0	%	89,178	91,277	(2,099)	(2.3)	%		
Lease revenue	5,406	5,161	245	4.7	%	5,406	5,161	245	4.7	%		
Total revenues	1,089,082	863,807	225,275	26.1	%	919,319	863,729	55,590	6.4	%		
Operating Costs and Expenses:												
Hotel operating expenses	819,826	657,483	(162,343)	(24.7)	%	692,104	656,051	(36,053)	(5.5)	%		
Lease expense	4,873	4,818	(55)	(1.1)	%	4,873	4,818	(55)	(1.1)	%		
Depreciation and amortization	119,688	96,712	(22,976)	(23.8)	%	89,162	96,205	7,043	7.3	%		
Impairment losses and other charges	—	728	728	100.0	%	—	—	—	—	%		
Corporate expenses	26,898	25,176	(1,722)	(6.8)	%	—	—	—	—	%		
Total operating costs and expenses	971,285	784,917	(186,368)	(23.7)	%	786,139	757,074	(29,065)	(3.8)	%		
Operating income	117,797	78,890	38,907	49.3	%	\$133,180	\$106,655	\$26,525	24.9	%		
Interest expense, net	(81,850)	(77,136)	(4,714)	(6.1)	%							
Loss on early extinguishment of debt	(2,619)	—	(2,619)	(100.0)	%							
Equity in earnings of unconsolidated affiliates	5,237	2,987	2,250	75.3	%							
Foreign currency exchange (loss) gain	(116)	42	(158)	(376.2)	%							
Gain on consolidation of affiliates	143,471	—	143,471	100.0	%							
Other income (expenses), net	952	(314)	1,266	403.2	%							
Income before income taxes and	182,872	4,469	178,403	3,992.0	%							

discontinued operations					
Income tax expense	(1,200)	(156)	(1,044)	(669.2)	%
Income from continuing operations	181,672	4,313	177,359	4,112.2	%
Income from discontinued operations, net of tax	159,378	5,574	153,804	2,759.3	%
Net income	341,050	9,887	331,163	3,349.5	%
Net income attributable to the noncontrolling interests in SHR's operating partnership	(1,221)	(38)	(1,183)	(3,113.2)	%
Net loss attributable to the noncontrolling interests in consolidated affiliates	4,654	1,126	3,528	313.3	%
Net income attributable to SHR	\$344,483	\$10,975	\$333,508	3,038.8	%

Reconciliation of Same Store Assets Operating Income to Total Portfolio

Operating Income:

Same Store Assets operating income			\$133,180	\$106,655	\$26,525	24.9	%
Corporate expenses			(26,898)	(25,176)	(1,722)	(6.8)	%
Corporate depreciation and amortization			(495)	(508)	13	2.6	%
Non-Same Store Assets operating income (loss)			12,010	(2,081)	14,091	677.1	%
Total Portfolio operating income			\$117,797	\$78,890	\$38,907	49.3	%

Operating Data

(1):

Number of hotels	17	14	14	14
Number of rooms	8,075	6,456	6,459	6,456

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Operating data includes the leasehold interest in the Marriott Hamburg hotel and excludes properties included in discontinued operations. The Fairmont Scottsdale Princess hotel and the Hotel del Coronado, which were (1) unconsolidated affiliates until we acquired 100% ownership on March 31, 2014 and June 11, 2014, respectively, are included in our 2014 Total Portfolio data but are excluded from our 2013 Total Portfolio data and our Same Store Assets data.

Rooms. Our Same Store Assets contributed to a \$27.7 million, or 5.8%, increase in rooms revenue for the year ended December 31, 2014 from the year ended December 31, 2013. The components of RevPAR from our Same Store Assets for the years ended December 31, 2014 and 2013 are summarized as follows:

	Years Ended December 31,		Change (%) Favorable/ (Unfavorable)	
	2014	2013		
Occupancy	77.0	% 76.4	% 0.8	%
ADR	\$292.31	\$278.26	5.0	%
RevPAR	\$224.97	\$212.46	5.9	%

The increase in RevPAR for the Same Store Assets resulted from the combination of a 5.0% increase in ADR and a 0.6 percentage-point increase in occupancy. Rooms revenue increased primarily due to a 5.9% increase in group occupancy, partially offset by a 2.5% decrease in transient occupancy, and 4.6% and 6.0% increases in group and transient ADR, respectively, resulting from improving market conditions at most of our Same Store Assets for the year ended December 31, 2014 when compared to the year ended December 31, 2013. Significant growth in rooms revenue was noted at several of our Same Store Assets. The Westin St. Francis hotel had growth from strong self-contained and citywide group business, with a 15.4% increase in group occupancy over the prior year, which helped drive transient and group ADR up over the prior year by 12.9% and 4.6%, respectively. The Ritz-Carlton Laguna Niguel hotel also had strong group business, with a 9.2% increase in group occupancy over the prior year, which helped drive transient and group ADR up over the prior year by 9.9% and 6.4%, respectively. The InterContinental Miami hotel's transient occupancy grew 13.5% over prior year, which was driven by a strong Miami market, especially in the first half of the year.

For the Total Portfolio, rooms revenue increased \$103.2 million, or 21.5%, for the year ended December 31, 2014 from the year ended December 31, 2013. In addition to the increase in the Same Store Assets, Total Portfolio rooms revenue also includes \$75.5 million of additional rooms revenue from hotels acquired during the year ended December 31, 2014. The components of RevPAR from our Total Portfolio for the years ended December 31, 2014 and 2013 are summarized as follows:

	Years Ended December 31,		Change (%) Favorable/ (Unfavorable)	
	2014	2013		
Occupancy	75.7	% 76.4	% (0.9))%
ADR	\$296.89	\$278.26	6.7	%
RevPAR	\$224.85	\$212.46	5.8	%

Food and Beverage. Our Same Store Assets experienced a \$29.7 million, or 10.3%, increase in food and beverage revenue for the year ended December 31, 2014 when compared to the year ended December 31, 2013, primarily due to strong group volume and spend at many of our Same Store Assets, including the Westin St. Francis and Ritz-Carlton Laguna Niguel hotels, resulting from growth in group occupancy. Additionally, the InterContinental Miami hotel had a significant increase in outlet revenue due to strong transient demand. For the Total Portfolio, food and beverage revenue increased \$98.1 million, or 34.1%, when comparing the year ended December 31, 2014 with the year ended December 31, 2013. In addition to the increase in Same Store Assets, the increase in the Total Portfolio food and beverage revenue includes \$68.4 million of additional food and beverage revenue from hotels acquired during the year ended December 31, 2014.

Other Hotel Operating Revenue. Other hotel operating revenue at the Same Store Assets decreased \$2.1 million, or 2.3%, for the year ended December 31, 2014 when compared to the year ended December 31, 2013, primarily due to the JW Marriott Essex House Hotel limited performance guarantee. For the year ended December 31, 2014, we recognized \$5.8 million related to the limited performance guarantee compared to \$12.8 million recognized during the year ended December 31, 2013. In accordance with the terms of the guarantee agreement, cumulative guarantee payments that exceed \$20.0 million may be recoverable by the hotel's management company. Any amounts that are recoverable are deferred and are not recognized in earnings. During the year ended December 31, 2014, the cumulative amounts that we received exceeded \$20.0 million; therefore, we only recognized a portion of the payments we received in other hotel operating revenue. The decrease from the limited performance guarantee was offset by an increase in revenues generated from other ancillary services across our Same Store Asset portfolio. Most notably was an increase of

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\$1.7 million of cancellation fees/attrition revenue recognized, which included a \$1.1 million increase in cancellation fees/attrition recognized by the Ritz-Carlton Laguna Niguel hotel during the year ended December 31, 2014 compared to the year ended December 31, 2013. For the Total Portfolio, other hotel operating revenue increased \$23.7 million, or 26.0%, when comparing the year ended December 31, 2014 to the year ended December 31, 2013. The increase in the Total Portfolio other hotel operating revenue includes \$25.8 million of additional other hotel operating revenue related to the hotels acquired during the year ended December 31, 2014.

Hotel Operating Expenses. The following table presents the components of our hotel operating expenses for the years ended December 31, 2014 and 2013, including the amount and percentage changes in these expenses between the two years of our Total Portfolio and Same Store Assets (in thousands):

	Total Portfolio		Change (\$)		Change (%)		Same Store Assets		Change (\$)		Change (%)	
	2014	2013	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	2014	2013	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)		
Hotel operating expenses:												
Rooms	\$168,256	\$138,946	\$(29,310)	(21.1)%	\$145,381	\$138,946	\$(6,435)	(4.6)%				
Food and beverage	277,962	221,388	(56,574)	(25.6)%	237,296	221,388	(15,908)	(7.2)%				
Other departmental expenses	270,219	213,714	(56,505)	(26.4)%	221,884	213,714	(8,170)	(3.8)%				
Management fees	36,331	25,000	(11,331)	(45.3)%	29,852	25,000	(4,852)	(19.4)%				
Other hotel expenses	67,058	58,435	(8,623)	(14.8)%	57,691	57,003	(688)	(1.2)%				
Total hotel operating expenses	\$819,826	\$657,483	\$(162,343)	(24.7)%	\$692,104	\$656,051	\$(36,053)	(5.5)%				

Hotel operating expenses for our Same Store Assets increased by \$36.1 million, or 5.5%. Increases in occupancy and higher food and beverage volume resulted in increases in payroll and related costs of \$10.1 million, specifically in the rooms and food and beverage departments, increases in food and beverage acquisition costs of \$3.5 million, and increases in travel agent commissions of \$2.0 million. Increases in occupancy and ADR and higher food and beverage volume also contributed to a \$1.1 million increase in credit card commissions. Management fees increased by \$4.9 million due to higher gross revenues and improved operating profit at many of our Same Store Assets. Real estate taxes for our Same Store Assets also increased by \$0.9 million.

For the Total Portfolio, hotel operating expenses increased by \$162.3 million, or 24.7%, for the year ended December 31, 2014 when compared to the year ended December 31, 2013. In addition to the increase at the Same Store Assets, the Total Portfolio also includes \$128.4 million of additional hotel operating expenses related to the hotels acquired during the year ended December 31, 2014.

Depreciation and Amortization. For the Total Portfolio, depreciation and amortization increased \$23.0 million, or 23.8%, for the year ended December 31, 2014 when compared to the year ended December 31, 2013, primarily due to \$30.0 million of additional depreciation and amortization expense from hotels acquired during the year ended December 31, 2014. The increase in depreciation and amortization from acquired hotels was partially offset by the Same Store Assets which had a decrease in depreciation and amortization of \$7.0 million, or 7.3%, due to furniture, fixtures, and equipment at many of the hotels becoming fully depreciated.

Impairment Losses and Other Charges. During the year ended December 31, 2013, we performed an impairment test of long-lived assets related to a property adjacent to the Fairmont Chicago hotel as a result of a change in the anticipated holding period for the property and recorded a non-cash impairment charge of \$0.7 million.

Corporate Expenses. Corporate expenses increased \$1.7 million, or 6.8%, for the year ended December 31, 2014 when compared to the year ended December 31, 2013. Corporate expenses consist primarily of payroll and related costs,

professional fees, travel expenses, office rent, and transaction costs. The increase in corporate expenses is primarily due to costs related to an activist shareholder as well as severance expense.

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Interest Expense, Net. There was a \$4.7 million, or 6.1%, increase in interest expense, net for the year ended December 31, 2014 when compared to the year ended December 31, 2013. The components of interest expense, net for the years ended December 31, 2014 and 2013 are summarized as follows (in thousands):

	Years Ended December 31,		Change (\$) Favorable/ (Unfavorable)	Change (%) Favorable/ (Unfavorable)	
	2014	2013			
Mortgages and other debt	\$(68,094	) \$(72,934	) \$4,840	6.6	%
Bank credit facility	(1,912	) (5,613	) 3,701	65.9	%
Amortization of deferred financing costs	(4,334	) (4,885	) 551	11.3	%
Amortization of debt discount	(1,869	) —	(1,869	) (100.0)%
Amortization of interest rate swap costs	(9,586	) (4,006	) (5,580	) (139.3)%
Mark to market of certain interest rate swaps	2,815	9,228	(6,413	) (69.5)%
Interest income	269	53	216	407.5	%
Capitalized interest	861	1,021	(160	) (15.7)%
Total interest expense, net	\$(81,850	) \$(77,136	) \$(4,714	) (6.1)%

The change in interest expense, net, is primarily due to the following:

mortgage and other debt interest decreased due to lower annual interest rates resulting from refinancing activity during the year ended December 31, 2014 and the elimination of cash swap settlement payments after the termination of all of our remaining interest rate swaps, partially offset by additional interest expense from the consolidation of the Fairmont Scottsdale Princess hotel and the Hotel del Coronado in 2014;

bank credit facility interest decreased due to a lower average balance outstanding during the year ended December 31, 2014 when compared to the year ended December 31, 2013 and a lower annual interest rate resulting from refinancing the bank credit facility in April 2014;

amortization of debt discount began when the Fairmont Scottsdale Princess hotel was consolidated in 2014; amortization of interest rate swap costs increased due to the amortization of amounts previously recorded in accumulated other comprehensive loss related to terminated swaps; and mark to market adjustments were eliminated when our remaining interest rate swaps were terminated.

The weighted average debt outstanding for the years ended December 31, 2014 and 2013 amounted to \$1.43 billion and \$1.20 billion, respectively. At December 31, 2014, approximately 33.8% of our total debt had fixed interest rates. Loss on Early Extinguishment of Debt. During the year ended December 31, 2014, we recognized a loss on early extinguishment of debt of \$2.6 million due to the write off of unamortized deferred financing costs and other costs related to refinancing of the mortgage loans secured by the InterContinental Miami hotel and the JW Marriott Essex House Hotel.

Equity in Earnings of Unconsolidated Affiliates. The following tables present certain components included in the calculation of equity in earnings resulting from our unconsolidated affiliates.

Year ended December 31, 2014 (in thousands):

	Fairmont Scottsdale Princess Venture(1)	Hotel del Coronado Venture(2)	Unconsolidated Affiliates in Mexico(3)	Total
Equity in earnings (losses)	\$4,846	\$600	\$(209	) \$5,237
Depreciation and amortization	1,551	3,526	—	5,077
Interest expense	168	3,418	1	3,587
Income tax benefit	—	(143) (103) (246

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Year ended December 31, 2013 (in thousands):

	Fairmont Scottsdale Princess Venture(1)	Hotel del Coronado Venture(2)	Unconsolidated Affiliates in Mexico(3)	Total
Equity in earnings	\$2,036	\$833	\$118	\$2,987
Depreciation and amortization	6,570	7,564	1	14,135
Interest expense	778	8,325	21	9,124
Income tax expense	—	191	39	230

The Fairmont Scottsdale Princess Venture is FMT Scottsdale Holdings, L.L.C. and Walton/SHR FPH Holdings, (1)L.L.C., the owner of the Fairmont Scottsdale Princess hotel. The Fairmont Scottsdale Princess Venture became wholly owned by us in March 2014.

(2) The Hotel del Coronado Venture is BSK Del Partners, L.P., the owner of the Hotel del Coronado. The Hotel del Coronado Venture became wholly owned by us in June 2014.

(3) These affiliates include the Four Seasons Residence Club Punta Mita (RCPM) and the Lot H5 Venture.

The \$2.2 million change in equity in earnings of unconsolidated affiliates is primarily due to the Fairmont Scottsdale Princess hotel. During the year ended December 31, 2014, we only accounted for the Fairmont Scottsdale Princess hotel as an equity method investment for the first quarter of 2014, which has historically been the hotel's strongest quarter based on seasonality. We accounted for the Fairmont Scottsdale Princess hotel as an equity method investment for the full year ended December 31, 2013, which included the impact of slower quarters based on seasonality.

Gain on Consolidation of Affiliates. On March 31, 2014, we acquired the 50.0% interest in the Fairmont Scottsdale Princess Venture that was not previously owned by us and recorded a gain on consolidation of affiliate of \$78.1 million for the year ended December 31, 2014. On June 11, 2014, we acquired the 63.6% interest in the Hotel del Coronado Venture that was not previously owned by us and recorded a gain on consolidation of affiliate of \$65.4 million for the year ended December 31, 2014.

Other Income (Expenses), Net. Other income (expenses), net includes asset management fee income, non-income related state, local and franchise taxes, as well as miscellaneous income and expenses. The \$1.3 million, or 403.2%, change in other income (expenses), net for the year ended December 31, 2014 when compared to the prior year, is primarily due to a gain recorded on the sale of a condominium-hotel development adjacent to the Hotel del Coronado during the year ended December 31, 2014.

Income Tax Expense. The \$1.0 million, or 669.2%, increase in income tax expense is primarily a result of an increase in the deferred tax expense related to the Hotel del Coronado, which was not consolidated during the year ended December 31, 2013.

Income from Discontinued Operations, Net of Tax. Income from discontinued operations, net of tax increased by \$153.8 million due to gains recognized on the sale of the Marriott London Grosvenor Square hotel and the Four Seasons Punta Mita Resort during the year ended December 31, 2014.

Net Income Attributable to the Noncontrolling Interests in SHR's Operating Partnership. We record net loss or income attributable to noncontrolling interests in SHR's operating partnership based on the percentage of SH Funding we do not own. The \$1.2 million increase in net income attributable to the noncontrolling interests in SHR's partnership is due to increases in net income resulting from higher operating income and gains recognized during the year ended December 31, 2014 related to the sales of assets and consolidation of affiliates.

Net Loss Attributable to the Noncontrolling Interests in Consolidated Affiliates. We record net loss or income attributable to noncontrolling interests in consolidated affiliates for the non-ownership interests in hotels that are partially owned by us. The increase in net loss attributable to noncontrolling interests is due to an increase in net loss at the JW Marriott Essex House Hotel year over year.

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Comparison of Year Ended December 31, 2013 to Year Ended December 31, 2012

Operating Results

The following table presents the operating results for the years ended December 31, 2013 and 2012, including the amount and percentage change in these results between the two years of our Total Portfolio and Same Store Assets (in thousands, except operating data).

	Total Portfolio		Change (\$)		Change (%)		Same Store Assets		Change (\$)		Change (%)	
	2013	2012	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	2013	2012	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)		
Revenues:												
Rooms	\$479,734	\$401,305	\$78,429	19.5	%	\$412,290	\$380,516	\$31,774	8.4	%		
Food and beverage	287,557	257,298	30,259	11.8	%	270,300	251,530	18,770	7.5	%		
Other hotel operating revenue	91,355	73,585	17,770	24.1	%	77,033	71,629	5,404	7.5	%		
Lease revenue	5,161	4,778	383	8.0	%	5,161	4,778	383	8.0	%		
Total revenues	863,807	736,966	126,841	17.2	%	764,784	708,453	56,331	8.0	%		
Operating Costs and Expenses:												
Hotel operating expenses	657,483	570,880	(86,603)	(15.2)	%	581,612	548,491	(33,121)	(6.0)	%		
Lease expense	4,818	4,580	(238)	(5.2)	%	4,818	4,580	(238)	(5.2)	%		
Depreciation and amortization	96,712	90,659	(6,053)	(6.7)	%	84,894	86,670	1,776	2.0	%		
Impairment losses and other charges	728	18,406	17,678	96.0	%	—	3,767	3,767	(100.0)	%		
Corporate expenses	25,176	31,098	5,922	19.0	%	—	—	—	—			
Total operating costs and expenses	784,917	715,623	(69,294)	(9.7)	%	671,324	643,508	(27,816)	(4.3)	%		
Operating income	78,890	21,343	57,547	269.6	%	\$93,460	\$64,945	\$28,515	43.9	%		
Interest expense, net	(77,136)	(70,104)	(7,032)	(10.0)	%							
Equity in earnings (losses) of unconsolidated affiliates	2,987	(13,485)	16,472	122.2	%							
Foreign currency exchange gain (loss)	42	(1,247)	1,289	103.4	%							
Other (expenses) income, net	(314)	1,820	(2,134)	(117.3)	%							
Income (loss) before income taxes and discontinued operations	4,469	(61,673)	66,142	107.2	%							
Income tax expense	(156)	(13)	(143)	(1,100.0)	%							
Income (loss) from continuing operations	4,313	(61,686)	65,999	107.0	%							

operations						
Income from discontinued operations, net of tax	5,574	3,425	2,149	62.7	%	
Net income (loss) attributable to the noncontrolling interests in SHR's operating partnership	9,887	(58,261)	68,148	117.0	%	
Net loss attributable to the noncontrolling interests in consolidated affiliates	(38)	184	(222)	(120.7)	%	
Net income (loss) attributable to SHR	1,126	2,771	(1,645)	(59.4)	%	
Reconciliation of Same Store Assets Operating Income to Total Portfolio Operating Income:						
Same Store Assets operating income				\$93,460	\$64,945	\$28,515 43.9 %
Corporate expenses				(25,176)	(31,098)	5,922 19.0 %
Corporate depreciation and amortization				(508)	(979)	471 48.1 %
Non-Same Store Assets operating income (loss)				11,114	(11,525)	22,639 196.4 %
Total Portfolio operating income				\$78,890	\$21,343	\$57,547 269.6 %
Operating Data (1):						
Number of hotels	14	14		13	13	
Number of rooms	6,456	6,455		5,946	5,946	

(1) Operating data includes the leasehold interest in the Marriott Hamburg hotel and excludes unconsolidated affiliates and properties included in discontinued operations.

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Rooms. Our Same Store Assets contributed to a \$31.8 million, or 8.4%, increase in rooms revenue for the year ended December 31, 2013 from the year ended December 31, 2012. The components of RevPAR from our Same Store Assets for the years ended December 31, 2013 and 2012 are summarized as follows:

	Years Ended December 31,		Change (%)	
	2013	2012	Favorable/ (Unfavorable)	
Occupancy	75.9	% 74.2	% 2.3	%
ADR	\$262.36	\$247.30	6.1	%
RevPAR	\$199.18	\$183.50	8.5	%

The increase in RevPAR for the Same Store Assets resulted from the combination of a 6.1% increase in ADR and a 1.7 percentage-point increase in occupancy. Rooms revenue increased primarily due to a 4.3% increase in transient occupancy, partially offset by a 0.9% decrease in group occupancy, and 6.2% and 5.8% increases in transient and group ADR, respectively, resulting from improving market conditions at most of our Same Store Assets for the year ended December 31, 2013 when compared to the year ended December 31, 2012. Several of our Same Store Assets experienced decreases in rooms revenue of which the most significant relates to the Marriott Lincolnshire Resort due to a 7.0 percentage-point decrease in occupancy for the year ended December 31, 2013 from the year ended December 31, 2012 driven by displacement from a rooms renovation.

For the Total Portfolio, rooms revenue increased \$78.4 million, or 19.5%, for the year ended December 31, 2013 from the year ended December 31, 2012. In addition to the increase in the Same Store Assets, Total Portfolio rooms revenue also includes an increase of \$46.7 million of rooms revenue at the JW Marriott Essex House Hotel, which we acquired in September 2012. The components of RevPAR from our Total Portfolio for the years ended December 31, 2013 and 2012 are summarized as follows:

	Years Ended December 31,		Change (%)	
	2013	2012	Favorable/ (Unfavorable)	
Occupancy	76.4	% 74.4	% 2.7	%
ADR	\$278.26	\$253.67	9.7	%
RevPAR	\$212.46	\$188.61	12.6	%

Food and Beverage. Our Same Store Assets experienced an \$18.8 million, or 7.5%, increase in food and beverage revenue for the year ended December 31, 2013 when compared to the year ended December 31, 2012. The primary factors increasing food and beverage revenue at the Same Store Assets include increased revenues at the hotels' food and beverage outlets, which included redesigned restaurants at the InterContinental Miami hotel and the Four Seasons Jackson Hole hotel, and increased banquet revenues. For the Total Portfolio, food and beverage revenue increased \$30.3 million, or 11.8%, when comparing the year ended December 31, 2013 to the year ended December 31, 2012. In addition to the increase in the Same Store Assets, Total Portfolio food and beverage revenue also includes an increase of \$11.5 million additional food and beverage revenue at the JW Marriott Essex House Hotel, which we acquired in September 2012.

Other Hotel Operating Revenue. Other hotel operating revenue at the Same Store Assets increased \$5.4 million, or 7.5%, for the year ended December 31, 2013 when compared to the year ended December 31, 2012 primarily due to an increase in condominium rental revenues at the Four Seasons Jackson Hole hotel, an increase in theater revenue at the Marriott Lincolnshire Resort, resulting from an increase in performances as compared to the prior year, and increases in spa and garage revenues. For the Total Portfolio, other hotel operating revenue increased \$17.8 million, or 24.1%, when comparing the year ended December 31, 2013 to the year ended December 31, 2012. In addition to the increase in the Same Store Assets, Total Portfolio other hotel operating revenue includes an increase of \$11.4 million related to the limited performance guarantee at the JW Marriott Essex House Hotel.

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Hotel Operating Expenses. The following table presents the components of our hotel operating expenses for the years ended December 31, 2013 and 2012, including the amount and percentage changes in these expenses between the two years of our Total Portfolio and Same Store Assets (in thousands):

	Total Portfolio		Change (\$)		Change (%)		Same Store Assets		Change (\$)		Change (%)	
	2013	2012	Favorable/ (Unfavorable)	(%) Favorable/ (Unfavorable)	2013	2012	Favorable/ (Unfavorable)	(%) Favorable/ (Unfavorable)				
Hotel operating expenses:												
Rooms	\$138,946	\$116,093	\$ (22,853)	(19.7)%	\$117,367	\$110,154	\$ (7,213)	(6.5)%				
Food and beverage	221,388	190,106	(31,282)	(16.5)%	197,065	182,616	(14,449)	(7.9)%				
Other departmental expenses	213,714	193,154	(20,560)	(10.6)%	193,772	187,844	(5,928)	(3.2)%				
Management fees	25,000	20,732	(4,268)	(20.6)%	23,277	20,208	(3,069)	(15.2)%				
Other hotel expenses	58,435	50,795	(7,640)	(15.0)%	50,131	47,669	(2,462)	(5.2)%				
Total hotel operating expenses	\$657,483	\$570,880	\$ (86,603)	(15.2)%	\$581,612	\$548,491	\$ (33,121)	(6.0)%				

Hotel operating expenses for our Same Store Assets increased by \$33.1 million, or 6.0%, primarily due to:

- \$15.4 million higher payroll costs resulting from higher occupancy and wage increases at the hotels,
- \$3.4 million higher food and beverage costs due to increased food and beverage consumption and several redesigned restaurants,
- \$3.1 million higher management fees,
- \$1.6 million higher credit card commissions, which increased due to higher occupancy, rates and food and beverage volume,
- \$1.3 million higher travel agent commissions, which increased due to higher occupancy and rates,
- \$0.8 million higher real estate taxes,
- \$0.6 million higher marketing costs, and
- \$0.4 million higher insurance costs.

For the Total Portfolio, hotel operating expenses increased by \$86.6 million, or 15.2%, for the year ended December 31, 2013 when compared to the year ended December 31, 2012. In addition to the increase at the Same Store Assets, the Total Portfolio also includes an increase of \$52.8 million of hotel operating expenses at the JW Marriott Essex House Hotel, which we acquired in September 2012.

Depreciation and Amortization. For the Same Store Assets, depreciation and amortization decreased \$1.8 million, or 2.0%, for the year ended December 31, 2013 when compared to the year ended December 31, 2012 primarily due to certain assets becoming fully depreciated, partially offset by capital projects completed at the InterContinental Miami hotel, the InterContinental Chicago hotel, the Marriott Lincolnshire Resort and the Loews Santa Monica Beach Hotel. For the Total Portfolio, depreciation and amortization increased \$6.1 million, or 6.7%, for the year ended December 31, 2013 when compared to the year ended December 31, 2012. The Total Portfolio also includes an increase in depreciation and amortization expense of \$8.3 million related to the JW Marriott Essex House Hotel, which we acquired in September 2012, partially offset by a decrease in corporate depreciation and amortization expense of \$0.5 million due to certain assets becoming fully depreciated.

Impairment Losses and Other Charges. During the year ended December 31, 2013, we performed an impairment test of long-lived assets related to a property adjacent to the Fairmont Chicago hotel as a result of a change in the anticipated holding period for the property and recorded a non-cash impairment charge of \$0.7 million. During the year ended December 31, 2012, we performed an impairment test of long-lived assets related to a Mexican development site as a result of a change in the anticipated holding period for this land and recorded a non-cash impairment charge of \$14.6 million. We also recorded a charge of approximately \$3.8 million to write off costs

related to capital projects that management decided to abandon during the year ended December 31, 2012.

Corporate Expenses. Corporate expenses decreased \$5.9 million, or 19.0%, for the year ended December 31, 2013 when compared to the year ended December 31, 2012. These expenses consist primarily of payroll and related costs, professional fees, travel expenses, office rent, and acquisition costs. The decrease in corporate expenses is primarily due to a decrease in acquisition costs mainly related to the acquisition of the JW Marriott Essex House Hotel and decreases in RSU expense, severance expense and

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professional fees. The decrease in corporate expenses is also due to a \$1.4 million decrease related to the Value Creation Plan. See “Item 8. Financial Statements and Supplementary Data—13. Share-Based Employee Compensation Plans—Value Creation Plan and Deferral Program” for a further description of this plan. The Value Creation Plan provided for payments based on our market capitalization in 2012 and no amounts were recorded during the year ended December 31, 2013.

Interest Expense, Net. The \$7.0 million, or 10.0%, increase in interest expense, net for the year ended December 31, 2013 when compared to the year ended December 31, 2012, was primarily due to:

- \$12.4 million increase attributable to higher average borrowings,
- \$1.2 million increase in the amortization of deferred financing costs,
- \$0.5 million decrease in capitalized interest, partially offset by
- \$2.5 million increase in gains related to the mark to market of certain interest rate swaps,
- \$2.5 million decrease in the amortization of interest rate swaps costs, and
- \$2.2 million decrease due to lower average interest rates.

The components of interest expense, net for the years ended December 31, 2013 and 2012 are summarized as follows (in thousands):

	Years Ended December 31,	
	2013	2012
Mortgages and other debt	\$ (72,934	) \$ (64,781
Bank credit facility	(5,613	) (3,582
Amortization of deferred financing costs	(4,885	) (3,713
Amortization of interest rate swap costs	(4,006	) (6,471
Mark to market of certain interest rate swaps	9,228	6,702
Interest income	53	207
Capitalized interest	1,021	1,534
Total interest expense, net	\$ (77,136	) \$ (70,104

The weighted average debt outstanding for the years ended December 31, 2013 and 2012 amounted to \$1.20 billion and \$1.01 billion, respectively. At December 31, 2013, including the effect of interest rate swaps, approximately 68.0% of our total debt had fixed interest rates.

Equity in Earnings (Losses) of Unconsolidated Affiliates. The following tables present equity in earnings (losses) and certain components included in the calculation of equity in earnings (losses) resulting from our unconsolidated affiliates.

Year ended December 31, 2013 (in thousands):

	Fairmont Scottsdale Princess Venture	Hotel del Coronado Venture	Unconsolidated Affiliates in Mexico	Total
Equity in earnings	\$2,036	\$833	\$118	\$2,987
Depreciation and amortization	6,570	7,564	1	14,135
Interest expense	778	8,325	21	9,124
Income tax expense	—	191	39	230

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Year ended December 31, 2012 (in thousands):

	Fairmont Scottsdale Princess Venture	Hotel del Coronado Venture	Unconsolidated Affiliates in Mexico	Total
Equity in (losses) earnings	\$(1,690)	\$(11,947)	\$152	\$(13,485)
Depreciation and amortization	7,145	8,021	92	15,258
Interest expense	778	11,790	77	12,645
Income tax (benefit) expense	—	(383)	42	(341)

We recorded \$3.0 million of equity in earnings during the year ended December 31, 2013, which is a \$16.5 million change from the \$13.5 million equity in losses recorded during the year ended December 31, 2012, primarily due to an \$8.6 million fee related to the termination of the management agreement with the management company at the Hotel del Coronado Venture during the year ended December 31, 2012, increases in operating income at both the Fairmont Scottsdale Princess hotel and the Hotel del Coronado, and a decrease in interest expense at the Hotel del Coronado. Foreign Currency Exchange Gain (Loss). We recorded foreign currency exchange gain of \$42,000 for the year ended December 31, 2013 and foreign currency exchange loss of \$1.2 million for the year ended December 31, 2012. The change of \$1.3 million was primarily related to the liquidation of a foreign entity during the year ended December 31, 2012.

Other (Expenses) Income, Net. Other (expenses) income, net includes asset management fee income, non-income related state, local and franchise taxes, as well as miscellaneous income and expenses. We recorded other expenses of \$0.3 million for the year ended December 31, 2013 and other income of \$1.8 million for the year ended December 31, 2012. The change in other (expenses) income, net, of \$2.1 million for the year ended December 31, 2013 when compared to the prior year, is primarily due to net losses related to the sale of condominium units at the JW Marriott Essex House Hotel during the year ended December 31, 2013 and increases in state, local and franchise taxes.

Income from Discontinued Operations, Net of Tax. The income from discontinued operations, net of tax, for the years ended December 31, 2013 and 2012 primarily consisted of the operating results of the Marriott London Grosvenor Square hotel and the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel.

Net (Income) Loss Attributable to the Noncontrolling Interests in SHR's Operating Partnership. We record net loss or income attributable to noncontrolling interests in SHR's operating partnership based on the percentage of SH Funding we do not own. Net income attributable to the noncontrolling interests in SHR's operating partnership for the year ended December 31, 2013 was \$38,000, a change of \$0.2 million from net loss attributable to the noncontrolling interests in SHR's operating partnership of \$0.2 million in the prior year due to net income recognized during the year ended December 31, 2013 when compared to net loss recognized during the year ended December 31, 2012.

Net Loss Attributable to the Noncontrolling Interests in Consolidated Affiliates. We record net loss or income attributable to noncontrolling interests in consolidated affiliates for the non-ownership interests in hotels that are partially owned by us. Net loss attributable to noncontrolling interests in consolidated affiliates for the year ended December 31, 2013 was \$1.1 million, a decrease of \$1.6 million from net loss attributable to noncontrolling interests of \$2.8 million in the prior year primarily due to acquisition costs related to the acquisition of a 51% controlling interest in the JW Marriott Essex House Hotel in September 2012 and a portion of the Hotel del Coronado management agreement termination fee recognized during the year ended December 31, 2012, partially offset by a decrease in net income at the Hyatt Regency La Jolla hotel during the year ended December 31, 2013 when compared to the year ended December 31, 2012.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating expenses and other expenditures, including:

- interest expense and scheduled principal payments on outstanding indebtedness; and
- recurring maintenance and capital expenditures necessary to maintain our properties properly.

Capital expenditures for the years ended December 31, 2014, 2013 and 2012 amounted to \$74.3 million, \$69.4 million and \$61.1 million, respectively. Included in the 2014, 2013 and 2012 amounts were \$0.9 million, \$1.0 million and \$1.5 million of capitalized interest, respectively. For the year ending December 31, 2015, we expect to spend

approximately \$55.0 million on hotel property and equipment replacement projects in accordance with hotel management agreements and approximately \$40.0 million to \$50.0 million on owner-funded projects, subject to adjustments based on continued evaluation. Major expected

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capital expenditures include guestroom renovations at the Loews Santa Monica Beach hotel, the InterContinental Chicago hotel and the Four Seasons Washington, D.C. hotel, as well as the roof, pool deck and garage renovations at the Loews Santa Monica Beach hotel.

Historically, we have satisfied our short-term liquidity requirements through our existing working capital, cash provided by operations, and our bank credit facility. As of December 31, 2014, we had approximately \$294.6 million of available corporate level cash, not including restricted cash and cash currently held by the hotels. The corporate liquidity will be used for potential acquisition opportunities, capital projects, continued reduction in debt, and other general corporate purposes. In addition, approximately \$90.5 million of such corporate liquidity was used to redeem all of the outstanding shares of Series B Preferred Stock on January 5, 2015 and approximately \$110.4 million was used as partial consideration to acquire the Montage Laguna Beach resort on January 29, 2015. Moreover, we anticipate our \$300.0 million bank credit facility agreement, which includes a \$100.0 million accordion feature, will continue to provide sufficient borrowing capacity to meet our short-term liquidity requirements during 2015 (see - "Bank Credit Facility" below). As of December 31, 2014, we were in compliance with our financial and other restrictive covenants contained in the bank credit facility, and we had no outstanding borrowings and \$8.4 million in letters of credit outstanding on our \$300.0 million bank credit facility.

Our available capacity under the bank credit facility and compliance with financial covenants in future periods will depend substantially on the financial results of our hotels, and in particular, the operating results and gross asset values of the borrowing base assets, which include the Four Seasons Jackson Hole hotel, the Four Seasons Silicon Valley hotel, the Marriott Lincolnshire Resort, the Ritz-Carlton Half Moon Bay hotel and the Ritz-Carlton Laguna Niguel hotel. As of February 23, 2015, the outstanding borrowings and letters of credit under the bank credit facility in the aggregate were zero.

We believe that the following measures we have taken should be sufficient to satisfy our liquidity needs for the next 12 months.

In December 2014, we completed an underwritten public offering of common stock and raised net proceeds of approximately \$250.9 million. We used a portion of the proceeds to fund the acquisition of the Four Seasons Resort Scottsdale at Troon North and to redeem all of the issued and outstanding shares of our Series B Preferred Stock in January 2015, which eliminates future preferred dividend distributions related to these shares and will use the remaining proceeds for general corporate purposes, including, without limitation, repaying other debt and funding capital expenditures and working capital. In June 2014, we completed an underwritten public offering of common stock and raised net proceeds of approximately \$416.6 million. We used the proceeds to fund the acquisition of the remaining 63.6% interest in the Hotel del Coronado Venture not previously owned by us, to redeem all of the issued and outstanding shares of our Series C Preferred Stock, which eliminates future preferred dividend distributions related to these shares, and for general corporate purposes, including, without limitation, reducing our borrowings under our bank credit facility, repaying other debt and funding capital expenditures and working capital.

In December 2014, the Essex House Hotel Venture entered into a new \$225.0 million mortgage loan secured by the JW Marriott Essex House hotel, whereby we reduced the interest rate spread and extended the maturity of the mortgage loan to 2020, assuming extension options are exercised. In August 2014, we entered into a new \$115.0 million mortgage loan secured by the InterContinental Miami hotel, whereby we were able to obtain a favorable fixed annual rate and extend the maturity of the mortgage loan to 2024. In May and June 2014, we refinanced the mortgage loans secured by the Loews Santa Monica Beach Hotel and the Four Seasons Washington, D.C. hotel whereby we reduced the interest rate spreads on both loans and staggered and extended maturities to 2021 and 2019, respectively, assuming extension options are exercised (see – "Mortgages and other debt payable" below).

In March 2014, we sold the Marriott London Grosvenor Square hotel for proceeds of approximately \$209.4 million, which included amounts used to repay the outstanding mortgage loan balance, and used the proceeds to acquire the remaining 50.0% equity interest in the Fairmont Scottsdale Princess Venture not previously owned by us.

In February 2014, we sold our interest in the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel for proceeds of approximately \$206.9 million. We used the proceeds to redeem all of the issued and outstanding shares of our Series A Preferred Stock, which eliminates future preferred dividend distributions related to these shares, and repay indebtedness under the bank credit facility.

In November 2008, our board of directors elected to suspend the quarterly dividend to holders of shares of our common stock beginning in the fourth quarter of 2008. Our board of directors will continue to evaluate the dividend policy in light of the REIT provisions of the Tax Code, restrictions under our bank credit facility, the overall economic climate and our improving financial results.

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Bank credit facility. On April 25, 2014, we entered into a \$300.0 million secured bank credit facility agreement. This new facility replaced the \$300.0 million secured bank credit facility that was set to expire in June 2015 (assuming all extension options were exercised). The agreement contains an accordion feature, which provides the option to increase the borrowing capacity up to \$400.0 million, subject to the satisfaction of customary conditions set forth in the agreement. The following summarizes key financial terms and conditions of the new bank credit facility:

interest on the facility is payable monthly at LIBOR plus an applicable margin in the case of each LIBOR loan and base-rate plus an applicable margin in the case of each base rate loan whereby the applicable margins are dependent on the ratio of consolidated debt to gross asset value (Leverage Ratio) as follows:

Leverage Ratio	Applicable Margin of each LIBOR Loan (% per annum) (a)	Applicable Margin of each Base Rate Loan (% per annum) (a)
Greater than or equal to 60%	2.50	% 1.50 %
Greater than or equal to 55% but less than 60%	2.25	% 1.25 %
Greater than or equal to 50% but less than 55%	2.10	% 1.10 %
Greater than or equal to 45% but less than 50%	1.95	% 0.95 %
Less than 45%	1.75	% 0.75 %

(a) The applicable margins are increased, in each case, by 25 basis points for the period from April 25, 2014 through March 31, 2015.

an unused commitment fee is payable monthly based on the unused revolver balance at a rate of 0.30% per annum in the event that the bank credit facility usage is less than 50% and a rate of 0.20% per annum in the event that the bank credit facility usage is equal to or greater than 50%;

maturity date of April 25, 2018, with the right to extend the maturity date for an additional one-year period with an extension fee equal to 25 basis points, subject to certain conditions;

lenders received collateral in the form of pledges by SH Funding and certain of its subsidiaries of their interests in subsidiaries that directly or indirectly own, lease or operate the borrowing base properties, which currently include the Four Seasons Jackson Hole hotel, the Four Seasons Silicon Valley hotel, the Marriott Lincolnshire Resort, the Ritz-Carlton Half Moon Bay hotel, and the Ritz-Carlton Laguna Niguel hotel and guarantees of the loan from us and such subsidiaries;

maximum availability is determined by the lesser of 55% advance rate against the gross asset value of the borrowing base properties as determined under the loan (provided at any time the total fixed charge coverage ratio is greater than 1.75 times, the percentage shall be increased to 60%) or a 1.40 times debt service coverage on the borrowing base properties (based on the trailing 12 months net operating income for these assets divided by the greater of the in-place interest rate or 7.0% debt constant on the balance outstanding under the bank credit facility);

minimum corporate fixed charge coverage of 1.40 during 2015 and 1.50 times thereafter;

maximum corporate leverage of 60%;

minimum tangible net worth of \$1.4 billion, excluding goodwill and currency translation adjustments, plus an amount equal to 75% of the net proceeds of any new issuances of our common stock, which is not used to reduce indebtedness or used in a transaction or series of transactions to redeem outstanding capital stock;

restrictions on SHR and SH Funding's ability to pay dividends. Such restrictions include:

prohibitions on SHR and SH Funding's ability to pay any dividends unless certain ratios and other conditions are met; and

prohibitions on SHR and SH Funding's ability to issue dividends in cash or in kind at any time an event of default shall have occurred.

Notwithstanding the dividend restrictions described above, for so long as the Company qualifies, or has taken all other actions necessary to qualify as a REIT, SH Funding may authorize, declare, and pay quarterly cash dividends to the Company when and to the extent necessary for the Company to distribute cash dividends to its stockholders generally in an aggregate

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amount not to exceed the minimum amount necessary for the Company to maintain its tax status as a REIT, unless certain events of default exist.

Other terms and conditions exist including a prohibition on mortgaging the borrowing base properties, provisions to release assets from the borrowing base and limitations on our ability to incur costs for discretionary capital programs and to redeem, retire or repurchase common stock. Under the agreement, SH Funding has a letter of credit sub-facility of \$75.0 million, which is secured by the \$300.0 million bank credit facility. Letters of credit reduce the borrowing capacity under the bank credit facility.

Mortgages and other debt payable. The following table summarizes our outstanding debt and scheduled maturities, including extension options, related to mortgages and other debt payable as of December 31, 2014 (in thousands):

	Balance as of December 31, 2014	2015	2016	2017	2018	2019	Thereafter
Mortgages payable							
Hyatt Regency La Jolla (1)	\$89,247	\$—	\$—	\$89,247	\$—	\$—	\$—
Fairmont Scottsdale Princess, LIBOR plus 0.36%	117,000	117,000	—	—	—	—	—
Hotel del Coronado, LIBOR plus 3.65%	475,000	—	—	—	475,000	—	—
Four Seasons Washington, D.C., LIBOR plus 2.25%	120,000	—	—	—	—	120,000	—
Fairmont Chicago, 6.09%	93,124	—	—	93,124	—	—	—
Westin St. Francis, 6.09%	209,588	—	—	209,588	—	—	—
Loews Santa Monica Beach Hotel, LIBOR plus 2.55%	120,000	—	—	—	—	—	120,000
JW Marriott Essex House Hotel, LIBOR plus 2.95%	225,000	—	—	—	—	—	225,000
InterContinental Miami, 3.99%	115,000	—	—	—	—	—	115,000
InterContinental Chicago, 5.61%	142,442	1,796	2,031	2,172	2,299	2,433	131,711
Total mortgages payable (2)(3)	1,706,401	118,796	2,031	394,131	477,299	122,433	591,711
Unamortized discount	(623)	—	—	—	—	—	—
Total mortgages payable, net of discount	\$1,705,778	\$118,796	\$2,031	\$394,131	\$477,299	\$122,433	\$591,711

Interest on \$72.0 million of the total principal amount is paid monthly at LIBOR plus 4.00%, subject to a 0.50% (1)LIBOR floor, and interest on \$17.2 million of the total principal amount is paid monthly at an annual fixed rate of 10.00%.

(2) All of these loan agreements require maintenance of financial covenants, all of which we were in compliance with at December 31, 2014.

(3) See “Item 8. Financial Statements and Supplementary Data—21. Subsequent Events.”

Our long-term liquidity requirements consist primarily of funds necessary to pay for scheduled debt maturities, debt refinancings, renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our properties and the costs associated with acquisitions of properties. In addition, we may use cash to buy back outstanding debt or common securities from time to time when market conditions are favorable through open market purchases, privately negotiated transactions, or a tender offer, although the terms of our bank credit facility may impose certain conditions or restrictions in connection therewith.

Historically, we have satisfied our long-term liquidity requirements through various sources of capital, including our existing working capital, cash provided by operations, sales of properties, long-term property mortgage indebtedness, bank credit facilities, issuance of senior unsecured debt instruments and through the issuance of additional equity securities. Credit markets have improved and access to mortgage and corporate level debt is more readily available. However, the capital markets can be volatile and there are no guarantees our maturing debt will be readily refinanced. Our ability to raise funds through the issuance of equity securities is dependent upon, among other things, general market conditions for both REITs in general and us specifically, including market perceptions regarding the Company. We will continue to analyze which source of capital is most

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advantageous to us at any particular point in time, but equity and debt financing may not be consistently available to us on terms that are attractive or at all.

Equity Securities

As of December 31, 2014, we had 3,076,329 RSUs and performance-based RSUs outstanding, of which 1,551,741 were vested. The following table presents the changes in our issued and outstanding shares of common stock and SH Funding operating partnership units (OP Units) from December 31, 2013 to December 31, 2014 (excluding RSUs):

	Shares of Common Stock	OP Units Represented by Noncontrolling Interests	Total
Outstanding at December 31, 2013	205,582,838	797,238	206,380,076
RSUs redeemed for shares of our common stock	449,341	—	449,341
OP Units redeemed for shares of our common stock	3,620	(3,620)	—
Common stock issued	61,400,000	—	61,400,000
Outstanding at December 31, 2014	267,435,799	793,618	268,229,417

Sources and Uses of Cash

Operating Activities. Net cash provided by operating activities was \$166.6 million, \$124.2 million and \$78.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. Cash flows from operations increased from 2013 to 2014 primarily due to increased operating income at most of our Same Store Assets, operating income generated by the hotels we acquired during the year ended December 31, 2014, and a reduction in cash interest paid, which was partially offset by the income taxes paid attributable to the sale of the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel during the year ended December 31, 2014. Cash flows from operations increased from 2012 to 2013 primarily due to improved operations at the Same Store Assets and the JW Marriott Essex House Hotel, which we acquired in September 2012, and favorable changes in working capital, partially offset by an increase in cash paid for interest.

Investing Activities. Net cash used in investing activities was \$74.6 million, \$43.5 million and \$440.1 million for the years ended December 31, 2014, 2013 and 2012 respectively. The significant investing activities during these years are summarized below:

We acquired the 50.0% equity interests in the Fairmont Scottsdale Princess Venture and the 63.6% equity interests in the Hotel del Coronado Venture not previously owned by us for aggregate cash payments of \$300.6 million during the year ended December 31, 2014. We acquired the Four Seasons Resort Scottsdale at Troon North for a cash payment of \$140.9 million during the year ended December 31, 2014. We also acquired two condominium units at the JW Marriott Essex House Hotel for \$4.9 million during the year ended December 31, 2014. We acquired the JW Marriott Essex House Hotel for \$350.3 million during the year ended December 31, 2012.

We sold the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel for sales proceeds of \$206.9 million and we sold the Marriott London Grosvenor Square hotel for sales proceeds of \$209.4 million, which included amounts used to repay the outstanding mortgage loan balance, during the year ended December 31, 2014. As part of these dispositions, unrestricted cash of \$15.6 million was transferred to the buyers. We sold our interest in a property adjacent to the Fairmont Chicago hotel and received \$9.7 million and sold three condominium units at the JW Marriott Essex House Hotel and received \$6.8 million during the year ended December 31, 2013. We received an additional \$2.0 million during the year ended December 31, 2012 related to the sale of a leasehold interest in the Paris Marriott hotel.

We acquired a note receivable that is secured by a property adjacent to the Fairmont Chicago hotel for \$9.5 million during the year ended December 31, 2012.

We acquired unrestricted cash of \$28.4 million through the acquisitions of the Fairmont Scottsdale Princess and the Hotel del Coronado Ventures and the acquisition of the Four Seasons Resort Scottsdale at Troon North during the year ended December 31, 2014.

We received cash from unconsolidated affiliates of \$2.3 million, \$24.6 million and \$9.1 million during the years ended December 31, 2014, 2013 and 2012, respectively.

We disbursed \$74.3 million during the year ended December 31, 2014 for capital expenditures related to room renovations at the Westin St. Francis, Ritz-Carlton Half Moon Bay and the Hyatt Regency La Jolla hotels, casita

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renovations at the Fairmont Scottsdale Princess hotel, the property improvement plan at the JW Marriott Essex House Hotel, and pool deck renovations at the Loews Santa Monica Beach Hotel. We disbursed \$69.4 million and \$61.1 million during the years ended December 31, 2013 and 2012, respectively, for capital expenditures primarily related to room renovations and food and beverage facilities.

Restricted cash and cash equivalents decreased by \$14.8 million during the year ended December 31, 2014 primarily due to the refinancing of the JW Marriott Essex House Hotel, which released over \$20.0 million held by the previous lender. Restricted cash and cash equivalents increased \$15.1 million during the year ended December 31, 2013 primarily due to excess cash restricted by the lender for the JW Marriott Essex House Hotel. Restricted cash and cash equivalents increased \$21.4 million during the year ended December 31, 2012 primarily due to cash reserved for lender required renovations at the Hyatt Regency La Jolla hotel as well as excess cash restricted by the lender for the JW Marriott Essex House Hotel.

Financing Activities. Net cash provided by financing activities was \$268.1 million for the year ended December 31, 2014, compared with net cash used in financing activities of \$78.2 million for the year ended December 31, 2013 and net cash provided by financing activities of \$369.5 million for the year ended December 31, 2012. The significant financing activities during these years are summarized below:

- We received proceeds from underwritten common stock offerings, net of offering costs, of approximately \$667.6 million and \$114.1 million during the years ended December 31, 2014 and December 31, 2012, respectively.

- We paid approximately \$199.5 million to redeem all of the issued and outstanding shares of our Series A Preferred Stock and our Series C Preferred Stock during the year ended December 31, 2014.

- We received contributions of \$6.6 million and \$3.1 million from holders of noncontrolling interests in consolidated affiliates related to the Essex House Hotel Venture during the years ended December 31, 2014 and 2013, respectively.

- We received contributions of \$96.4 million from holders of noncontrolling interests in consolidated affiliates related to the Essex House Hotel Venture and the Hyatt Regency La Jolla hotel during the year ended December 31, 2012.

- We distributed \$13.7 million, \$24.2 million and \$96.7 million to our preferred shareholders during the years ended December 31, 2014, 2013 and 2012, respectively.

- We had net payments of \$110.0 million and \$36.0 million on our bank credit facility during the years ended December 31, 2014 and 2013, respectively, and net borrowings of \$96.0 million on our bank credit facility during the year ended December 31, 2012.

- We made net payments of \$50.1 million and \$14.7 million on mortgages and other debt during the years ended December 31, 2014 and 2013, respectively, and received net proceeds of \$170.9 million on mortgages and other debt during the year ended December 31, 2012.

- We paid financing costs of \$9.4 million, \$2.1 million and \$4.8 million during the years ended December 31, 2014, 2013 and 2012, respectively.

- We paid \$22.3 million to terminate interest rate swaps during the year ended December 31, 2014.

- We paid distributions to the noncontrolling interest holders in our consolidated affiliates in the amount of \$1.3 million for the year ended December 31, 2012.

Dividend Policy

We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with GAAP) to our stockholders so as to comply with REIT provisions of the Tax Code. If necessary for REIT qualification purposes, we may need to distribute any taxable income in cash or by a special dividend. Our dividend policy is subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend on our taxable income, our financial condition, our maintenance of REIT status and other factors as our board of directors deems relevant.

In November 2008, our board of directors elected to suspend the quarterly dividend to holders of shares of our common stock beginning in the fourth quarter of 2008. Our board of directors has continued the suspension of the quarterly dividend to holders of shares of our common stock as a measure to preserve liquidity.

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Our board of directors will continue to evaluate the dividend policy in light of the REIT provisions of the Tax Code, restrictions under our bank credit facility, the overall economic climate, and our improving financial results.

Contractual Obligations

The following table summarizes our future payment obligations and commitments as of December 31, 2014 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year ⁽¹⁾	1 to 3 years	4 to 5 years	More than 5 years
Long-term debt obligations ⁽²⁾	\$1,706,401	\$118,796	\$396,162	\$599,732	\$591,711
Interest on long-term debt obligations ⁽³⁾	284,804	66,911	125,246	53,918	38,729
Operating lease obligations—ground leases and office space	133,151	3,337	6,563	5,501	117,750
Operating leases—Marriott Hamburg	71,821	4,634	9,267	9,267	48,653
Purchase commitments ⁽⁴⁾	15,341	15,341	—	—	—
Total	\$2,211,518	\$209,019	\$537,238	\$668,418	\$796,843

(1) These amounts represent obligations that are due within fiscal year 2015.

(2) Long-term debt obligations include our bank credit facility and mortgages and exclude the unamortized discount.

(3) Maturity dates assume all extension options are exercised, including conditional options.

(4) Interest on variable-rate debt obligations is calculated based on the variable rates at December 31, 2014.

(4) Amounts include executed construction contracts.

Reserve Funds for Capital Expenditures

We maintain each of our hotels in excellent condition and in conformity with applicable laws and regulations and in accordance with the agreed upon requirements in our management agreements with our hotel operators.

We are obligated to maintain reserve funds for capital expenditures at the majority of our hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the management agreements with our hotel operators. As of December 31, 2014, \$37.5 million was in restricted cash reserves for future capital expenditures. Generally, our agreements with hotel operators require us to reserve funds at amounts ranging between 4.0% and 5.0% of the individual hotel's annual revenues and require the funds to be set aside in restricted cash. Expenditures are capitalized as incurred and depreciation begins when the related asset is placed in service. Any unexpended amounts will remain our property upon termination of the management and operating contracts.

Off-Balance Sheet Arrangements**Fairmont Scottsdale Princess Venture**

We had a 50.0% ownership interest in FMT Scottsdale Holdings, L.L.C. and Walton/SHR FPH Holdings, L.L.C. (together, the Fairmont Scottsdale Princess Venture), which owns the Fairmont Scottsdale Princess hotel, and accounted for our investment under the equity method of accounting. On March 31, 2014, we acquired the remaining 50.0% interest in the Fairmont Scottsdale Princess Venture that was previously owned by our joint venture partner. Our investment in the Fairmont Scottsdale Princess Venture amounted to \$26.8 million as of December 31, 2013. Our equity in earnings of the Fairmont Scottsdale Princess Venture was \$4.8 million and \$2.0 million for the years ended December 31, 2014 and 2013, respectively.

Hotel del Coronado Venture

We had a 36.4% ownership interest in BSK Del Partners, L.P. (the Hotel del Coronado Venture), which owns the Hotel del Coronado, and accounted for our investment under the equity method of accounting. On June 11, 2014, we acquired the remaining 63.6% interest in the Hotel del Coronado Venture that was previously owned by our joint venture partner.

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Our investment in the Hotel del Coronado Venture amounted to \$54.9 million as of December 31, 2013. Our equity in earnings of the Hotel del Coronado Venture was \$0.6 million and \$0.8 million for the years ended December 31, 2014 and 2013, respectively.

RCPM

We own a 31.0% interest in and act as asset manager for a venture with two unaffiliated parties that developed the RCPM, a luxury vacation home product sold in fractional and whole ownership interests on the property adjacent to the Four Seasons Punta Mita Resort hotel in Mexico. We account for this investment under the equity method of accounting. At December 31, 2014 and December 31, 2013, our investment in the unconsolidated affiliate amounted to \$3.4 million and \$3.9 million, respectively. Our equity in (losses) earnings of the unconsolidated affiliate was \$(0.2) million and \$0.1 million for the years ended December 31, 2014 and 2013, respectively.

Lot H5 Venture

On June 14, 2013, we entered into an amended and restated venture agreement with an unaffiliated third party, forming the Lot H5 Venture. The Lot H5 Venture owns the Lot H5 land parcel, an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico. We have a preferred position in the Lot H5 Venture that entitles us to receive the first \$12.0 million of distributions generated from the Lot H5 Venture, with any excess distributions split equally between the partners. We jointly control the Lot H5 Venture with our partner and account for our interest in the Lot H5 Venture as an equity method investment. At December 31, 2014 and 2013, our investment in the unconsolidated affiliate amounted to \$19.4 million and \$19.4 million, respectively. Our equity in earnings (losses) of the unconsolidated affiliate was \$23,000 and \$(16,000) for the years ended December 31, 2014 and 2013, respectively.

Related Party Transactions

We have in the past engaged in transactions with related parties. See “Item 8. Financial Statements and Supplementary Data—16. Related Party Transactions” for a discussion of our transactions with related parties.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.

We evaluate our estimates on an ongoing basis. We base our estimates on historical experience, information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment

Investment in Hotel Properties (Long-Lived Assets). We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In our analysis of fair value, we use discounted cash flow analysis to estimate the fair value of our properties taking into account each property’s expected cash flow from operations, holding period and proceeds from disposing of the property. In addition to the discounted cash flow analysis, management also considers external independent appraisals to estimate fair value. The analysis and appraisals used by management are consistent with those used by a market participant. The factors addressed in determining estimated proceeds from disposition include anticipated operating cash flow in the year of disposition, terminal capitalization rate and selling price per room. Judgment is required in determining the discount rate applied to estimated cash flows, growth rate of the properties, the need for capital expenditures, as well as specific market and economic conditions. Additionally, the classification of assets as held for sale requires the recording of assets at their net realizable value which can affect the amount of impairment recorded.

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There were no indicators of potential impairment during the year ended December 31, 2014. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges on our hotel properties subsequent to December 31, 2014. Any such adjustments could be material, but will be non-cash.

Intangible Assets Subject to Amortization. Intangible assets are reviewed for impairment whenever circumstances or events indicate potential impairment, as part of our investment in hotel properties impairment process described above.

There were no indicators of potential impairment during the year ended December 31, 2014. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges on our intangible assets subsequent to December 31, 2014. Any such adjustments could be material, but will be non-cash.

Goodwill. We review goodwill for impairment at least annually as of December 31 and whenever circumstances or events indicate potential impairment. Goodwill has an indefinite useful life that should not be amortized but should be reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The measurement of impairment of goodwill consists of two steps. In the first step, we compare the fair value of each reporting unit, which in our case is each hotel property, to its carrying value. The assessment of fair values of the hotel properties incorporates unobservable inputs (Level 3), including existing market-based considerations, as well as discounted cash flow analysis of our projections. In the second step of the impairment test, the impairment loss is determined by comparing the implied fair value of goodwill to the recorded amount of goodwill. The activities in the second step include hypothetically allocating the fair value of the reporting unit used in step one to all of the assets and liabilities, including all intangible assets, even if no intangible assets are currently recorded, of that reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. For reporting units with zero or negative carrying values, the second step is only performed if qualitative factors indicate that it is more likely than not that an impairment exists.

We performed our annual impairment test for goodwill as of December 31, 2014. We did not record any non-cash goodwill impairment charges for the year ended December 31, 2014 based on the outcome of this test. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges on our hotel properties with goodwill subsequent to December 31, 2014. Any such adjustments could be material, but will be non-cash.

Intangible Assets Not Subject to Amortization. We review intangible assets not subject to amortization for impairment at least annually as of December 31 and whenever circumstances or events indicate potential impairment. The impairment assessment shall consist of a comparison of the fair value of the asset with its carrying amount. The assessment of fair value of the intangible assets not subject to amortization incorporates unobservable inputs (Level 3), including a discounted cash flow analysis of our projections. If the carrying amount of an intangible asset not subject to amortization exceeds its fair value, we shall recognize an impairment loss in an amount equal to that excess. We performed our annual impairment test for intangible assets not subject to amortization as of December 31, 2014. We did not record any non-cash impairment charges related to intangible assets not subject to amortization for the year ended December 31, 2014 based on the outcome of this test. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges subsequent to December 31, 2014. Any such adjustments could be material, but will be non-cash.

Investment in Unconsolidated Affiliates. A series of operating losses of an investee or other factors may indicate that a decrease in value of a company's investment in unconsolidated affiliates has occurred which is other-than-temporary. Accordingly, the investment in each of the unconsolidated affiliates is evaluated periodically for valuation declines that are other-than-temporary. If the investment is other than temporarily impaired, the investment is written down to its estimated fair value. Also taken into consideration when testing for impairment is the value of the underlying real estate investments, the ownership and distribution preferences and limitations and rights to sell and repurchase of its ownership interests. There were no other-than-temporary declines in value of investments in unconsolidated affiliates during the year ended December 31, 2014. However, if deterioration in economic and market conditions occurs, it may present a potential for other-than-temporary declines in value subsequent to December 31, 2014. Any such

adjustments could be material, but will be non-cash.

Acquisition Related Assets and Liabilities. Accounting for the acquisition of a hotel property as a purchase transaction requires an allocation of the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective estimated fair values. The most difficult estimations of individual fair values are those

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involving long-lived assets, such as property and equipment and intangible assets. We use all available information to make these fair value determinations and, for hotel acquisitions, engage an independent valuation specialist to assist in the fair value determination of the acquired long-lived assets. Due to inherent subjectivity in determining the estimated fair value of long-lived assets, we believe that the recording of acquired assets and liabilities is a critical accounting policy.

Depreciation and Amortization Expense. Depreciation expense is based on the estimated useful life of our assets. The life of the assets is based on a number of assumptions, including cost and timing of capital expenditures to maintain and refurbish the asset, as well as specific market and economic conditions. While management believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of the assets.

Disposal of Long-Lived Assets. We classify assets as held for sale in accordance with GAAP. Assets identified as held for sale are reclassified on our consolidated balance sheet and the related results of operations are reclassified as discontinued operations on our consolidated statement of operations. While these classifications do not have an effect on total assets, net equity or net income, they affect the classifications within each statement. Additionally, a determination to classify an asset as held for sale affects depreciation expense as long-lived assets are not depreciated while classified as held for sale. In accordance with new guidance effective in the first quarter of 2015, only disposals that represent a strategic shift that has (or will have) a major effect on our result of operations will be reclassified as discontinued operations.

Seasonality

The lodging business is seasonal in nature, and we experience some seasonality in our business. Revenues for hotels in tourist areas, those with significant group business, and in areas driven by greater climate changes are generally seasonal. Quarterly revenues also may be adversely affected by events beyond our control, such as extreme weather conditions and other acts of nature, terror attacks or alerts, airline strikes, economic factors and other considerations affecting travel.

The Marriott domestic hotels previously reported their results of operations using a fiscal year consisting of thirteen four-week periods. As a result, for our domestic Marriott branded properties, for 2012, the first three quarters consisted of 12 weeks each and the fourth quarter consisted of 16 weeks. Effective January 1, 2013, Marriott converted from a fiscal year consisting of 13 four-week periods to a 12-month calendar year.

To the extent that cash flows from operations are insufficient during any quarter, due to temporary or seasonal fluctuations in revenues, we may have to enter into short-term borrowings to pay operating expenses and make distributions to our stockholders.

New Accounting Guidance

See “Item 8. Financial Statements and Supplementary Data—2. Summary of Significant Accounting Policies—New Accounting Guidance.”

Non-GAAP Financial Measures

We present five non-GAAP financial measures that we believe are useful to management and investors as key measures of our operating performance: FFO; FFO—Fully Diluted; Comparable FFO; EBITDA; and Comparable EBITDA. Amounts presented in accordance with our definitions of FFO, FFO—Fully Diluted, Comparable FFO, EBITDA, and Comparable EBITDA may not be comparable to similar measures disclosed by other companies, since not all companies calculate these non-GAAP measures in the same manner. FFO, FFO—Fully Diluted, Comparable FFO, EBITDA, and Comparable EBITDA should not be considered as an alternative measure of our net income (loss) or operating performance. FFO, FFO—Fully Diluted, Comparable FFO, EBITDA, and Comparable EBITDA may include funds that may not be available for our discretionary use due to functional requirements to conserve funds for capital expenditures and property acquisitions and other commitments and uncertainties. Although we believe that FFO, FFO—Fully Diluted, Comparable FFO, EBITDA, and Comparable EBITDA can enhance the understanding of our financial condition and results of operations, these non-GAAP financial measures, when viewed individually, are not necessarily better indicators of any trend as compared to comparable GAAP measures such as net income (loss) attributable to SHR common shareholders. In addition, adverse economic and market conditions might negatively impact our cash flow. We have provided a quantitative reconciliation of FFO, FFO—Fully Diluted, Comparable FFO,

EBITDA, and Comparable EBITDA to the most directly comparable GAAP financial performance measure, which is net income (loss) attributable to SHR common shareholders.

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EBITDA and Comparable EBITDA

EBITDA represents net income (loss) attributable to SHR common shareholders excluding: (i) interest expense, (ii) income taxes, including deferred income tax benefits and expenses applicable to our foreign subsidiaries and income taxes applicable to sale of assets; (iii) depreciation and amortization; and (iv) preferred stock dividends. EBITDA also excludes interest expense, income taxes and depreciation and amortization of our unconsolidated affiliates. EBITDA is presented on a full participation basis, which means we have assumed conversion of all redeemable noncontrolling interests of our operating partnership into our common stock. We believe this treatment of noncontrolling interests provides useful information for management and our investors and appropriately considers our current capital structure. We also present Comparable EBITDA, which eliminates the effect of realizing deferred gains on our sale leasebacks, as well as the effect of gains or losses on sales of assets, early extinguishment of debt, impairment losses, foreign currency exchange gains or losses and certain other charges that are highly variable from year to year.

We believe EBITDA and Comparable EBITDA are useful to management and investors in evaluating our operating performance because they provide management and investors with an indication of our ability to incur and service debt, to satisfy general operating expenses, to make capital expenditures and to fund other cash needs or reinvest cash into our business. We also believe they help management and investors meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our asset base (primarily depreciation and amortization) from our operating results. Our management also uses EBITDA and Comparable EBITDA as measures in determining the value of acquisitions and dispositions.

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The following table provides a reconciliation of net income (loss) attributable to SHR common shareholders to Comparable EBITDA (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net income (loss) attributable to SHR common shareholders	\$320,399	\$(13,191)	\$(79,472)
Depreciation and amortization—continuing operations	119,688	96,712	90,659
Depreciation and amortization—discontinued operations	1,275	9,306	12,805
Interest expense—continuing operations	82,119	77,189	70,311
Interest expense—discontinued operations	1,326	7,087	5,178
Income taxes—continuing operations	1,200	156	13
Income taxes—discontinued operations	833	1,290	998
Income taxes—sale of assets	20,451	—	—
Noncontrolling interests	1,221	38	(184)
Adjustments from consolidated affiliates	(15,756)	(14,604)	(8,599)
Adjustments from unconsolidated affiliates	8,419	23,489	27,562
Preferred shareholder dividends	24,084	24,166	24,166
EBITDA	565,259	211,638	143,437
Realized portion of deferred gain on sale leaseback	(207)	(207)	(200)
(Gain) loss on sale of assets—continuing operations	(729)	1,185	—
Gain on sale of assets—discontinued operations	(177,219)	—	—
Gain on consolidation of affiliates	(143,471)	—	—
Impairment losses and other charges—continuing operations	—	728	18,406
Impairment losses and other charges—discontinued operations	—	—	437
Loss on early extinguishment of debt—continuing operations	2,619	—	—
Loss on early extinguishment of debt—discontinued operations	272	—	—
Foreign currency exchange loss (gain)—continuing operations	116	(42)	1,247
Foreign currency exchange (gain) loss—discontinued operations	(32)	(1)	363
Non-cash interest rate derivative activity	218	—	—
Amortization of below market hotel management agreement	1,203	—	—
Activist shareholder costs	1,636	342	—
Hotel acquisitions costs	182	—	—
Adjustment for Value Creation Plan	—	—	1,407
Severance charges	—	—	2,485
Management agreement termination fee(a)	—	—	7,820
Adjustments from consolidated affiliates	(881)	(455)	—
Comparable EBITDA	\$248,966	\$213,188	\$175,402

(a) Our share of the Hotel del Coronado management agreement termination fee included in both equity in losses of unconsolidated affiliates and net loss attributable to the noncontrolling interests in consolidated affiliates.

FFO, FFO-Fully Diluted, and Comparable FFO

We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT. NAREIT adopted a definition of FFO in order to promote an industry-wide standard measure of REIT operating performance. NAREIT defines FFO as net income (loss) (computed in accordance with GAAP) excluding losses or gains from sales of depreciable property, impairment of depreciable real estate, real estate-related depreciation and amortization, and our portion of these items related to unconsolidated affiliates. We also present FFO—Fully Diluted, which is FFO plus income or loss on income attributable to redeemable noncontrolling interests of our operating partnership. We also present Comparable FFO, which is FFO—Fully Diluted excluding the impact of any gains or losses on early extinguishment of debt, impairment

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losses on non-depreciable assets, foreign currency exchange gains or losses and certain other charges that are highly variable from year to year.

We believe that the presentation of FFO, FFO—Fully Diluted and Comparable FFO provides useful information to management and investors regarding our results of operations because they are measures of our ability to fund capital expenditures and expand our business. In addition, FFO is widely used in the real estate industry to measure operating performance without regard to items such as depreciation and amortization.

The following table provides a reconciliation of net income (loss) attributable to SHR common shareholders to Comparable FFO (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net income (loss) attributable to SHR common shareholders	\$320,399	\$(13,191)	\$(79,472)
Depreciation and amortization—continuing operations	119,688	96,712	90,659
Depreciation and amortization—discontinued operations	1,275	9,306	12,805
Corporate depreciation	(495)	(508)	(979)
(Gain) loss on sale of assets—continuing operations	(729)	1,185	—
Gain on sale of assets, net of tax—discontinued operations	(156,768)	—	—
Gain on consolidation of affiliates	(143,471)	—	—
Realized portion of deferred gain on sale leaseback	(207)	(207)	(200)
Noncontrolling interests adjustments	(398)	(400)	(501)
Adjustments from consolidated affiliates	(8,188)	(7,378)	(4,091)
Adjustments from unconsolidated affiliates	5,077	14,135	15,258
FFO	136,183	99,654	33,479
Redeemable noncontrolling interests	1,619	438	317
FFO—Fully Diluted	137,802	100,092	33,796
Impairment losses and other charges—continuing operations	—	728	18,406
Impairment losses and other charges—discontinued operations	—	—	437
Non-cash interest rate derivative activity—continuing operations	6,335	(9,228)	(6,702)
Non-cash interest rate derivative activity—discontinued operations	—	(2,389)	(5,536)
Loss on early extinguishment of debt—continuing operations	2,619	—	—
Loss on early extinguishment of debt—discontinued operations	272	—	—
Foreign currency exchange loss (gain)—continuing operations	116	(42)	1,247
Foreign currency exchange (gain) loss, net of tax—discontinued operations	(32)	(1)	363
Amortization of debt discount	1,869	—	—
Amortization of below market hotel management agreement	1,203	—	—
Activist shareholder costs	1,636	342	—
Hotel acquisition costs	182	—	—
Adjustment for Value Creation Plan	—	—	1,407
Severance charges	—	—	2,485
Management agreement termination fee(a)	—	—	7,820
Excess of redemption price over carrying amount of redeemed preferred stock	10,233	—	—
Adjustments from consolidated affiliates	(985)	—	—
Comparable FFO	\$161,250	\$89,502	\$53,723

(a) Our share of the Hotel del Coronado management agreement termination fee included in both equity in losses of unconsolidated affiliates and net loss attributable to the noncontrolling interests in consolidated affiliates.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors. We use methods which incorporate standard market conventions and techniques such as discounted cash flow analysis and option pricing models to determine fair value. All methods of estimating fair value result in general approximation of value and such value may or may not actually be realized.

See “Item 8. Financial Statements and Supplementary Data—12. Derivatives” for information on our interest rate cap and swap agreements outstanding as of December 31, 2014.

As of December 31, 2014, our total outstanding mortgages and other debt and indebtedness under the bank credit facility totaled approximately \$1.7 billion, of which approximately 33.8% was fixed-rate debt. If market rates of interest on our variable rate debt increase by 20%, the increase in interest expense on the variable rate debt would decrease future earnings and cash flows by approximately \$0.4 million annually.

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of the reduced level of overall economic activity that could exist in that environment. Furthermore, in the event of a 20% increase in the market rates of interest on our variable rate debt as discussed above, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Currency Exchange Risk

As we have international operations, currency exchange risk arises as a normal part of our business. In particular, we are subject to fluctuations due to changes in foreign exchange rates as it relates to our leasehold interest in the Marriott Hamburg hotel, which uses the euro. For the year ended December 31, 2014, approximately 0.5% of our total revenues, were generated from the Marriott Hamburg hotel. As a result, fluctuations in the value of foreign currency against the U.S. dollar do not have a significant impact on our reported results.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Strategic Hotels & Resorts, Inc.
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of Strategic Hotels & Resorts, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Strategic Hotels & Resorts, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 24, 2015

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 CONSOLIDATED BALANCE SHEETS
 (In Thousands, Except Share Data)

	December 31,	
	2014	2013
Assets		
Investment in hotel properties, net*	\$2,828,400	\$1,795,338
Goodwill	38,128	38,128
Intangible assets, net of accumulated amortization of \$7,288 and \$11,753	94,324	29,502
Assets held for sale	—	135,901
Investment in unconsolidated affiliates	22,850	104,973
Cash and cash equivalents*	442,613	73,655
Restricted cash and cash equivalents*	81,510	75,916
Accounts receivable, net of allowance for doubtful accounts of \$492 and \$606*	51,382	39,660
Deferred financing costs, net of accumulated amortization of \$7,814 and \$12,354*	11,440	8,478
Deferred tax assets	1,729	—
Prepaid expenses and other assets*	46,781	35,600
Total assets	\$3,619,157	\$2,337,151
Liabilities, Noncontrolling Interests and Equity		
Liabilities:		
Mortgages and other debt payable, net of discount*	\$1,705,778	\$1,163,696
Bank credit facility	—	110,000
Liabilities of assets held for sale	—	17,027
Accounts payable and accrued expenses*	224,505	189,889
Preferred stock redemption liability	90,384	—
Distributions payable	104	—
Deferred tax liabilities	46,137	46,137
Total liabilities	2,066,908	1,526,749
Commitments and contingencies (Note 17)		
Noncontrolling interests in SHR's operating partnership	10,500	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 \$90,488 and \$90,384 in the aggregate)	—	87,064
8.25% Series C Cumulative Redeemable Preferred Stock (\$0.01 par value per share; 0 and 3,827,727 shares issued and outstanding; liquidation preference \$25.00 per share plus accrued distributions and \$0 and \$95,693 in the aggregate)	—	92,489
Common stock (\$0.01 par value per share; 350,000,000 shares of common stock authorized; 267,435,799 and 205,582,838 shares of common stock issued and outstanding)	2,674	2,056
Additional paid-in capital	2,348,284	1,705,306
Accumulated deficit	(890,469)	(1,234,952)
Accumulated other comprehensive loss	(13,032)	(41,445)
Total SHR's shareholders' equity	1,447,457	710,513
Noncontrolling interests in consolidated affiliates	94,292	92,355

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Total equity	1,541,749	802,868
Total liabilities, noncontrolling interests and equity	\$3,619,157	\$2,337,151

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CONSOLIDATED BALANCE SHEETS—(CONTINUED)

(In Thousands)

	December 31, 2014	2013
*Consolidated Variable Interest Entity's Assets and Liabilities included in the above balances (see note 6):		
Investment in hotel properties, net	\$336,243	\$340,136
Cash and cash equivalents	62,064	6,214
Restricted cash and cash equivalents	3,746	14,843
Accounts receivable, net of allowance for doubtful accounts of \$49 and \$91	4,920	4,520
Deferred financing costs, net of accumulated amortization of \$0 and \$1,871	3,899	2,529
Prepaid expenses and other assets	14,603	8,922
Mortgages and other debt payable	225,000	185,826
Accounts payable and accrued expenses	10,228	9,371

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	For the years ended December 31,		
	2014	2013	2012
Revenues:			
Rooms	\$582,969	\$479,734	\$401,305
Food and beverage	385,623	287,557	257,298
Other hotel operating revenue	115,084	91,355	73,585
Lease revenue	5,406	5,161	4,778
Total revenues	1,089,082	863,807	736,966
Operating Costs and Expenses:			
Rooms	168,256	138,946	116,093
Food and beverage	277,962	221,388	190,106
Other departmental expenses	270,219	213,714	193,154
Management fees	36,331	25,000	20,732
Other hotel expenses	67,058	58,435	50,795
Lease expense	4,873	4,818	4,580
Depreciation and amortization	119,688	96,712	90,659
Impairment losses and other charges	—	728	18,406
Corporate expenses	26,898	25,176	31,098
Total operating costs and expenses	971,285	784,917	715,623
Operating income	117,797	78,890	21,343
Interest expense	(82,119)	(77,189)	(70,311)
Interest income	269	53	207
Loss on early extinguishment of debt	(2,619)	—	—
Equity in earnings (losses) of unconsolidated affiliates	5,237	2,987	(13,485)
Foreign currency exchange (loss) gain	(116)	42	(1,247)
Gain on consolidation of affiliates	143,471	—	—
Other income (expenses), net	952	(314)	1,820
Income (loss) before income taxes and discontinued operations	182,872	4,469	(61,673)
Income tax expense	(1,200)	(156)	(13)
Income (loss) from continuing operations	181,672	4,313	(61,686)
Income from discontinued operations, net of tax	159,378	5,574	3,425
Net Income (Loss)	341,050	9,887	(58,261)
Net (income) loss attributable to the noncontrolling interests in SHR's operating partnership	(1,221)	(38)	184
Net loss attributable to the noncontrolling interests in consolidated affiliates	4,654	1,126	2,771
Net Income (Loss) Attributable to SHR	344,483	10,975	(55,306)
Preferred shareholder dividends	(24,084)	(24,166)	(24,166)
Net Income (Loss) Attributable to SHR Common Shareholders	\$320,399	\$(13,191)	\$(79,472)
Amounts Attributable to SHR:			
Income (loss) from continuing operations	\$185,713	\$5,401	\$(58,731)
Income from discontinued operations	158,770	5,574	3,425
Net income (loss)	\$344,483	\$10,975	\$(55,306)
Basic Income (Loss) Per Share:			
Income (loss) from continuing operations attributable to SHR common shareholders	\$0.69	\$(0.09)	\$(0.41)
	0.68	0.03	0.01

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Income from discontinued operations attributable to SHR common shareholders

Net income (loss) attributable to SHR common shareholders	\$ 1.37	\$ (0.06	) \$ (0.40)
Weighted average common shares outstanding	233,528	206,334	201,109	

Diluted Income (Loss) Per Share:

Income (loss) from continuing operations attributable to SHR common shareholders	\$ 0.65	\$ (0.09) \$ (0.41)
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Income from discontinued operations attributable to SHR common shareholders	0.65	0.03	0.01	
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Net income (loss) attributable to SHR common shareholders	\$ 1.30	\$ (0.06) \$ (0.40)
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Weighted average common shares outstanding	243,558	206,334	201,109	
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The accompanying notes to the consolidated financial statements are an integral part of these statements.

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

	For the years ended December 31,		
	2014	2013	2012
Net income (loss)	\$341,050	\$9,887	\$(58,261)
Other comprehensive income:			
Gain (loss) on currency translation adjustments	18,695	(412)	) 725
Gain on derivatives and other activity	9,718	17,838	11,056
Other comprehensive income	28,413	17,426	11,781
Comprehensive Income (Loss)	369,463	27,313	(46,480)
Comprehensive (income) loss attributable to the noncontrolling interests in SHR's operating partnership	(1,323)	) (108)	) 133
Comprehensive loss attributable to the noncontrolling interests in consolidated affiliates	4,654	1,126	2,771
Comprehensive Income (Loss) Attributable to SHR	\$372,794	\$28,331	\$(43,576)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 CONSOLIDATED STATEMENTS OF EQUITY
 (In Thousands)

	For the years ended December 31,		
	2014	2013	2012
8.50% Series A Cumulative Redeemable Preferred Stock			
Balance, beginning of year	\$99,995	\$99,995	\$99,995
Preferred stock redemption	(99,995)	—	—
Balance, end of year	\$—	\$99,995	\$99,995
8.25% Series B Cumulative Redeemable Preferred Stock			
Balance, beginning and end of year	\$87,064	\$87,064	\$87,064
Preferred stock redemption	(87,064)	—	—
Balance, end of year	\$—	\$87,064	\$87,064
8.25% Series C Cumulative Redeemable Preferred Stock			
Balance, beginning of year	\$92,489	\$92,489	\$92,489
Preferred stock redemption	(92,489)	—	—
Balance, end of year	\$—	\$92,489	\$92,489
Common stock			
Balance, beginning of year	\$2,056	\$2,043	\$1,856
Restricted stock units redeemed for shares of SHR common stock	4	13	2
Issuance of shares of SHR common stock	614	—	185
Balance, end of year	\$2,674	\$2,056	\$2,043
Additional paid-in capital			
Balance, beginning of year	\$1,705,306	\$1,730,535	\$1,634,067
Issuance of shares of SHR common stock	685,486	—	119,415
Offering costs	(18,518)	—	(5,538)
Preferred stock redemption	(10,355)	—	—
Acquisition of additional ownership interests in consolidated affiliates	—	—	(1,079)
Distributions to holders of noncontrolling interests in consolidated affiliates	—	—	1,789
Preferred stock tender	—	—	(54)
Declared distributions to preferred shareholders	(13,851)	(24,166)	(24,166)
Share-based compensation	1,961	970	7,165
Adjustment for noncontrolling interest ownership in SHR's operating partnership	(1,384)	209	(326)
Redemption value adjustment	(361)	(2,242)	(738)
Balance, end of year	\$2,348,284	\$1,705,306	\$1,730,535
Accumulated deficit			
Balance, beginning of year	\$(1,234,952)	\$(1,245,927)	\$(1,190,621)
Net income (loss) attributable to SHR	344,483	10,975	(55,306)
Balance, end of year	\$(890,469)	\$(1,234,952)	\$(1,245,927)
Accumulated other comprehensive loss			
Balance, beginning of year	\$(41,445)	\$(58,871)	\$(70,652)
Currency translation adjustments	18,695	(412)	725
Derivatives and other activity	9,718	17,838	11,056
Balance, end of year	\$(13,032)	\$(41,445)	\$(58,871)
Total SHR's Shareholders' Equity	\$1,447,457	\$710,513	\$707,328

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 CONSOLIDATED STATEMENTS OF EQUITY—(CONTINUED)
 (In Thousands)

	For the years ended December 31,		
	2014	2013	2012
Noncontrolling interests in consolidated affiliates			
Balance, beginning of year	\$92,355	\$95,657	\$8,222
Net loss	(4,654	) (1,126	) (2,771
Contributions from holders of noncontrolling interests in consolidated affiliates	6,605	3,140	96,417
Distributions to holders of noncontrolling interests in consolidated affiliates	(14	) (16	) (3,069
Elimination of noncontrolling interest	—	(5,300) —
Acquisition of additional ownership interests	—	—	(3,077
Other	—	—	(65
Balance, end of year	\$94,292	\$92,355	\$95,657
Total Equity	\$1,541,749	\$802,868	\$802,985

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the years ended December 31,		
	2014	2013	2012
Operating Activities:			
Net income (loss)	\$341,050	\$9,887	\$(58,261)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (including discontinued operations):			
Deferred income tax expense (benefit)	1,036	(885)	(217)
Depreciation and amortization	120,963	106,018	103,464
Amortization of deferred financing and other costs	17,013	11,194	12,742
Non-cash impairment losses and other charges	—	728	18,843
Loss on early extinguishment of debt	1,962	—	—
Equity in (earnings) losses of unconsolidated affiliates	(5,237)	(2,987)	13,485
Share-based compensation	5,826	5,292	7,756
Gain on consolidation of affiliates	(143,471)	—	—
(Gain) loss on disposal of assets, net of tax	(156,768)	1,185	—
Income tax on sale of assets	(20,451)	—	—
Foreign currency exchange loss (gain)	84	(43)	1,610
Recognition of deferred gains	(207)	(207)	(200)
Mark to market of derivative financial instruments	(2,870)	(11,536)	(12,224)
Decrease (increase) in accounts receivable	7,747	(2,360)	(1,787)
(Increase) decrease in prepaid expenses and other assets	(2,469)	375	(1,646)
Increase (decrease) in accounts payable and accrued expenses	2,364	7,515	(4,982)
Net cash provided by operating activities	166,572	124,176	78,583
Investing Activities:			
Acquisition of hotel and other investments	(446,418)	—	(350,333)
Proceeds from sales of assets	416,274	16,533	1,991
Investment in unconsolidated affiliate	—	—	(9,050)
Cash received from unconsolidated affiliates	2,250	24,555	9,111
Unrestricted cash acquired	28,375	—	183
Unrestricted cash sold	(15,634)	—	—
Acquisition of note receivable	—	—	(9,457)
Capital expenditures	(74,253)	(69,414)	(61,100)
Decrease (increase) in restricted cash and cash equivalents	14,785	(15,136)	(21,412)
Net cash used in investing activities	(74,621)	(43,462)	(440,067)
Financing Activities:			
Proceeds from issuance of common stock	686,100	—	119,600
Equity issuance costs	(18,518)	—	(5,538)
Preferred stock redemption	(199,518)	—	—
Preferred stock tender costs	—	—	(54)
Borrowings under bank credit facility	148,000	51,000	307,000
Payments on bank credit facility	(258,000)	(87,000)	(211,000)
Proceeds from mortgages	352,000	—	280,000
Payments on mortgages and other debt	(402,051)	(14,725)	(109,134)
Contributions from holders of noncontrolling interests in consolidated affiliates	6,605	3,140	96,417
Acquisition of noncontrolling interest in consolidated affiliates	—	—	(4,156)

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Debt financing costs	(9,373) (2,130) (4,829)
Distributions to preferred shareholders	(13,747) (24,166) (96,665)
Distributions to holders of noncontrolling interests in consolidated affiliates	(14	) (16	) (1,280)
Interest rate swap termination	(22,325) —	—)
Other financing activities	(1,034	) (4,310	) (846)
Net cash provided by (used in) financing activities	268,125	(78,207	) 369,515)
Effect of exchange rate changes on cash	(21	) (23	) 30)
Net change in cash and cash equivalents	360,055	2,484	8,061)
Change in cash of assets held for sale	8,903	(8,903) —)
Cash and cash equivalents, beginning of year	73,655	80,074	72,013)
Cash and cash equivalents, end of year	\$442,613	\$73,655	\$80,074)

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES (SHR)
 CONSOLIDATED STATEMENTS OF CASH FLOWS—(CONTINUED)
 (In Thousands)

	For the years ended December 31,		
	2014	2013	2012
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Assumption of mortgage loans - hotel investment acquisitions (see note 3)	\$589,507	\$—	\$—
Gain on mark to market of derivative instruments (see note 12)	\$(2,781)	) \$(11,532	) \$(3,136)
Preferred stock redemption accrual (see note 11)	\$90,384	\$—	\$—
Distributions declared and payable to preferred shareholders (see note 11)	\$104	\$—	\$—
(Decrease) increase in capital expenditures recorded as liabilities	\$(1,831)	) \$(147	) \$3,830
Cash Paid For (Receipts Of):			
Interest, net of interest capitalized	\$71,915	\$86,303	\$73,443
Income taxes, net of refunds	\$21,836	\$(234)	) \$77

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Strategic Hotels & Resorts, Inc. (SHR and, together with its subsidiaries, the Company) was incorporated in January 2004 to acquire and asset-manage upper upscale and luxury hotels that are subject to long-term management contracts. As of December 31, 2014, the Company's portfolio included 17 full-service hotel interests located in urban and resort markets in the United States and Hamburg, Germany. The Company considers each hotel to be a separate operating segment because the Company allocates resources and assesses performance on an individual hotel basis. The Company aggregates the individual hotels into one reportable business segment, hotel ownership.

SHR operates as a self-administered and self-managed real estate investment trust (REIT), which means that it is managed by its board of directors and executive officers. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. For SHR to continue to qualify as a REIT, it cannot operate hotels; instead it employs internationally known hotel management companies to operate its hotels under management contracts. SHR conducts its operations through its direct and indirect subsidiaries, including its operating partnership, Strategic Hotel Funding, L.L.C. (SH Funding), which currently holds substantially all of the Company's assets. SHR is the sole managing member of SH Funding and holds approximately 99.7% of its membership units as of December 31, 2014. SHR manages all business aspects of SH Funding, including the sale and purchase of hotels, the investment in these hotels and the financing of SH Funding and its assets.

As of December 31, 2014, SH Funding owned interests in or leased the following 17 hotels:

- | | |
|--|---------------------------------------|
| 1. Fairmont Chicago | 10. InterContinental Miami |
| 2. Fairmont Scottsdale Princess (a) | 11. JW Marriott Essex House Hotel (d) |
| 3. Four Seasons Jackson Hole | 12. Loews Santa Monica Beach Hotel |
| 4. Four Seasons Resort Scottsdale at Troon North | 13. Marriott Hamburg (e) |
| 5. Four Seasons Silicon Valley | 14. Marriott Lincolnshire Resort (f) |
| 6. Four Seasons Washington, D.C. | 15. Ritz-Carlton Half Moon Bay |
| 7. Hotel del Coronado (b) | 16. Ritz-Carlton Laguna Niguel |
| 8. Hyatt Regency La Jolla (c) | 17. Westin St. Francis |
| 9. InterContinental Chicago | |

(a) This property is owned by an affiliate that was partially-owned by the Company and accounted for as an unconsolidated affiliate prior to March 31, 2014 (see note 7). On March 31, 2014, the Company acquired the remaining ownership interests in the affiliate and began accounting for it as a consolidated affiliate (see note 3). One land parcel at this property is subject to a ground lease arrangement.

(b) This property is owned by an affiliate that was partially-owned by the Company and accounted for as an unconsolidated affiliate prior to June 11, 2014 (see note 7). On June 11, 2014, the Company acquired the remaining ownership interests in the affiliate and began accounting for it as a consolidated affiliate (see note 3).

(c) This property is owned by a consolidated affiliate in which the Company holds an interest (see note 2).

(d) This property is owned by a consolidated affiliate in which the Company holds an interest (see notes 2, 3 and 6).

(e) The Company has a leasehold interest in this property.

(f) This property is subject to a ground lease arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Basis of Consolidation:

The accompanying consolidated financial statements include the accounts of SHR, its subsidiaries and other entities in which the Company has a controlling interest. If SH Funding determines that it is the holder of a variable interest in a variable interest entity (VIE), and it is the primary beneficiary, then SH Funding will consolidate the entity. At December 31, 2014, SH Funding consolidated one VIE, the entity that owns the JW Marriott Essex House Hotel (see note 6). For entities that are not considered VIEs, SH Funding consolidates those entities it controls. At December 31, 2014, SH Funding owned a 53.5% controlling interest in the entity that owns the Hyatt Regency La Jolla hotel, which is consolidated in the accompanying consolidated financial statements. It accounts for those entities over which it has a significant influence but does not control using the equity method of accounting. At December 31, 2014, SH Funding owned interests in the Four Seasons Residence Club Punta Mita (RCPM) and the Lot H5 Venture (see note 7), which are unconsolidated affiliates in the accompanying consolidated financial statements that are accounted for using the equity method of accounting.

All intercompany transactions and balances have been eliminated in consolidation.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Investment in Hotel Properties and Depreciation:

Investment in hotel properties consists of land, a leasehold interest, buildings, building and leasehold improvements, site improvements and furniture, fixtures and equipment.

Depreciation is computed on a straight-line basis over the following useful lives:

Leasehold interest	Life of lease (51 years)
Buildings	39 years
Building and leasehold improvements	5 – 10 years
Site improvements	15 years
Furniture, fixtures & equipment	3 – 5 years

Hotel improvements in progress include costs incurred for capital projects for hotels that are in the process of being developed, renovated, rehabilitated or expanded. Completed renovations and improvements are capitalized and depreciated over their estimated useful lives. Interest expense and certain other costs as well as project related salary and benefit costs incurred during a renovation or development period are capitalized and depreciated over the lives of the related assets. Costs incurred for repairs and maintenance are expensed.

Assets to be disposed of are reported at the lower of the carrying amount or estimated fair value less costs to sell. The Company classifies the operations of hotels sold or held for sale as discontinued operations (see note 5). Effective January 1, 2015, the Company adopted new accounting guidance related to discontinued operations. Under the guidance, only disposals that represent a strategic shift that has (or will have) a major effect on the Company's results of operations would qualify as discontinued operations. The Company will apply this new guidance prospectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill:

Goodwill is the excess of the allocated purchase price over the fair value of the net assets at the time a property is acquired. The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013	
Balance at the beginning of the year			
Goodwill	\$314,714	\$316,945	
Accumulated impairment losses	(276,586	) (276,586)
	38,128	40,359	
Goodwill related to assets held for sale	—	(2,231)
Balance at the end of the year			
Goodwill	314,714	314,714	
Accumulated impairment losses	(276,586	) (276,586)
	\$38,128	\$38,128	

Intangible Assets:

Intangible assets at December 31, 2014 and 2013 include (in thousands):

	2014	2013	Weighted Average Useful Life
Intangible assets subject to amortization:			
Below market ground leases:			
Fairmont Scottsdale Princess	\$7,656	\$—	95 years, 9 months
Marriott London Grosvenor Square	—	34,567	51 years
Golf course use agreement	1,500	1,500	14 years
Advanced bookings	7,380	3,200	1 year, 7 months
Land development entitlements	1,988	1,988	2 years
Memberships value(a)	5,973	—	30 years
Below market hotel management agreement(a)	18,822	—	9 years, 2 months
	43,319	41,255	
Accumulated amortization	(7,288	) (11,753)
	36,031	29,502	
Intangible assets not subject to amortization:			
Trade name(a)	58,293	—	
Intangible assets, net of accumulated amortization	\$94,324	\$29,502	

(a) These intangible assets relate to the Hotel del Coronado (see note 3).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization of intangible assets is computed on a straight-line basis over the respective useful lives. For the years ended December 31, 2014, 2013 and 2012, amortization expense of intangible assets in continuing and discontinued operations was \$4,652,000, \$1,653,000 and \$1,704,000, respectively. The estimated future aggregate annual amortization expense for intangible assets at December 31, 2014 is summarized as follows (in thousands):

Years ending December 31,	
2015	\$7,015
2016	2,439
2017	2,439
2018	2,394
2019	2,332
Thereafter	19,412
Total	\$36,031

Impairment:

Investment in Hotel Properties (Long-Lived Assets)

The Company reviews its investment in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized if the estimated future undiscounted cash flows derived from the asset are less than its carrying amount. The impairment loss is measured as the excess of the carrying value over the fair value of the asset, with fair value determined based on estimated future discounted cash flows or other relevant data as to the fair value of the asset (Level 3 inputs).

Goodwill

Goodwill is reviewed for impairment at least annually as of December 31 and whenever circumstances or events indicate potential impairment. The assessment of goodwill impairment consists of two steps. In the first step, the Company compares the fair value of each reporting unit, which for the Company is each hotel property, to its carrying value. The assessment of fair values of the hotel properties incorporates unobservable inputs (Level 3), including existing market-based considerations, as well as discounted cash flow analysis of the Company's projections. When the fair value of the property is less than its carrying value, the Company is required to perform a second step in order to determine the implied fair value of each reporting unit's goodwill, and to compare it to the carrying value of the reporting unit's goodwill. The activities in the second step include hypothetically valuing all of the tangible and intangible assets and liabilities of the impaired reporting unit as if the reporting unit had been acquired in a business combination, which includes valuing all of the Company's intangibles, even if they are not currently recorded within the carrying value. For reporting units with zero or negative carrying values, the second step is only performed if qualitative factors indicate that it is more likely than not that an impairment exists.

Intangible Assets Not Subject to Amortization

Intangible assets not subject to amortization are reviewed for impairment at least annually as of December 31 and whenever circumstances or events indicate potential impairment. The impairment assessment shall consist of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, the Company shall recognize an impairment loss in an amount equal to that excess.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are reviewed for impairment whenever circumstances or events indicate potential impairment, as part of the Company's investment in hotel properties impairment process described above.

Investment in Unconsolidated Affiliates

A series of operating losses of an investee or other factors may indicate that a decrease in value of the Company's investment in unconsolidated affiliates has occurred which is other-than-temporary. Accordingly, the investment in each of the unconsolidated affiliates is evaluated periodically for valuation declines that are other-than-temporary. If the investment is other than temporarily impaired, the Company writes down the investment to its estimated fair value. The Company also considers

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

any impairments in the underlying real estate investments, the ownership and distribution preferences and limitations and rights to sell and repurchase of its ownership interests.

Deferred Financing Costs:

Deferred financing costs consist of loan fees and other costs incurred in connection with obtaining loans. The deferred financing costs have been capitalized and are being amortized to interest expense over the initial maturity of the underlying loans using the straight-line method, which approximates the effective interest method. Upon early extinguishment of the debt, the unamortized deferred financing costs are written off and included in loss on early extinguishment of debt.

Inventories:

Inventories located at the hotel properties consist primarily of food and beverage stock. These items are stated at the lower of cost, as determined by an average cost method, or market and are included in prepaid expenses and other assets on the accompanying consolidated balance sheets.

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.

Restricted Cash and Cash Equivalents:

As of December 31, 2014 and 2013, restricted cash and cash equivalents included \$37,486,000 and \$38,629,000, respectively, that will be used for property and equipment replacement in accordance with hotel management agreements. At December 31, 2014 and 2013, restricted cash and cash equivalents also included reserves of \$44,024,000 and \$37,287,000, respectively, required by loan and other agreements.

Foreign Currency:

Foreign currency-denominated assets and liabilities, where the functional currency is the local currency, are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates during the respective periods. Gains and losses from foreign currency translation, where the functional currency is the local currency, are recorded as a separate component of accumulated other comprehensive loss within shareholders' equity.

Revenue Recognition:

Revenues include rooms, food and beverage and other hotel operating revenue such as spa, retail, parking, golf course, telephone, internet access and space rentals. These revenues are recorded net of taxes collected from customers and remitted to government authorities and are recognized as the related services are rendered. Lease revenue is based on an annual base rent plus additional rent contingent on the hotel meeting performance thresholds, as defined in the lease agreement. Lease revenue is recognized on an accrual basis pursuant to the terms of the lease.

Noncontrolling Interests:

Redeemable Noncontrolling Interests (Temporary Equity)

Third party noncontrolling partners own an approximate 0.3% interest in SH Funding. The interests held by these noncontrolling partners are stated at the greater of carrying value or their redemption value and are presented as noncontrolling interests in SHR's operating partnership on the consolidated balance sheets. Net income or loss attributable to the noncontrolling interest partners is presented as noncontrolling interests in SHR's operating partnership in the consolidated statements of operations. Net income or loss and other comprehensive income or loss are attributed to noncontrolling interest partners in SH Funding based on their weighted average ownership percentages during the period. The ownership percentage is calculated by dividing the number of units held by the noncontrolling interest partners by the sum of units held by SHR and the units held by noncontrolling interest partners, all calculated based on the weighted average days outstanding at the end of the period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

These noncontrolling partners have an option to exercise a redemption right to require SH Funding to redeem all or a portion of the units held by the noncontrolling interest partners on a specified redemption date at a redemption price equal to the number of operating partnership units multiplied by SHR's common stock price. SH Funding is not obligated to satisfy the redemption right if SHR elects to purchase the units. SHR has the sole and absolute discretion to purchase the units. If it does purchase the units, SHR has the sole and absolute discretion to pay either in cash or shares.

The following table reflects the activity of the noncontrolling interests in SHR's operating partnership for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Noncontrolling interests in SHR's operating partnership			
Balance, beginning of year	\$7,534	\$5,463	\$4,583
Shares of SHR common stock issued	2,064	—	468
Net income (loss)	1,221	38	(184)
Currency translation adjustments	71	(2)	3
Derivatives activity	31	73	48
Share-based compensation	16	4	30
Redemption value adjustment	361	2,242	738
Other	(798)	(284)	(223)
Balance, end of year	\$10,500	\$7,534	\$5,463

The historical cost of the redeemable noncontrolling interests is based on the proportional relationship between the carrying value of equity associated with SHR's common shareholders relative to that of the unitholders of SH Funding, as SH Funding units may be exchanged into shares of SHR common stock on a one-for-one basis. As of December 31, 2014, 2013 and 2012, the redeemable noncontrolling interests had a redemption value of approximately \$10,500,000 (based on SHR's common stock closing share price of \$13.23 on December 31, 2014), \$7,534,000 (based on SHR's common stock closing share price of \$9.45 on December 31, 2013), and \$5,463,000 (based on SHR's common stock closing share price of \$6.40 on December 31, 2012), respectively.

Nonredeemable Noncontrolling Interests

The Company also consolidates affiliates that it controls but does not wholly own. The ownership interests held by the third party noncontrolling partners are presented as noncontrolling interests in consolidated affiliates in the Company's consolidated balance sheets. Any net income or loss attributed to the noncontrolling partners is presented as noncontrolling interests in consolidated affiliates in the consolidated statements of operations. The activity for the noncontrolling interests in consolidated affiliates for the years ended December 31, 2014, 2013 and 2012 is presented in the Company's consolidated statements of equity.

Income Taxes:

SHR has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Tax 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 and complies with certain other requirements. 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, SHR 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 the Company has operations do not recognize REITs under their respective tax laws. Accordingly, the Company is subject to tax in those jurisdictions.

Deferred tax assets and liabilities are established for net operating loss carryforwards and temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the net operating loss carryforwards are utilized and when the temporary differences reverse. The

Company evaluates uncertain tax positions in accordance with applicable accounting guidance. A valuation allowance for deferred tax assets is provided if the Company believes all or some portion of the deferred tax asset may not be realized. Any increase or decrease in the valuation

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

allowance that results from a change in circumstances that causes a change in the estimated realizability of the related deferred tax asset is included in earnings.

Per Share Data:

The Company uses the two-class method to calculate per share data for common stock and participating securities. Under the two-class method, net earnings are allocated to common stock and participating securities as if all of the net earnings for the period had been distributed. Unvested share-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing per share data pursuant to the two-class method. The Company's restricted stock units (RSUs) are considered participating securities because they contain non-forfeitable rights to dividend equivalents. To the extent the Company has undistributed earnings, it will follow the two-class method of computing per share data.

Basic income (loss) per share of common stock is computed by dividing the net income (loss) attributable to SHR common shareholders by the weighted average shares of common stock outstanding during each period. Diluted income (loss) per common share is computed by dividing the net income (loss) attributable to SHR common shareholders as adjusted for the impact of dilutive securities, if any, by the weighted average shares of common stock outstanding plus potentially dilutive securities. Dilutive securities may include RSUs, performance-based RSUs, options to purchase shares of SHR common stock (Options), and noncontrolling interests that have an option to exchange their interests to shares of SHR common stock. No effect is shown for securities that are anti-dilutive. Potentially dilutive shares are determined using the more dilutive of either the two-class method or the treasury stock method. The following table sets forth the components of the calculation of net income (loss) attributable to SHR common shareholders used for determining per share amounts for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Numerator - Basic:			
Income (loss) from continuing operations attributable to SHR	\$185,713	\$5,401	\$(58,731)
Preferred shareholder dividends	(13,851)	(24,166)	(24,166)
Preferred stock redemption (a)	(10,233)	—	—
Undistributed earnings allocated to participating securities - basic	(1,311)	—	—
Income (loss) from continuing operations attributable to SHR common shareholders	160,318	(18,765)	(82,897)
Discontinued operations attributable to SHR	158,770	5,574	3,425
Net income (loss) attributable to SHR common shareholders - basic	\$319,088	\$(13,191)	\$(79,472)
Numerator - Diluted:			
Income (loss) from continuing operations attributable to SHR - basic	\$160,318	\$(18,765)	\$(82,897)
Undistributed earnings allocated to participating securities - basic	1,311	—	—
Undistributed earnings allocated to participating securities - diluted	(1,248)	—	—
Adjustment for noncontrolling interested in consolidated affiliates (see note 6)	(2,198)	—	—
Income (loss) from continuing operations attributable to SHR common shareholders	158,183	(18,765)	(82,897)
Discontinued operations attributable to SHR	158,770	5,574	3,425
Net income (loss) attributable to SHR common shareholders - diluted	\$316,953	\$(13,191)	\$(79,472)
Denominator:			
Weighted average shares of common stock - basic (b)	233,528	206,334	201,109
Effect of dilutive securities:			

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Noncontrolling interests in consolidated affiliates (see note 6)	8,740	—	—
Performance-based RSUs	1,290	—	—
Weighted average shares of common stock - diluted	243,558	206,334	201,109

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In April 2014, SHR redeemed all of the outstanding shares of its 8.50% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock) (see note 11). In July 2014, SHR redeemed all of the outstanding shares of its 8.25% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock) (see note 11). In December 2014, SHR publicly announced its intention to redeem all of the outstanding shares of its 8.25% Series B (a) Cumulative Redeemable Preferred Stock (Series B Preferred Stock) (see notes 11 and 21). For purposes of calculating per share amounts for the year ended December 31, 2014, the difference between the fair value of the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock and the carrying amount of the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock is an adjustment to net income attributable to SHR common shareholders.

(b) Includes RSUs, performance-based RSUs and stock units payable in shares of SHR's common stock under the Company's Deferral Program (as defined in note 13) (Deferral Program Stock Units) of 1,552, 1,248 and 2,528 at December 31, 2014, 2013 and 2012, respectively, that have vested but have not yet been issued to shares of common stock.

Securities that could potentially dilute basic income (loss) per share in the future that are not included in the computation of diluted income (loss) per share because they are anti-dilutive as of December 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
Noncontrolling interests in SHR's operating partnership	794	797	853
Noncontrolling interests in consolidated affiliates	—	11,025	11,893
Options, RSUs and performance-based RSUs	—	2,479	2,809
Accumulated Other Comprehensive Loss:			

The Company's accumulated other comprehensive loss (OCL) results from activity related to certain derivative financial instruments and unrealized gains or losses on foreign currency translation adjustments (CTA). The following table provides the changes in accumulated OCL for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Derivative and Other Activity	CTA	Accumulated OCL
Balance at January 1, 2012	\$(49,510)	\$(21,142)	\$(70,652)
Other comprehensive (loss) income before reclassifications	(10,209)	725	(9,484)
Amounts reclassified from accumulated OCL	21,265	—	21,265
Net other comprehensive income	11,056	725	11,781
Balance at December 31, 2012	\$(38,454)	\$(20,417)	\$(58,871)
Other comprehensive loss before reclassifications	(176)	(412)	(588)
Amounts reclassified from accumulated OCL	18,014	—	18,014
Net other comprehensive income (loss)	17,838	(412)	17,426
Balance at December 31, 2013	\$(20,616)	\$(20,829)	\$(41,445)
Other comprehensive loss before reclassifications	(341)	(200)	(541)
Amounts reclassified from accumulated OCL	10,059	18,895	28,954
Net other comprehensive income	9,718	18,695	28,413
Balance at December 31, 2014	\$(10,898)	\$(2,134)	\$(13,032)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The reclassifications out of accumulated OCL for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

Details about Accumulated OCL Components	Amount Reclassified from Accumulated OCL			Statement of Operations Line Item
	2014	2013	2012	
Activity related to cash flow hedges	\$10,059	\$18,014	\$21,265	Interest expense
Activity related to CTA	\$18,895	\$—	\$—	Income from discontinued operations, net of tax

Derivative Instruments and Hedging Activities:

The Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

Fair Value of Financial and Nonfinancial Instruments:

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy has been established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Business Combinations:

The Company recognizes identifiable assets acquired, liabilities assumed, non-controlling interests and contingent liabilities assumed in a business combination at their fair values at the acquisition date based on the exit price (the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date). Furthermore, acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the acquired assets. In certain situations, a deferred tax liability is created due to the difference between the fair value and the tax basis of the asset at the acquisition date, which also may result in a goodwill asset being recorded. The goodwill that is recorded as a result of this difference is not subject to amortization.

New Accounting Guidance:

In August 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance which requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The standard provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance is effective for the annual period ending December 31,

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2016, and interim periods thereafter, with early adoption permitted. The Company will apply the guidance prospectively and does not anticipate the guidance will have a material impact on its financial statements or disclosures.

In May 2014, the FASB issued new guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The guidance will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that the guidance will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements.

In April 2014, the FASB issued new guidance which amends the requirements for reporting discontinued operations. Under the guidance, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results of operations would qualify as discontinued operations. In addition, the guidance expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components. The provisions are effective on January 1, 2015, with early adoption permitted for any annual or interim period for which an entity's financial statements have not yet been made available for issuance. The Company will apply the guidance prospectively to disposal activity occurring after the effective date of this guidance.

In February 2013, the FASB issued new guidance to require an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross-reference to other disclosures that provide additional detail about the reclassification amounts is required. The provisions are effective for reporting periods beginning after December 15, 2012. The Company adopted this new guidance on January 1, 2013 and complied with the expanded disclosure requirements, as applicable.

In December 2011, the FASB clarified that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of a default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance on sales of real estate. The provisions are effective for public companies for fiscal years and interim periods within those years, beginning on or after June 15, 2012. The Company adopted the new guidance on January 1, 2013 and the guidance did not have a material impact on the Company's consolidated financial statements.

3. INVESTMENT IN HOTEL PROPERTIES, NET

The following summarizes the Company's investment in hotel properties as of December 31, 2014 and 2013, excluding the leasehold interest in the Marriott Hamburg, unconsolidated affiliates and assets held for sale (in thousands):

	2014	2013
Land	\$858,670	\$557,641
Leasehold interest	11,633	11,633
Buildings	1,964,252	1,344,524
Building and leasehold improvements	106,303	106,031
Site improvements	59,038	29,209
Furniture, fixtures and equipment	611,450	486,730
Improvements in progress	21,552	20,542
Total investment in hotel properties	3,632,898	2,556,310
Less accumulated depreciation	(804,498) (760,972

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Total investment in hotel properties, net	\$2,828,400	\$1,795,338
Consolidated hotel properties	16	14

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Hotel Acquisitions:

The Company's hotel acquisitions completed during the three years ended December 31, 2014, as more fully described below, are consistent with the Company's strategy of focusing on the acquisition of upper upscale and luxury hotels in select urban and resort markets with strong growth characteristics and high barriers to entry where it believes there are opportunities to add value. All of the acquisitions were accounted for under the provisions of business combination guidance. The assets and liabilities of the hotels were consolidated in the Company's consolidated balance sheets at the acquisition-date fair values and the results of operations were consolidated in the Company's consolidated statements of operations from the date of acquisition.

Four Seasons Resort Scottsdale at Troon North

On November 17, 2014, the Company entered into an agreement to acquire the Four Seasons Resort Scottsdale at Troon North for a cash payment of approximately \$140,920,000, which includes net working capital. The transaction closed on December 9, 2014. For the year ended December 31, 2014, the Company incurred acquisition costs of \$182,000 related to the Four Seasons Resort Scottsdale at Troon North, that are included in corporate expenses on the consolidated statement of operations.

Hotel del Coronado

On May 27, 2014, the Company entered into an agreement with certain affiliates of Blackstone Real Estate Partners VI L.P. (Blackstone), whereby the Company agreed to acquire Blackstone's 63.6% equity interests in the entity that owns the Hotel del Coronado, BSK Del Partner, L.P. (the Hotel del Coronado Venture) (see note 7) for a cash payment of \$210,000,000. Additionally, the Company became fully obligated under the entire \$475,000,000 mortgage and mezzanine loans outstanding. As part of the agreement, Blackstone transferred its interests in the Hotel del Coronado Venture to the Company and withdrew as a member of the Hotel del Coronado Venture. Effective as of the closing of the transaction on June 11, 2014, the Company wholly owns the Hotel del Coronado Venture.

As part of the consolidation of the Hotel del Coronado Venture, the Company recorded \$65,547,000 as a gain on the consolidation of affiliates in the consolidated statement of operations for the year ended December 31, 2014, which represents the difference between the \$120,000,000 fair value of the Company's preexisting equity interest in the Hotel del Coronado Venture and its carrying value. The fair value of the preexisting equity interest in the Hotel del Coronado Venture was determined based on an agreed upon value between the Company and a third party, both of which are market participants, which the Company considered to be a value determined in orderly transaction in the principal market. For the year ended December 31, 2014, the Company incurred acquisition costs related to the Hotel del Coronado Venture of \$187,000, which was recorded as an offset to gain on consolidation of affiliates on the consolidated statement of operations.

Fairmont Scottsdale Princess Hotel

On March 31, 2014, the Company entered into an agreement with an affiliate of Walton Street Capital, L.L.C. (Walton Street), whereby the Company agreed to acquire Walton Street's 50.0% equity interests in the entities that own the Fairmont Scottsdale Princess hotel, Walton/SHR FPH Holdings, L.L.C. and FMT Scottsdale Holdings, L.L.C. (the Fairmont Scottsdale Princess Venture) (see note 7) for a cash payment of \$90,616,000. Additionally, the Company became fully obligated under the entire \$117,000,000 mortgage loan outstanding. As part of the agreement, Walton Street transferred its interests in the Fairmont Scottsdale Princess Venture to the Company and withdrew as a member of the Fairmont Scottsdale Princess Venture. Effective as of the closing of the transaction on March 31, 2014, the Company wholly owns the Fairmont Scottsdale Princess Venture.

As part of the consolidation of the Fairmont Scottsdale Princess Venture, the Company recorded \$78,191,000 as a gain on the consolidation of affiliates in the consolidated statement of operations for the year ended December 31, 2014, which represents the difference between the \$107,853,000 fair value of the Company's preexisting equity interest in the Fairmont Scottsdale Princess Venture, which included a preferred return to the Company, and its carrying value. The fair value of the preexisting equity interest in the Fairmont Scottsdale Princess Venture was determined based on an agreed upon value between the Company and a third party, both of which are market participants, which the Company considered to be a value determined in an orderly transaction in the principal market.

For the year ended December 31, 2014, the Company incurred acquisition costs related to the Fairmont Scottsdale Princess Venture of \$80,000, which was recorded as an offset to gain on consolidation of affiliates on the consolidated statement of operations.

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JW Marriott Essex House Hotel

On September 14, 2012, the Company closed on the acquisition of the JW Marriott Essex House Hotel located in New York, New York for a purchase price, net of working capital proration, of approximately \$350,333,000. In connection with the closing of the acquisition, the Company formed a joint venture arrangement with affiliates of KSL Capital Partners, LLC (KSL) (Essex House Hotel Venture) to fund the equity portion of the purchase price. The Company contributed cash of \$89,147,000 to acquire a 51.0% controlling interest in the Essex House Hotel Venture, and KSL contributed cash of \$85,651,000 to acquire a 49.0% interest. The Essex House Hotel Venture secured a \$190,000,000 first mortgage to fund the remaining balance of the purchase price. The Essex House Hotel Venture is a variable interest entity that the Company has consolidated because it determined that it is the primary beneficiary (see note 6). At the time of the acquisition, the Company recorded \$85,651,000 as noncontrolling interests in consolidated affiliates on the balance sheet, which reflected KSL's initial equity interest in the Essex House Hotel Venture. The Essex House Hotel Venture incurred acquisition costs of \$3,208,000 for the year ended December 31, 2012, that are included in corporate expenses on the consolidated statement of operations.

Purchase Price Allocations of Hotel Acquisitions

The amounts recognized as assets acquired and liabilities assumed for each hotel acquisition are based on the acquisition-date fair values. The allocation of fair value of recent acquisitions are preliminary and are subject to a measurement period that will allow the Company to obtain the information necessary to properly identify and measure the assets acquired and liabilities assumed. The final allocation of the fair values may result in adjustments to the recognized amounts of assets and liabilities, which could be significant. The Company expects to finalize any preliminary allocations as soon as possible, but no later than one year from the respective acquisition date.

The following is a summary of the allocation of the fair values for the acquisitions completed during the three years ended December 31, 2014 (in thousands):

	Preliminary	Final		
	Four Seasons Resort	Hotel del	Fairmont Scottsdale	JW Marriott
	Scottsdale at Troon	Coronado	Princess Venture	Essex House
	North	Venture		Hotel
Land	\$37,800	\$236,497	\$26,732	\$230,951
Buildings	75,957	404,851	213,289	88,470
Site improvements	7,175	6,677	16,037	—
Furniture, fixtures and equipment	18,920	53,943	40,341	21,927
Other assets	—	—	—	13,067
Improvements in progress	—	1,749	151	—
Intangible assets	554	87,710	9,859	390
Below market debt discount	—	—	2,493	—
Net working capital	514	13,573	6,568	(4,472)
	\$140,920	\$805,000	\$315,470	\$350,333

The allocation of fair value attributable to intangible assets acquired as part of these acquisitions include (in thousands):

	Amounts	Weighted-Average Amortization Period
Intangible assets subject to amortization:		
Advanced bookings	\$7,769	1 year, 6 months
Memberships value	5,973	30 years
Below market ground lease	7,656	95 years, 9 months
Below market hotel management agreement	18,822	9 years, 2 months
	40,220	
Intangible assets not subject to amortization:		
Trade name	58,293	

Total intangible assets acquired	\$98,513
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Pro Forma and Other Financial Information Related to Acquisitions of Hotels

The following pro forma and other financial information is provided for acquisitions completed during the year ended December 31, 2014, that had a material effect on the Company's results of operations, which include the acquisitions of the Hotel del Coronado Venture and the Fairmont Scottsdale Princess Venture.

The impact to revenues and net income (loss) attributable to SHR common shareholders from these acquisitions since the date of acquisition through the year ended December 31, 2014 is as follows (in thousands):

	2014
Increase in revenues	\$ 167,085
Decrease in net income attributable to SHR common shareholders	\$(2,120)

The following unaudited pro forma financial information is provided for informational purposes only and does not purport to represent what the Company's results of operations would have been had it completed the acquisitions on January 1, 2013, nor is it necessarily indicative of the results that may be expected in future periods. For purposes of the pro forma financial information, 20,000,000 shares of SHR common stock, a portion of shares issued in an underwritten public offering of common stock that was completed in June 2014 (see note 11), are reflected as if the offering occurred on January 1, 2013, because these shares were directly attributable to the acquisition of the Hotel del Coronado Venture. No adjustments were made to the pro forma financial information for the remaining shares of SHR common stock issued in June 2014 because they did not relate directly to the acquisitions. Additionally, for purposes of the pro forma financial information, the \$143,471,000 gain on consolidation of affiliates recognized as a result of the acquisition of the Hotel del Coronado Venture and the Fairmont Scottsdale Princess Venture, is assumed to have been recognized on January 1, 2013. On an unaudited pro forma basis, revenues, net income attributable to SHR common shareholders and basic and diluted income attributable to SHR common shareholders per share for the years ended December 31, 2014 and 2013 are as follows as if these acquisitions had occurred on January 1, 2013 (in thousands):

	2014	2013
Total revenue	\$ 1,191,950	\$ 1,105,420
Net income	\$ 203,508	\$ 150,433
Preferred shareholder dividends	\$(24,084)	\$(24,166)
Net income attributable to SHR common shareholders	\$ 183,256	\$ 126,821
Net income attributable to SHR common shareholders per share:		
Basic	\$0.76	\$0.56
Diluted	\$0.72	\$0.53

4. IMPAIRMENT LOSSES AND OTHER CHARGES

Goodwill and Intangible Assets Not Subject to Amortization Impairment Losses

The Company performed its annual impairment test of goodwill and intangible assets not subject to amortization and did not record any impairment losses for the years ended December 31, 2014, 2013 and 2012. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges of the Company's goodwill and intangible assets not subject to amortization subsequent to December 31, 2014. Any such adjustments could be material, but will be non-cash.

Long-Lived Assets and Intangible Assets Subject to Amortization Impairment Losses

The Company determined that there were no indicators of impairment of investments in hotel properties or intangible assets subject to amortization for the year ended December 31, 2014. However, if deterioration in economic and market conditions occurs, it may present a potential for impairment charges related to the Company's hotel properties subsequent to December 31, 2014. Any adjustment could be material, but will be non-cash.

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In January 2012, the Company acquired, at a discount to par value, a note receivable secured by a property adjacent to the Fairmont Chicago hotel. In the third quarter of 2013, the Company completed foreclosure proceedings and obtained title to the asset. After taking title to the asset, the Company elected to sell the asset. Based on the change in the anticipated holding period for this asset, the Company performed an impairment test of the long-lived assets during the third quarter of 2013. The Company determined that the asset's carrying value exceeded the asset's fair value of \$10,500,000, with the fair value determined based on the transaction price offered by a third party buyer (Level 2 input), which the Company considered to be an offer in an orderly transaction in the principal market. As a result of this test, the Company reduced the carrying value of the asset to its fair value and recorded an impairment charge of \$728,000 in the consolidated statement of operations for the year ended December 31, 2013. In October 2013, the Company sold the property to an unaffiliated third party for \$10,500,000.

The Company performed an impairment test of the long-lived assets related to a Mexican development site during the fourth quarter of 2012 as a result of a change in the anticipated holding period for this land. The Company determined that the land's carrying value exceeded the fair value, with fair value determined based on an estimated future discounted cash flow analysis (Level 3 inputs). In the analysis of fair value, the Company considered an external independent valuation, which used a discounted cash flow analysis taking into account the expected cash flows, the anticipated holding period and proceeds from disposing the property. The analysis assumed a 9% terminal capitalization rate and a 17% discounted cash flow rate over a term of nine years. As a result of this test, the Company reduced the carrying value of the land by \$25,089,000 to its fair value. The Company had an obligation related to this Mexican development site (see note 7). As a result of the reduction of the carrying value of the land parcel, the Company reduced its obligation by \$10,450,000 and recorded an impairment charge of \$14,639,000 in the consolidated statement of operations for the year ended December 31, 2012.

Investments in Unconsolidated Affiliates Impairment Losses

The Company determined that there was no other-than-temporary impairment of investments in unconsolidated affiliates for the years ended December 31, 2014, 2013 and 2012. However, if deterioration in economic and market conditions occurs, it may present a potential for additional impairment charges on the Company's investments in unconsolidated affiliates subsequent to December 31, 2014. Any adjustments could be material, but will be non-cash.

Fair Value of Assets Measured on a Nonrecurring Basis

The following table presents information related to assets that were measured at fair value on a nonrecurring basis. For the year ended December 31, 2012 (in thousands):

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Total Losses
Long-lived assets	\$ 26,100	\$(25,089)
Other Charges		

There were no other charges recorded during the years ended December 31, 2014 and 2013. The Company recorded a charge of approximately \$4,204,000 in continuing and discontinued operations to write off costs related to capital projects that management decided to abandon during the year ended December 31, 2012.

5. DISCONTINUED OPERATIONS

During the three years ended December 31, 2014, the Company sold the following hotels:

Hotel	Location	Date Sold	Sales Proceeds	Gain on sale
Four Seasons Punta Mita Resort and La Solana land parcel	Punta Mita, Mexico	February 28, 2014	\$206,867,000	\$63,879,000
Marriott London Grosvenor Square	London, England	March 31, 2014	\$209,407,000 (a)	\$92,889,000

(a) There was an outstanding balance of £67,301,000 (\$112,150,000) on the mortgage loan secured by the Marriott London Grosvenor Square hotel, which was repaid at the time of closing (see note 10). The net proceeds received by

the Company were \$97,257,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The results of operations of hotels sold are classified as discontinued operations and segregated in the consolidated statements of operations for all periods presented. The following is a summary of income from discontinued operations for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012	
Hotel operating revenues	\$17,767	\$74,170	\$71,351	
Operating costs and expenses	11,485	51,295	48,155	
Depreciation and amortization	1,275	9,306	12,805	
Impairment losses and other charges	—	—	437	
Total operating costs and expenses	12,760	60,601	61,397	
Operating income	5,007	13,569	9,954	
Interest expense	(1,326)) (7,087) (5,178)
Interest income	2	6	10	
Loss on early extinguishment of debt	(272)) —	—	
Foreign currency exchange gain (loss)	32	1	(363)
Other income, net	—	375	—	
Income tax expense	(833) (1,290) (998)
Gain on sale, net of tax	156,768	—	—	
Income from discontinued operations, net of tax	\$159,378	\$5,574	\$3,425	

Assets Held for Sale:

On December 12, 2013, the Company entered into an agreement with affiliates of Cascade Investment, L.L.C. (Cascade) to sell the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel for \$200,000,000, subject to certain working capital adjustments (see note 16). The hotel's assets and liabilities were classified as held for sale on the accompanying consolidated balance sheet as of December 31, 2013. The transaction subsequently closed on February 28, 2014.

The significant components of assets held for sale and liabilities of assets held for sale at December 31, 2013 consisted of the following (in thousands):

Investment in hotel properties, net	\$114,754
Goodwill	2,231
Cash	8,903
Restricted cash	32
Accounts receivable, net of allowance for doubtful accounts	5,522
Deferred tax assets	3,146
Prepaid expenses and other assets	1,313
Assets held for sale	\$135,901
Accounts payable and accrued expenses	\$15,830
Deferred tax liabilities	1,197
Liabilities of assets held for sale	\$17,027

6. VARIABLE INTEREST ENTITY

On September 14, 2012, the Company and its partner, KSL, formed the Essex House Hotel Venture to acquire, own, manage, and operate the JW Marriott Essex House Hotel (see note 3). The Company contributed cash of \$89,147,000 to acquire a 51% equity interest in the Essex House Hotel Venture, and KSL contributed cash of \$85,651,000 to acquire a 49% equity interest. Pursuant to the terms of the joint venture agreements establishing the Essex House Hotel Venture, at any time prior to the third anniversary of the formation of the Essex House Hotel Venture, KSL shall have the right to sell its equity interest in the Essex House Hotel Venture to the Company in exchange for shares of SHR's common stock, as set forth in the joint venture agreements, at a purchase price equal to KSL's net investment plus 8.0% compounded annually (the Put Option). For purposes of paying the purchase price, SHR's common stock

shall be valued at the greater of (i) \$7.50 per share and (ii) the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

20-day volume-weighted average price per share of SHR's common stock as of the date KSL exercises the Put Option. The Essex House Hotel Venture is jointly controlled; however, it is considered a variable interest entity because the Company determined that it is the only holder of equity at risk due to the Put Option. The Company also determined that it is the primary beneficiary of the Essex House Hotel Venture due to the Put Option, which impacts the Company's power to direct the activities that most significantly impact the economic performance of the entity, as well as its obligation to absorb the losses and its right to receive benefits from the entity that could potentially be significant to the entity. As such, the transactions and accounts of the Essex House Hotel Venture are included in the accompanying consolidated financial statements.

Other than in connection with a customary environmental indemnity and non-recourse carve-out guaranty in favor of the lender, the liabilities of the Essex House Hotel Venture are solely the obligations of the Essex House Hotel Venture and are not guaranteed by the Company. The debt is secured by the JW Marriott Essex House Hotel, and the creditors of the Essex House Hotel Venture do not have general recourse to the Company. The use of certain assets of the Essex House Hotel Venture is restricted because they are collateral for the Essex House Hotel Venture's debt (see note 10), and the Company does not have the ability to leverage the assets.

The Company and KSL are subject to the terms of the joint venture agreements, which include provisions for additional contributions. For the year ended December 31, 2014, the Company and KSL provided additional contributions of \$6,876,000 and \$6,605,000, respectively, to the Essex House Hotel Venture for property improvements. For the year ended December 31, 2013, the Company and KSL provided additional contributions of \$3,268,000 and \$3,140,000, respectively, to the Essex House Hotel Venture for property improvements and closing costs related to the acquisition of the hotel.

7. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Investment in unconsolidated affiliates as of December 31, 2014 and 2013 includes the following (in thousands):

	2014	2013
Fairmont Scottsdale Princess Venture	\$—	\$26,816
Hotel del Coronado Venture	—	54,902
RCPM	3,427	3,855
Lot H5 Venture	19,423	19,400
Total investment in unconsolidated affiliates	\$22,850	\$104,973

Fairmont Scottsdale Princess Venture

Prior to March 31, 2014, the Company had a 50% ownership interest in the Fairmont Scottsdale Princess Venture. The Company jointly controlled the venture with an unaffiliated third party, Walton Street, and served as the managing member. The Company acted as asset manager and was entitled to earn a quarterly base management fee, as well as certain project management fees. For the years ended December 31, 2014, 2013 and 2012, the Company recognized fees of \$228,000, \$594,000 and \$662,000, respectively, which are included in other income (expenses), net on the consolidated statements of operations.

On March 31, 2014, the Company acquired Walton Street's 50.0% interest in the Fairmont Scottsdale Princess Venture. The Company now wholly owns the Fairmont Scottsdale Princess Venture. The Company has consolidated the Fairmont Scottsdale Princess Venture and no longer accounts for the investment using the equity method of accounting (see note 3).

Hotel del Coronado Venture

Prior to June 11, 2014, the Company had a 36.4% ownership interest in the Hotel del Coronado Venture. Blackstone, an unaffiliated third party, had the remaining ownership interest in the Hotel del Coronado Venture and was the general partner. The Company acted as asset manager and was entitled to earn a quarterly asset management fee, certain development fees, and if applicable, certain incentive fees. For the years ended December 31, 2014, 2013 and 2012, the Company recognized fees of \$422,000, \$903,000 and \$856,000, respectively, which are included in other

income (expenses), net on the consolidated statements of operations.

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On June 11, 2014, the Company acquired Blackstone's 63.6% interest in the Hotel del Coronado Venture. The Company now wholly owns the Hotel del Coronado Venture. The Company has consolidated the Hotel del Coronado Venture and no longer accounts for the investment using the equity method of accounting (see note 3).

During the year ended December 31, 2013, the Company received distributions of \$23,244,000 from the Hotel del Coronado Venture, which included the distribution of excess proceeds from refinanced mortgage and mezzanine loans.

RCPM

The Company owns a 31% interest in, and acts as asset manager for, an unconsolidated affiliate, formed with two unaffiliated parties, that developed the Four Seasons RCPM, a luxury vacation home product sold in fractional and whole ownership interests on the property adjacent to the Four Seasons Punta Mita Resort in Mexico. The Company earns asset management fees and recognizes income on the percentage not owned by the Company. These fees amounted to \$21,000, \$291,000 and \$117,000 for the years ended December 31, 2014, 2013 and 2012, respectively, and are included in other income (expenses), net in the consolidated statements of operations.

Lot H5 Venture

In October 2007, the Company acquired an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico, known as the Lot H5 land parcel. The Company paid cash and executed two \$17,500,000 non-interest bearing promissory notes payable to the seller, Cantiles de Mita, S.A. de C.V. (Cantiles), an unaffiliated third party. On September 30, 2008, the Company paid the first of the \$17,500,000 non-interest bearing promissory notes. In August 2009, the Company entered into an agreement with Cantiles, whereby the Company was released from its obligation under the second \$17,500,000 note in exchange for the Company granting Cantiles a right to an equity interest in the Lot H5 land parcel (Original Lot H5 Venture Agreement). The exchange was subject to Cantiles obtaining certain permits and licenses to develop the Lot H5 land parcel and the execution of an amended venture agreement. Until the conditions of the Original Lot H5 Venture Agreement were satisfied, the Company held 100% legal title to the property and accounted for the Lot H5 land parcel as a consolidated property, which was recorded in investment in hotel properties, net on the Company's consolidated balance sheet. The Company's obligation to grant Cantiles an equity interest in the Lot H5 land parcel was recorded as a liability in accounts payable and accrued expenses on the Company's consolidated balance sheet.

On June 14, 2013, subsequent to Cantiles obtaining the required permits and licenses to develop the Lot H5 land parcel, the Company and Cantiles entered into an amended and restated venture agreement, forming the Lot H5 Venture. The Company has a preferred position in the Lot H5 Venture that entitles it to receive the first \$12,000,000 of distributions generated from the Lot H5 land parcel with any excess distributions split equally between the Company and Cantiles. The Company jointly controls the Lot H5 Venture with Cantiles and accounts for its interest in the Lot H5 Venture as an equity method investment. The Company deconsolidated the land and recorded its share of the fair value of the land, net of the obligation to provide Cantiles with an equity interest in the Lot H5 land parcel, as an investment in unconsolidated affiliates on the consolidated balance sheet. The Company did not recognize a gain or loss because the carrying value of the land was recorded at its fair value. The carrying value of the land was adjusted to fair value in the fourth quarter of 2012 based on the results of an impairment test performed during that period.

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Condensed Combined Financial Information of Investment in Unconsolidated Affiliates

The following is summarized financial information for the Company's unconsolidated affiliates as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	
Assets			2013
Investment in hotel properties, net	\$26,564		\$715,422
Intangible assets, net	—		42,388
Cash and cash equivalents	10,335		22,029
Restricted cash and cash equivalents	—		14,156
Prepaid expenses and other assets	2,463		30,180
Total assets	\$39,362		\$824,175
Liabilities and Partners' Equity			
Mortgage and other debt payable	\$—		\$592,000
Other liabilities	1,518		47,943
Partners' equity	37,844		184,232
Total liabilities and partners' equity	\$39,362		\$824,175
	2014	2013	2012
Revenues			
Hotel operating revenue	\$102,869	\$241,614	\$217,502
Residential sales	736	8,388	10,800
Total revenues	103,605	250,002	228,302
Expenses			
Hotel operating expenses	68,917	175,922	164,001
Residential costs of sales	1,233	6,286	7,081
Depreciation and amortization	12,796	33,938	34,640
Other operating expenses	1,836	4,673	26,985
Total operating expenses	84,782	220,819	232,707
Operating income (loss)	18,823	29,183	(4,405)
Interest expense, net	(9,735)	(24,564)	(31,982)
Other income (expenses), net	395	(441)	159
Net income (loss)	\$9,483	\$4,178	\$(36,228)
Equity in earnings (losses) of unconsolidated affiliates			
Net income (loss)	\$9,483	\$4,178	\$(36,228)
Partners' share of (income) loss of unconsolidated affiliates	(4,733)	(2,261)	21,293
Adjustments for basis differences, taxes and intercompany eliminations	487	1,070	1,450
Total equity in earnings (losses) of unconsolidated affiliates	\$5,237	\$2,987	\$(13,485)

To the extent that the Company's cost basis is different than the basis reflected at the unconsolidated affiliate level, the basis difference, excluding amounts attributable to land and goodwill, is amortized over the life of the related asset and included in the Company's share of equity in earnings (losses) of the unconsolidated affiliates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**8. MANAGEMENT AGREEMENTS**

Most of the Company's hotels are subject to management agreements that the Company assumed upon acquisition of the hotels. These agreements generally provide for the payment of base management fees of 1.25% to 4.0% of revenues (as defined in the agreements). In addition, an incentive fee may be paid if certain criteria are met. The terms of these agreements generally require management of the hotels to furnish the hotels with certain services, which include on-site management and may include central training, advertising and promotion, national reservation system, payroll and accounting services, and such additional services as needed. At December 31, 2014, the remaining life on the initial terms (not including renewal options) of these management agreements, excluding the leasehold interest in the Marriott Hamburg and unconsolidated affiliates, range from three to 28 years and average 12 years.

JW Marriott Essex House Hotel Performance Guarantee

In connection with the acquisition of the JW Marriott Essex House Hotel in September 2012, the Essex House Hotel Venture entered into a management agreement with an affiliate of Marriott International, Inc. (Marriott). In connection with the management agreement, Marriott provided the Essex House Hotel Venture with a limited performance guarantee that will ensure, subject to certain limitations, a target level of net operating profit. Guarantee payments are calculated and paid to the Essex House Hotel Venture on a monthly basis based on the cumulative year-to-date results with a final true-up at the end of each year. Monthly interim payments are recorded as deferred revenue and are recognized as other hotel operating revenue at the end of the year when the final guarantee payment for the year is determined. Since the commencement of the performance guarantee, the Essex House Hotel Venture has received payments of \$20,000,000 which have been recognized in earnings, and has received payments of an additional \$2,973,000, which have been recorded as deferred revenues in accounts payable and accrued expenses on the consolidated balance sheet. The maximum guarantee that could be paid to the Essex House Hotel Venture during the guarantee period is \$40,000,000. Any guarantee payments that exceed \$20,000,000 may be recoverable by Marriott in accordance with the terms of the limited performance guarantee. Any amounts that are recoverable will be deferred and will not be recognized in earnings. The guarantee period began on September 17, 2012 and will continue through the earlier of a) December 31, 2020, b) the date at which the maximum guarantee has been funded, or c) the termination of the management agreement. For the years ended December 31, 2014, 2013 and 2012, the Essex House Hotel Venture recorded \$5,821,000, \$12,774,000 and \$1,405,000, respectively, related to the performance guarantee, in other hotel operating revenue in the consolidated statements of operations.

Asset Management and Advisory Agreements

The Company has entered into asset management and advisory agreements with third parties to provide such services to hotels not owned by the Company. The Company earns base fees and may have the potential to earn additional incentive fees. For the years ended December 31, 2014, 2013 and 2012, the Company earned fees of \$668,000, \$400,000 and \$400,000, respectively, under these agreements, which are included in other income (expenses), net in the consolidated statements of operations.

9. OPERATING LEASE AGREEMENTS**Building Lease**

In June 2004, the Company recorded a sale of the Marriott Hamburg hotel, and the Company's leaseback of the hotel was reflected as an operating lease. A deferred gain was recorded in conjunction with the sale and is being recognized as a reduction of lease expense over the life of the lease. The Company recognized \$207,000, \$207,000, and \$200,000 of the deferred gain for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, the deferred gain on the sale of the Marriott Hamburg hotel recorded in accounts payable and accrued expenses on the accompanying consolidated balance sheets amounted to \$2,933,000 and \$3,385,000, respectively. On a monthly basis, the Company makes minimum rent payments aggregating to an annual total of €3,830,000 (adjusting by an index formula) (\$4,634,000 based on the foreign exchange rate as of December 31, 2014) and pays additional rent based upon the performance of the hotel, which are recorded as lease expense in the Company's consolidated statements of operations. A euro-denominated security deposit at December 31, 2014 and 2013 was \$2,299,000 and \$2,611,000, respectively, and is included in prepaid expenses and other assets on the Company's consolidated balance

sheets. The Company subleases its interest in the Marriott Hamburg hotel to a third party. The Company has reflected the sublease arrangement as an operating lease and records lease revenue.

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Ground Leases

The Company is subject to a ground lease agreement with a third party landlord whereby it leases one parcel of land at the Fairmont Scottsdale Princess hotel, which became a consolidated property in March 2014 (see note 3). The ground lease expires in December 2109. Annual rent payments through December 2020 are equal to \$1,500,000 plus a percentage of gross revenue, as defined by the terms of the ground lease agreement. Subsequent to December 2020, annual rent payments are a percentage of gross revenue.

The Company is subject to a ground lease agreement with a third party landlord whereby it leases the land for the Marriott Lincolnshire Resort. In February 2013, the Company amended the ground lease agreement that extended the term of the lease through December 31, 2112 and changed the annual rent payments to a fixed amount, subject to indexation.

Lease payments related to hotel ground leases are included in other hotel expenses on the consolidated statements of operations.

Office Space Lease

The Company is subject to a lease agreement with a third party landlord for its office space. The office lease expires in September 2017. Lease payments related to office space are included in corporate expenses on the consolidated statements of operations.

For the years ended December 31, 2014, 2013 and 2012, the Company recorded rental expense in continuing and discontinued operations under non-cancelable operating leases related to the building lease, hotel ground leases, and office space lease of \$8,018,000, \$6,777,000 and \$6,489,000, respectively, in the consolidated statements of operations. Rental expense includes percentage rent of \$105,000, \$108,000 and \$1,209,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Minimum future rental payments due under non-cancelable operating leases, related to the building lease, the hotel ground leases and the office space lease having remaining terms in excess of one year as of December 31, 2014 are as follows (in thousands):

Years Ending December 31,	
2015	\$7,971
2016	7,986
2017	7,844
2018	7,384
2019	7,384
Thereafter	166,403
	\$204,972

10. INDEBTEDNESS

Mortgages and Other Debt Payable, Net of Discount:

Certain subsidiaries of SHR are the borrowers under various financing arrangements. These subsidiaries are separate legal entities and their respective assets and credit are not available to satisfy the debt of SHR or any of its other subsidiaries.

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Mortgages and other debt payable, net of discount, at December 31, 2014 and 2013 consisted of the following (in thousands):

	Spread (a)	Initial Maturity	Maturity Including Extension Options	Balance Outstanding at	
				December 31, 2014	2013
Debt					
Hotel del Coronado(b)	3.65%	March 2015	March 2018	\$475,000	\$—
Fairmont Scottsdale Princess(c)	0.36%	April 2015	April 2015	117,000	—
Loews Santa Monica Beach Hotel(d)	2.55%	May 2017	May 2021	120,000	109,000
Fairmont Chicago	Fixed	June 2017	June 2017	93,124	93,124
Westin St. Francis	Fixed	June 2017	June 2017	209,588	209,588
Four Seasons Washington, D.C.(e)	2.25%	June 2017	June 2019	120,000	130,000
Hyatt Regency La Jolla(f)	4.00%/Fixed	December 2017	December 2017	89,247	89,312
JW Marriott Essex House Hotel(g)	2.95%	January 2018	January 2020	225,000	185,826
InterContinental Chicago	Fixed	August 2021	August 2021	142,442	144,419
InterContinental Miami(h)	Fixed	September 2024	September 2024	115,000	85,000
Marriott London Grosvenor Square(i)				—	115,958
Total mortgages payable(j)(k)				1,706,401	1,162,227
Unamortized discount(c)				(623)	—
Total mortgages payable, net of discount				1,705,778	1,162,227
Other debt(l)				—	1,469
Total mortgages and other debt payable, net of discount				\$1,705,778	\$1,163,696

Interest on mortgage loans is paid monthly at the applicable spread over London Interbank Offered Rate (LIBOR) (0.17% at December 31, 2014) for all variable-rate mortgage loans except for the Hyatt Regency La Jolla hotel (see (f) below). Interest on the Fairmont Chicago and Westin St. Francis mortgage loans is paid monthly at an annual fixed rate of 6.09%, interest on the InterContinental Chicago mortgage loan is paid monthly at an annual fixed rate of 5.61% and interest on the InterContinental Miami mortgage loan is paid monthly at an annual fixed rate of 3.99%.

On June 11, 2014, the Company acquired the remaining 63.6% equity interest in the Hotel del Coronado Venture, resulting in the Hotel del Coronado Venture becoming wholly-owned by the Company. In connection with the acquisition, the Company consolidated the Hotel del Coronado Venture and became fully obligated under the entire (b) outstanding balance of the mortgage and mezzanine loans secured by the Hotel del Coronado (see note 3). The mortgage and mezzanine loans have three, one-year extension options, subject to certain conditions, which includes the absence of an event of default and the payment of an extension fee of 0.25%. The Company has the ability to extend and is in the process of extending the loans.

On March 31, 2014, the Company acquired the remaining 50.0% equity interest in the Fairmont Scottsdale Princess Venture, resulting in the Fairmont Scottsdale Princess Venture becoming wholly-owned by the Company. In connection with the acquisition, the Company consolidated the Fairmont Scottsdale Princess Venture and became (c) fully obligated under the entire outstanding balance of the mortgage loan secured by the Fairmont Scottsdale Princess hotel (see note 3). The Company recorded the mortgage loan at its fair value, which included a debt discount, which is being amortized as additional interest expense over the maturity period of the loan. The Company is evaluating financing alternatives given the impending maturity date.

On May 29, 2014, the Company refinanced the mortgage loan secured by the Loews Santa Monica Beach Hotel (d) and entered into a new \$120,000,000 limited recourse loan agreement. The mortgage loan has four, one-year extension options, subject to certain conditions.

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On June 30, 2014, the Company refinanced the mortgage loan secured by the Four Seasons Washington, D.C. hotel (e) and entered into a new \$120,000,000 limited recourse loan agreement. The mortgage loan has two, one-year extension options, subject to certain conditions.

Interest on \$72,000,000 of the total principal amount is paid monthly at an annual rate of LIBOR plus 4.00%, (f) subject to a 0.50% LIBOR floor, and interest on \$17,247,000 of the total principal amount is paid monthly at an annual fixed rate of 10.00%.

On December 30, 2014, the Essex House Hotel Venture refinanced the mortgage loan secured by the JW Marriott (g) Essex House Hotel and entered into a new \$225,000,000 limited recourse loan agreement. The mortgage loan has two, one-year extension options, subject to certain conditions. The Company recorded \$2,010,000 of loss on early extinguishment of debt, which included the write off of unamortized deferred financing costs and other fees.

On July 7, 2014, the Company paid off the outstanding balance on the prior mortgage loan secured by the (h) InterContinental Miami hotel. The Company entered into a new \$115,000,000 mortgage loan secured by the InterContinental Miami hotel on August 29, 2014. The Company recorded \$609,000 of loss on early extinguishment of debt, which includes the write off of unamortized deferred financing costs.

The Company sold this hotel on March 31, 2014, and the outstanding mortgage loan balance was repaid at closing (i) (see note 5).

All of these loan agreements require maintenance of financial covenants, all of which the Company was in (j) compliance with at December 31, 2014.

Subsequent to December 31, 2014, the Company acquired the Montage Laguna Beach resort and assumed a (k) \$150,000,000 mortgage loan encumbering the property (see note 21).

A consolidated affiliate of the Company that owned a condominium-hotel development adjacent to the Hotel del (l) Coronado assumed the mortgage loan on a hotel-condominium unit that was secured by the hotel-condominium unit. The unit was sold in June 2014 and the loan was repaid.

Bank Credit Facility:

On April 25, 2014, the Company entered into a new \$300,000,000 secured bank credit facility agreement. This new facility replaced the \$300,000,000 secured bank credit facility that was set to expire in June 2015 (assuming all extension options were exercised). The agreement contains an accordion feature, which provides the option to increase the borrowing capacity up to \$400,000,000, subject to the satisfaction of customary conditions set forth in the agreement. The following summarizes key financial terms and conditions of the new bank credit facility:

interest on the facility is payable monthly based upon a leverage-based pricing grid ranging from LIBOR plus 1.75% to LIBOR plus 2.50% in the case of a LIBOR loan or base rate plus 0.75% to base rate plus 1.50% in the case of a base rate loan. The applicable margins are increased, in each case, by 0.25% for the period from April 25, 2014 through March 31, 2015.

an unused commitment fee is payable monthly based on the unused revolver balance at a rate of 0.30% per annum in the event that the bank credit facility usage is less than 50% and a rate of 0.20% per annum in the event that the bank credit facility usage is equal to or greater than 50%;

maturity date of April 25, 2018, with the right to extend the maturity date for an additional one-year period with an extension fee equal to 0.25%, subject to certain conditions;

lenders received collateral in the form of pledges by SH Funding and certain of its subsidiaries of their interests in subsidiaries that directly or indirectly own, lease or operate the borrowing base properties, which currently include the Four Seasons Jackson Hole hotel, the Four Seasons Silicon Valley hotel, the Marriott Lincolnshire Resort, the Ritz-Carlton Half Moon Bay hotel, and the Ritz-Carlton Laguna Niguel hotel, and guarantees of the loan from the Company and such subsidiaries;

maximum availability is determined by the lesser of 55% advance rate against the gross asset value of the borrowing base properties as determined under the loan (provided at any time the total fixed charge coverage ratio is greater than

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1.75 times, the percentage shall be increased to 60%) or a 1.40 times debt service coverage on the borrowing base properties (based on the trailing 12 months net operating income for these assets divided by the greater of the in-place interest rate or 7.0% debt constant on the balance outstanding under the bank credit facility);

- minimum corporate fixed charge coverage of 1.30 times through December 31, 2014, 1.40 times during 2015 and 1.50 times thereafter;
- maximum corporate leverage of 60%;
- minimum tangible net worth of approximately \$1,416,189,000, excluding goodwill and currency translation adjustments, plus an amount equal to 75% of the net proceeds of any new issuances of our common stock, which is not used to reduce indebtedness or used in a transaction or series of transactions to redeem outstanding capital stock;
- restrictions on SHR and SH Funding's ability to pay dividends. Such restrictions include:
 - prohibitions on SHR and SH Funding's ability to pay any dividends unless certain conditions are met; and
 - prohibitions on SHR and SH Funding's ability to issue dividends in cash or in kind at any time an event of default shall have occurred.

Notwithstanding the dividend restrictions described above, for so long as the Company qualifies, or has taken all other actions necessary to qualify as a REIT, SH Funding may authorize, declare, and pay quarterly cash dividends to the Company when and to the extent necessary for the Company to distribute cash dividends to its stockholders generally in an aggregate amount not to exceed the minimum amount necessary for the Company to maintain its tax status as a REIT, unless certain events of default exist.

Other terms and conditions exist including a prohibition on mortgaging the borrowing base properties, provisions to release assets from the borrowing base and limitations on the Company's ability to incur costs for discretionary capital programs and to redeem, retire or repurchase common stock. Under the agreement, SH Funding has a letter of credit sub-facility of \$75,000,000, which is secured by the \$300,000,000 bank credit facility. Letters of credit reduce the borrowing capacity under the bank credit facility.

The interest rate at December 31, 2014 was 2.17% and the weighted average interest rate for the year ended December 31, 2014 was 2.90%. At December 31, 2014, maximum availability under the bank credit facility was \$300,000,000 and there were no borrowings outstanding under the bank credit facility and outstanding letters of credit of \$8,365,000 (see note 17), which reduce the borrowing capacity under the bank credit facility. The agreement also requires maintenance of financial covenants, all of which SH Funding and SHR were in compliance with at December 31, 2014.

Debt Maturity:

The following table summarizes the aggregate maturities (assuming all extension options exercised) as of December 31, 2014 for all mortgages and the Company's bank credit facility (in thousands):

Years Ending December 31,	
2015	\$ 118,796
2016	2,031
2017	394,131
2018	477,299
2019	122,433
Thereafter	591,711
	1,706,401
Unamortized discount	(623)
Total	\$ 1,705,778

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Interest Expense:

Total interest expense in continuing and discontinued operations includes a reduction related to capitalized interest for the years ended December 31, 2014, 2013 and 2012 of \$861,000, \$1,021,000 and \$1,534,000, respectively. Total interest expense in continuing and discontinued operations includes amortization of deferred financing costs of \$4,450,000, \$5,251,000 and \$3,993,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

11. EQUITY AND DISTRIBUTION ACTIVITY

Common Stock:

The following table presents the changes in the issued and outstanding shares of SHR common stock since January 1, 2012 (excluding 793,618 units, 797,238 units and 853,461 units of SH Funding (OP Units) outstanding at December 31, 2014, 2013 and 2012, respectively, which are redeemable for shares of SHR common stock on a one-for-one basis, or the cash equivalent thereof, subject to certain restrictions and at the option of SHR) (in thousands):

Outstanding at January 1, 2012	185,627
RSUs redeemed for shares of SHR common stock	282
Common stock issued	18,400
Outstanding at December 31, 2012	204,309
RSUs and Deferral Program Stock Units redeemed for shares of SHR common stock	1,218
OP Units redeemed for shares of SHR common stock	56
Outstanding at December 31, 2013	205,583
RSUs and performance-based RSUs redeemed for shares of SHR common stock	449
OP Units redeemed for shares of SHR common stock	4
Common stock issued	61,400
Outstanding at December 31, 2014	267,436

In December 2014, SHR completed an underwritten public offering of common stock by issuing 20,000,000 shares at a price of \$12.57 per share. After transaction expenses, SHR raised net proceeds of approximately \$250,934,000. These proceeds were used to fund the acquisition of the Four Seasons Resort Scottsdale at Troon North (see note 3), to redeem all of the issued and outstanding shares of its Series B Preferred Stock on January 5, 2015 (see note 21), and for general corporate purposes, including, without limitation, reducing debt and funding capital expenditures and working capital.

In June 2014, SHR completed an underwritten public offering of common stock by issuing 41,400,000 shares at a public offering price of \$10.50 per share. After underwriting discounts and commissions and transaction expenses, SHR raised net proceeds of approximately \$416,648,000. These proceeds were used to fund the acquisition of the remaining equity interest in the Hotel del Coronado Venture (see note 3), to redeem all of the issued and outstanding shares of its Series C Preferred Stock on July 3, 2014, and for general corporate purposes, including, without limitation, reducing its borrowings under its bank credit facility, repaying other debt and funding capital expenditures and working capital.

In April 2012, SHR completed a public offering of common stock by issuing 18,400,000 shares at a public offering price of \$6.50 per share. After underwriting discounts and commissions and transaction expenses, SHR raised net proceeds of approximately \$114,062,000. These proceeds were used for general corporate purposes, including, without limitation, reducing the Company's borrowings under its secured bank credit facility, funding the payment of accrued and unpaid preferred dividends, repaying other debt and funding capital expenditures and working capital. In connection with this offering, SHR's board of directors approved an increase in the number of shares of common stock that SHR is authorized to issue from 250,000,000 to 350,000,000, and SHR's charter was amended accordingly. As of December 31, 2014, no shares of SHR common stock have been repurchased under the \$50,000,000 share repurchase program.

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Stockholder Rights Plan

On May 30, 2013, the Company entered into an amendment to terminate its stockholder rights plan effective as of such date.

Distributions to Shareholders and Unitholders

On November 4, 2008, SHR's board of directors elected to suspend the quarterly dividend to holders of shares of SHR common stock.

Preferred Stock:

In December 2014, the Company publicly announced its intention to redeem all of the outstanding 3,615,375 shares of its Series B Preferred Stock on January 5, 2015 (see note 21), which, as of December 31, 2014, was the last remaining outstanding series of the Company's preferred stock. The shares of Series B Preferred Stock were redeemed at a redemption price of \$25.00 per share, or approximately \$90,384,000 in total, plus accrued and unpaid dividends from January 1, 2015 up to and including the redemption date in the amount of \$0.028646 per share, or approximately \$104,000 in total. Following the redemption, dividends on the Series B Preferred Stock ceased to accrue.

The Company became obligated to redeem the Series B Preferred Stock and pay the declared dividends when it made its announcement in December 2014. Therefore, the Company reclassified the Series B Preferred Stock balance from equity to a preferred stock redemption liability and recorded the balance at fair value. The difference between the fair value of the Series B Preferred Stock and the carrying value is recorded in additional paid-in capital. In addition, the Company accrued dividends declared in December for the period from January 1, 2015 up to and including January 5, 2015.

On July 3, 2014, the Company redeemed all of the outstanding 3,827,727 shares of its Series C Preferred Stock. The shares of Series C Preferred Stock were redeemed at a redemption price of \$25.00 per share, or approximately \$95,693,000 in total, plus accrued and unpaid dividends up to and including the redemption date in the amount of \$0.01719 per share, or approximately \$66,000 in total. Following the redemption, dividends on the Series C Preferred Stock ceased to accrue.

On April 3, 2014, the Company redeemed all of the outstanding 4,148,141 shares of its Series A Preferred Stock. The shares of Series A Preferred Stock were redeemed at a redemption price of \$25.00 per share, or approximately \$103,704,000 in total, plus accrued and unpaid dividends up to and including the redemption date in the amount of \$0.54896 per share, or approximately \$2,277,000 in total. Following the redemption, dividends on the Series A Preferred Stock ceased to accrue.

Distributions

In February 2009, SHR's board of directors elected to suspend the quarterly dividend beginning with the first quarter of 2009 to holders of shares of SHR's Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. In the fourth quarter of 2011, SHR's board of directors authorized, and SHR declared, the payment of accrued and unpaid dividends on its stock through September 30, 2011, and dividends for the quarter ended December 31, 2011 (collectively, the Unpaid Dividends). The Unpaid Dividends were paid on June 29, 2012 to holders of record as of the close of business on June 15, 2012. In February 2012 and May 2012, SHR's board of directors authorized, and SHR declared, the payment of preferred dividends for the quarter ended March 31, 2012 and the quarter ended June 30, 2012, respectively. These dividends were also paid on June 29, 2012 to holders of record as of the close of business on June 15, 2012.

On June 29, 2012, SHR paid dividends on its preferred stock as follows:

	Distribution (in thousands)	Per Share
Series A Preferred Stock	\$30,852	\$7.44
Series B Preferred Stock	\$26,099	\$7.22
Series C Preferred Stock	\$27,631	\$7.22

Subsequent to the dividend payment on June 29, 2012, the Company continued to declare and pay quarterly dividends on all issued and outstanding shares of its Series A Preferred Stock, Series B Preferred Stock and Series C Preferred

Stock through the year ended December 31, 2014.

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Noncontrolling Interests in Consolidated Affiliates:

The Company's ownership interest in the Hotel del Coronado, which became a consolidated property on June 11, 2014, is held through a series of consolidated affiliates, which includes SHR del Partners, L.P. Prior to December 17, 2012, the Company owned an 85.8% ownership interest in SHR del Partners, L.P. The portion not owned by the Company was accounted for as a noncontrolling interest in consolidated affiliates. On December 17, 2012, the Company increased its ownership interest in SHR del Partners, L.P. to 90.9%. Subsequently, on January 1, 2013, the Company increased its interest in SHR del Partners, L.P. to 100% and eliminated the noncontrolling interests related to this entity.

The following table discloses the effects of changes in the Company's ownership interests in its noncontrolling interests (in thousands):

	2012	
Net income (loss) attributable to SHR	\$(55,306)
Acquisition of additional ownership interests in consolidated affiliates	(1,079)
Change from net income (loss) attributable to SHR and transfers from noncontrolling interests	\$(56,385)

12. DERIVATIVES

The Company manages its interest rate risk by varying its exposure to fixed and variable rates while attempting to minimize its interest costs. The Company manages its variable interest rate risk through the use of interest rate derivative instruments. The Company enters into interest rate derivative instruments with high credit quality counterparties and diversifies its positions among such counterparties in order to reduce its exposure to credit losses. The Company uses interest rate caps to limit exposure on its variable-rate debt that would result from an increase in interest rates. The Company's lenders, as stipulated in the respective loan agreements, generally require such caps. The Company records all derivatives at fair value in either prepaid expenses and other assets or accounts payable and accrued expenses in the consolidated balance sheets.

The valuation of the interest rate derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments (CVA) to appropriately reflect its own nonperformance risk and the respective counterparty's nonperformance risk. When assessing nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Except for the CVA, all inputs used to measure fair value of the derivative financial instruments are Level 2 inputs. The Company has concluded that the inputs used to measure its CVA are Level 3 inputs. If the inputs used to measure fair value fall in different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers into and out of Level 3, or between other levels, at the fair value at the beginning of the reporting period in which the changes occur. The Company assessed the impact of the CVA on the overall fair value of its derivative instruments and concluded that the CVA does not have a significant impact to the fair values as of December 31, 2014. As of December 31, 2014 and 2013, all derivative liabilities are categorized as Level 2.

Derivatives in Cash Flow Hedging Relationships:

Historically, the Company has used interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involved the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that

qualified as cash flow hedges were recorded in accumulated OCL and was subsequently reclassified into earnings in the period that the hedged forecasted transaction affected earnings. During the years ended December 31, 2014, 2013 and 2012, such derivatives were used to hedge the variable

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cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives was recognized directly in earnings.

In April 2014, the Company paid \$17,428,000, which included accrued and unpaid interest, to terminate its two interest rate swaps that were in cash flow hedging relationships. There was no immediate charge to earnings based on forecasted levels of LIBOR-based debt at the date of the termination. Amounts previously recorded in accumulated OCL related to these interest rate swaps will be reclassified into earnings as additional interest expense on a straight-line basis over the original maturity period of the interest rate swaps. During the next twelve months, an additional \$10,285,000 will be reclassified as an increase to interest expense.

At December 31, 2013, the aggregate notional amount of the Company's domestic interest rate swaps designated as cash flow hedges was \$200,000,000. The Company's domestic interest rate swaps at December 31, 2013 had fixed pay rates against LIBOR of 5.23% and 5.27% and maturity dates of December 2015 and February 2016, respectively. In addition, the Company had a GBP LIBOR interest rate swap agreement with a notional amount of £71,070,000. The swap had a fixed pay rate against GBP LIBOR of 5.72% and matured in October 2013.

Derivatives Not Designated as Hedging Instruments:

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

In April 2014, the Company paid \$5,281,000, which included accrued and unpaid interest, to terminate its two interest rate swaps that were not designated as hedging instruments. These interest rate swaps were marked to market through earnings through the date of termination, with no additional gain or loss recognized in earnings at the date of termination.

At December 31, 2013, the aggregate notional amount of the Company's domestic interest rate swaps not designated as cash flow hedges was \$200,000,000. These domestic interest rate swaps had fixed pay rates against LIBOR of 4.90% and 4.96% and maturity dates of September 2014 and December 2014, respectively.

As of December 31, 2014, the Company had the following outstanding interest rate derivatives that were not designated as hedging instruments:

Interest Rate Derivatives	Number of Instruments	Notional Amount (in thousands)
Interest rate caps	10	\$1,429,000

At December 31, 2014 and 2013, the aggregate notional amount of the Company's interest rate caps was \$1,429,000,000 and \$502,000,000, respectively. The Company's current interest rate caps have LIBOR strike rates ranging from 2.05% to 4.00% and maturity dates ranging from March 2015 to July 2017.

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Fair Values of Derivative Instruments:

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2014 and 2013 (in thousands):

	Balance Sheet Location	Fair Value as of December 31,	
		2014	2013
Derivatives in cash flow hedging relationships:			
Interest rate swaps	Accounts payable and accrued expenses	\$—	\$(19,992)
Derivatives not designated as hedging instruments:			
Interest rate swaps	Accounts payable and accrued expenses	\$—	\$(7,929)
Interest rate caps	Prepaid expenses and other assets	\$113	\$40

The Company does not have any fair value measurements of derivative financial instruments using inputs based on quoted prices in active markets (Level 1) or significant unobservable inputs (Level 3) as of December 31, 2014 and 2013. The following tables reflect changes in interest rate swap liabilities categorized as Level 2 for the years ended December 31, 2014 and 2013 (in thousands):

Balance as of January 1, 2014	\$(27,921)
Interest rate swap terminations	22,325
Mark to market adjustments	5,596
Balance as of December 31, 2014	\$—
Balance as of January 1, 2013	\$(51,086)
Mark to market adjustments	23,165
Balance as of December 31, 2013	\$(27,921)

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Effect of Derivative Instruments on the Statements of Operations:

The tables below present the effect of the Company's derivative financial instruments on the statements of operations for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Derivatives in Cash Flow Hedging Relationships			
Interest rate swaps:			
Effective portion of loss recognized in accumulated OCL	\$ (358)	\$ (790)	\$ (9,381)
Effective portion of loss reclassified into interest expense—continuing operations	\$ (12,725)	\$ (14,263)	\$ (16,655)
Effective portion of loss reclassified into interest expense—discontinued operations	\$ —	\$ (4,030)	\$ (5,013)
Ineffective portion of (loss) gain recognized in interest expense—discontinued operations	\$ —	\$ (31)	\$ 2,377
	2014	2013	2012
Derivatives Not Designated as Hedging Instruments			
Interest rate swaps:			
Ineffective losses recognized in interest expense	\$ (129)	\$ (382)	\$ (2,826)
Interest rate caps:			
Loss recognized in other income (expenses), net	\$ (247)	\$ (88)	\$ (165)

13. SHARE-BASED EMPLOYEE COMPENSATION PLANS

Second Amended and Restated 2004 Incentive Plan:

On June 21, 2004, SHR adopted the 2004 Incentive Plan (the Plan). The Plan provided for the grant of equity-based awards in the form of, among others, Options, RSUs, and stock appreciation rights (SARs), which are collectively referred to as the Awards. On May 22, 2008, SHR's shareholders approved SHR's Amended and Restated 2004 Incentive Plan (the Amended Plan). The Amended Plan: (a) added OP Units as an additional type of award; (b) adjusted the number of authorized shares from 3,000,000 shares of SHR common stock to 4,200,000 shares of SHR common stock or OP Units; (c) limited the maximum term of Options and SARs to no more than 10 years and prohibited the repricing of Options and SARs; and (d) established minimum vesting periods for certain awards. On May 19, 2011, SHR's shareholders approved SHR's Second Amended and Restated 2004 Incentive Plan (the Amended and Restated Plan) pursuant to which the number of securities authorized and reserved for issuance increased from 4,200,000 shares of SHR common stock or OP Units to 9,700,000 shares of SHR common stock or OP Units. The termination date of the Amended and Restated Plan was also extended from June 21, 2014 to December 31, 2016. The Plan is administered by the Compensation Committee (the Committee) appointed by the board of directors. The Committee consists of three or more members of the board of directors. The Committee has the authority and sole discretion to determine the type, extent, and terms (including vesting) of Awards granted, as well as those eligible to receive Awards.

The Company recorded compensation expense of \$5,826,000, \$5,292,000 and \$6,349,000 under the Amended and Restated Plan (net of estimated forfeitures) for the years ended December 31, 2014, 2013 and 2012, respectively.

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RSUs

SHR has issued RSUs to certain employees, officers and directors under the Amended and Restated Plan. RSUs represent awards of shares of SHR's common stock that generally vest over three years or as otherwise approved by the Committee, provided the participant continues as an employee, director or continues to provide services to the Company. Unvested RSUs will be forfeited upon termination, unless as may otherwise be set forth in a written agreement. RSUs are essentially the same as restricted stock except that, instead of actual shares, RSUs represent a promise to distribute shares at some future date. Participants holding RSUs will have no voting rights until such time as the underlying shares are issued.

The Company measures compensation expense for RSUs based on the per share fair market value of SHR's common stock at the date of grant, adjusted for estimated forfeitures. Compensation expense for RSUs is recognized on a straight-line basis over the service period and is included in corporate expenses in the consolidated statements of operations. Total unrecognized compensation expense related to nonvested RSUs at December 31, 2014 was \$2,802,000 and is expected to be recognized over a weighted average period of 1.53 years.

Information regarding RSUs is summarized in the following table:

	2014		2013		2012	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
RSUs outstanding at the beginning of the year	1,874,586	\$6.39	1,952,004	\$5.85	1,666,977	\$5.22
Granted	363,003	9.81	357,373	7.54	707,508	6.06
Issued to common shares	(425,681)	8.11	(291,779)	4.92	(259,887)	3.56
Forfeited	(370,590)	9.18	(143,012)	4.98	(162,594)	3.97
RSUs outstanding at the end of the year ^(a)	1,441,318	\$7.02	1,874,586	\$6.39	1,952,004	\$5.85

^(a) Includes RSUs of 765,758, 1,134,407 and 1,088,602 at December 31, 2014, 2013 and 2012, respectively, that have vested but have not yet been issued to shares of common stock.

Performance-Based RSUs

In February 2014, SHR granted certain employees a target grant of 349,682 performance-based RSUs under a performance share plan that provides the recipient the opportunity to earn between zero and 160.0% of the target (up to a maximum of 559,491 performance-based RSUs), based on the relative total shareholder return of the shares of SHR common stock, as defined in the agreement, over the period from January 2, 2014 through December 31, 2016. In 2013, SHR granted certain employees a target grant of 309,264 performance-based RSUs under a performance share plan that provides the recipient the opportunity to earn between zero and 160.0% of the target (up to a maximum of 494,822 performance-based RSUs), based on the relative total shareholder return of the shares of SHR common stock, as defined in the agreement, over the period from January 2, 2013 through December 31, 2015.

In 2012, SHR granted certain employees a target grant of 797,318 performance-based RSUs under a performance share plan that provides the recipient the opportunity to earn between zero and 160.0% of the target (up to a maximum of 1,275,709 performance-based RSUs), based on the relative total shareholder return of shares of SHR common stock, as defined in the agreement, over the period from January 2, 2012 through December 31, 2014. At December 31, 2014, there were 659,783 performance-based RSUs earned and vested under this grant based on the calculation of relative total shareholder return of shares of SHR's common stock.

The Company measures compensation expense for performance-based RSUs based on the per share fair market value of SHR's common stock at the date of grant, adjusted for estimated forfeitures. The Company measures compensation expense for performance-based RSUs based on a Monte Carlo simulation to estimate the fair value on the date of grant. Compensation expense for performance-based RSUs is recognized on a straight-line basis over the service

period and is included in corporate expenses in the consolidated statements of operations. Total unrecognized compensation expense related to performance-based RSUs at December 31, 2014 was \$3,383,000 and is expected to be recognized over weighted average period of 1.64 years.

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Information regarding performance-based RSUs is summarized in the following table:

	2014		2013		2012	
	Performance-based RSUs	Weighted Average Grant Date Fair Value	Performance-based RSUs	Weighted Average Grant Date Fair Value	Performance-based RSUs	Weighted Average Grant Date Fair Value
Outstanding at the beginning of the year	1,200,653	\$6.87	915,049	\$6.45	169,064	\$6.34
Granted	510,247	8.80	309,264	8.08	797,318	6.47
Issued to shares of common stock	(23,660)	6.34	(16,562)	6.34	(21,624)	6.34
Forfeited	(52,229)	8.31	(7,098)	6.34	(29,709)	6.52
Outstanding at the end of the year(a)	1,635,011	\$7.43	1,200,653	\$6.87	915,049	\$6.45

(a) Includes performance-based RSUs of 785,983, 113,860, and 137,520 at December 31, 2014, 2013 and 2012, respectively, that have vested but have not yet been issued to shares of common stock.

Options

The Amended and Restated Plan allows the Committee to grant Options. All previously issued and outstanding Options were forfeited in January 2013. As of December 31, 2014, there were no Options issued or outstanding under the Amended and Restated Plan.

SARs

The Amended and Restated Plan allows the Committee to grant SARs. As of December 31, 2014, no SARs have been issued under the Amended and Restated Plan.

Value Creation Plan and Deferral Program:

On August 27, 2009, the Company adopted the Value Creation Plan. Under the provisions of the Value Creation Plan, the Company paid 2.5% of SHR's market capitalization (limited to a maximum market capitalization based on no more than 174,828,353 shares of common stock) to the participants in the Value Creation Plan in 2012 because the highest average closing price of SHR's common stock during certain consecutive twenty trading day periods in 2012 was at least \$4.00 (Normal Distribution Amount).

On June 29, 2011, SHR and its former president and chief executive officer, Mr. Geller, entered into the Strategic Hotels & Resorts, Inc. Value Creation Plan Normal Unit Distributions Deferral Election and Deferral Program (Deferral Program). Pursuant to the Deferral Program, Mr. Geller elected to defer up to 50% of his share of the Normal Distribution Amount payable pursuant to the Value Creation Plan and to have such Normal Distribution Amount instead be converted into Deferral Program Stock Units on the basis of the fair market value of a share of SHR common stock at the time the Normal Distribution Amount would otherwise have been paid. Each Deferral Program Stock Unit was converted on a one-for-one basis into a share of SHR common stock on June 3, 2013.

Total compensation expense recognized in corporate expenses on the consolidated statement of operations under the Value Creation Plan for the year ended December 31, 2012 was \$1,407,000. In April 2012, the Company made an initial payment of \$18,357,000 pursuant to the Value Creation Plan and made a final settlement payment of \$948,000 in January 2013. Additionally, during 2012, Mr. Geller earned 1,301,476 Deferral Program Stock Units in connection with the distribution of his share of the Normal Distribution Amount under the Value Creation Plan. In accordance with Mr. Geller's separation agreement, dated November 2, 2012, Mr. Geller's Deferral Program Stock Units outstanding settled in June 2013 in accordance with the terms of the Deferral Program, with 909,564 Deferral Program Stock Units being redeemed for shares of common stock and 391,912 Deferral Program Stock Units being forfeited in lieu of paying taxes.

14. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan that covers employees meeting eligibility requirements. The Company matches 100% of the first 6% of compensation that an employee elects to defer. The Company's matching contribution vests immediately. The Company can make additional discretionary contributions up to 4% of compensation. Any

discretionary

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matching contributions are fully vested on grant date upon such contributions, or if employees have less than three years of service, the contributions vest at 33.33% per year of service. Contributions by the Company were \$389,000, \$358,000 and \$422,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

15. INCOME TAXES

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 and complies with certain other requirements. SHR may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income from taxable REIT subsidiaries is subject to federal, state and local taxes.

For the years ended December 31, 2014, 2013 and 2012, income tax expense from continuing operations is summarized as follows (in thousands):

	2014		2013		2012	
Current tax expense - United States	\$ (888)	)	\$ (737)	)	\$ (441))
Deferred tax (expense) benefit - United States	(312)	)	581	)	428)
Total income tax expense	\$ (1,200)	)	\$ (156)	)	\$ (13))

Deferred income taxes consist of the following as of December 31, 2014 and 2013 (in thousands):

	2014		2013	
Net operating loss carryforwards and other timing differences(a)	\$ 14,219		\$ 14,115	
Other	1,961		—	
Gross deferred tax assets	16,180		14,115	
Valuation allowance(b)	(14,451)	)	(14,115))
Deferred tax asset after valuation allowance	\$ 1,729		\$ —	
Gross deferred tax liability—book property basis in excess of tax basis	\$ (46,137)	)	\$ (46,137))

(a) For income tax purposes, the Company's net operating losses can be carried forward for a time period ranging from twenty years to indefinitely depending on the rules of the related tax jurisdictions.

The Company provides a valuation against net operating loss carryforwards due to the uncertainty of realization.

(b) The valuation allowance increased by \$336,000 during the year ended December 31, 2014. The valuation allowance decreased by \$533,000 and \$2,004,000 during the years ended December 31, 2013 and 2012, respectively.

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Characterization of Cash Distributions

For federal income tax purposes, the cash distributions paid to SHR's common and preferred shareholders may be characterized as ordinary income, return of capital (generally non-taxable) or capital gain. There were no distributions paid on common shares during the years ended December 31, 2014, 2013 and 2012. The following characterizes distributions paid per preferred share for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012			
	\$	%	\$	%	\$	%		
Preferred shares (Series A):								
Ordinary income	\$0.17	31	% \$0.00	0	% \$0.00	0	%	
Return of capital	0.00	0	% 2.13	100	% 8.50	100	%	
Unrecaptured Section 1250 gain	0.38	69	% 0.00	0	% 0.00	0	%	
	\$0.55	100	% \$2.13	100	% \$8.50	100	%	
Preferred shares (Series B):								
Ordinary income	\$0.64	31	% \$0.00	0	% \$0.00	0	%	
Return of capital	0.00	0	% 2.06	100	% 8.25	100	%	
Unrecaptured Section 1250 gain	1.42	69	% 0.00	0	% 0.00	0	%	
	\$2.06	100	% \$2.06	100	% \$8.25	100	%	
Preferred shares (Series C):								
Ordinary income	\$0.33	31	% \$0.00	0	% \$0.00	0	%	
Return of capital	0.00	0	% 2.06	100	% 8.25	100	%	
Unrecaptured Section 1250 gain	0.72	69	% 0.00	0	% 0.00	0	%	
	\$1.05	100	% \$2.06	100	% \$8.25	100	%	

16. RELATED PARTY TRANSACTIONS

On February 28, 2014, certain direct and indirect wholly-owned subsidiaries of SH Funding sold the Four Seasons Punta Mita Resort and adjacent La Solana land parcel to affiliates of Cascade for proceeds of \$206,867,000 (see note 5). Cascade beneficially owned approximately 6.4% of SHR's common stock as of the closing date.

In August 2014, the Company entered into a month-to-month agreement with an affiliate of Cascade pursuant to which the Company provides advisory services for certain hotels not owned by the Company. Additionally, the Company had previously entered into a month-to-month agreement with an affiliate of Cascade to provide such services to a separate hotel not owned by the Company. The Company currently receives fees of \$46,000 per month under these agreements (see note 8).

17. COMMITMENTS AND CONTINGENCIES

Environmental Matters:

Generally, the properties acquired by the Company have been subjected to environmental site assessments. While some of these assessments have led to further investigation and sampling, none of the environmental assessments have revealed, nor is the Company aware of any environmental liability that it believes would have a material effect on its business or consolidated financial statements.

Litigation:

The Company is party to various claims and routine litigation arising in the ordinary course of business. Based on discussions with legal counsel, the Company does not believe that the results of these claims and litigation, individually or in the aggregate, will have a material effect on its business or consolidated financial statements.

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Letters of Credit:

As of December 31, 2014, the Company provided a \$75,000 letter of credit related to its office space lease and a \$8,365,000 letter of credit in connection with an obligation to complete property improvements at the JW Marriott Essex House Hotel as described below. The letter of credit related to the property improvements at the JW Marriott Essex House Hotel was subsequently terminated in January 2015 (see note 21). During the second quarter of 2014, the Company terminated the letter of credit that was previously provided in connection with an obligation to complete certain repairs to the underground parking garage at the Four Seasons Washington, D.C. hotel.

Purchase Commitments:

Construction Contracts

The Company has executed various contracts related to construction activities. As of December 31, 2014, the Company's obligations under these contracts amounted to approximately \$14,482,000. The construction activities are expected to be completed within the next twelve months.

JW Marriott Essex House Hotel Property Improvement Plan

As required by the JW Marriott Essex House Hotel management agreement, the Essex House Hotel Venture has an obligation to renovate and improve the property. As of December 31, 2014, the Essex House Hotel Venture's obligation under this agreement is approximately \$859,000. The improvements are to be completed by May 2015.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2014 and 2013, the carrying amounts of certain financial instruments employed by the Company, including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses were representative of their fair values because of the short-term maturity of these instruments. At December 31, 2014 and 2013, the Company estimated the fair value of mortgage and other debt payable and the bank credit facility to be approximately \$1,726,000,000 and \$1,288,000,000, respectively.

The Company estimated the fair value of the debt using a future discounted cash flow analysis based on the use and weighting of multiple market inputs being considered. Based on the frequency and availability of market data, all inputs used to measure the estimated fair value of the debt are Level 2 inputs. The primary sensitivity in these calculations is based on the selection of appropriate discount rates.

Derivative financial instruments have been recorded at their estimated fair values.

19. GEOGRAPHIC AND BUSINESS SEGMENT INFORMATION

The Company aggregates its operating segments into one reportable business segment, hotel ownership. As of December 31, 2014, the Company's foreign operations and long-lived assets consisted of ownership interests in two Mexican unconsolidated affiliates and one leasehold interest in a German hotel property.

The following tables present revenues (excluding unconsolidated affiliates and discontinued operations) and long-lived assets (excluding assets held for sale as of December 31, 2013) for the geographical areas in which the Company operates (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
United States	\$ 1,083,676	\$ 858,646	\$ 732,188
Europe	5,406	5,161	4,778
Total	\$ 1,089,082	\$ 863,807	\$ 736,966

Table of ContentsSTRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	December 31, 2014	2013
Long-lived Assets:		
United States	\$2,960,852	\$1,771,291
Europe	—	91,677
Total	\$2,960,852	\$1,862,968

20. QUARTERLY OPERATING RESULTS (UNAUDITED)

The Company's unaudited consolidated quarterly operating data for the years ended December 31, 2014 and 2013 are as follows. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of quarterly results have been reflected in the data.

It is also management's opinion, however, that quarterly operating data for hotel properties are not indicative of results to be achieved in succeeding quarters or years.

	Year Ended December 31, 2014 (Dollars in thousands, except per share data)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$194,655	\$276,163	\$305,263	\$313,001
Income from continuing operations attributable to SHR common shareholders	\$59,331	\$80,236	\$20,925	\$1,137
Income from discontinued operations attributable to SHR	157,827	604	63	276
Net income attributable to SHR common shareholders	\$217,158	\$80,840	\$20,988	\$1,413
Earnings per weighted average common share outstanding—Basic				
Income from continuing operations attributable to SHR common shareholders per share	\$0.29	\$0.36	\$0.08	\$0.01
Income from discontinued operations attributable to SHR per share	0.76	—	—	—
Net income attributable to SHR common shareholders per share	\$1.05	\$0.36	\$0.08	\$0.01
Weighted average common shares outstanding—Basic	206,983	222,013	248,509	254,813
Earnings per weighted average common share outstanding—Diluted				
Income from continuing operations attributable to SHR common shareholders per share	\$0.25	\$0.35	\$0.07	\$0.01
Income from discontinued operations attributable to SHR per share	0.72	—	—	—
Net income attributable to SHR common shareholders per share	\$0.97	\$0.35	\$0.07	\$0.01
Weighted average common shares outstanding—Diluted	219,368	233,463	260,257	256,104

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Year Ended December 31, 2013			
	(Dollars in thousands, except per share data)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$181,180	\$227,101	\$223,707	\$231,819
(Loss) income from continuing operations attributable to SHR common shareholders	\$(25,437)	\$2,945	\$4,338	\$(611)
Income (loss) from discontinued operations attributable to SHR	1,989	329	(578)	3,834
Net (loss) income attributable to SHR common shareholders	\$(23,448)	\$3,274	\$3,760	\$3,223
Earnings per weighted average common share outstanding—Basic				
(Loss) income from continuing operations attributable to SHR common shareholders per share	\$(0.12)	\$0.02	\$0.02	\$—
Income (loss) from discontinued operations attributable to SHR per share	0.01	—	—	0.02
Net (loss) income attributable to SHR common shareholders per share	\$(0.11)	\$0.02	\$0.02	\$0.02
Weighted average common shares outstanding—Basic	206,981	206,061	206,767	206,814
Earnings per weighted average common share outstanding—Diluted				
(Loss) income from continuing operations attributable to SHR common shareholders per share	\$(0.13)	\$0.01	\$—	\$—
Income (loss) from discontinued operations attributable to SHR per share	0.01	—	—	0.02
Net (loss) income attributable to SHR common shareholders per share	\$(0.12)	\$0.01	\$—	\$0.02
Weighted average common shares outstanding—Diluted	218,710	219,227	220,258	206,814

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STRATEGIC HOTELS & RESORTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

21. SUBSEQUENT EVENTS

On January 29, 2015, the Company closed on the acquisition of the Montage Laguna Beach resort. The acquisition was funded through the issuance of 7,347,539 shares of SHR's common stock to an affiliate of the seller, the assumption of a \$150,000,000 existing mortgage loan encumbering the property, and a cash payment of \$110,401,000, which includes prorations and closing costs. The mortgage loan bears interest at a fixed rate of 3.90% per annum and matures in August 2021.

On January 15, 2015, the Company terminated the letter of credit that was previously provided in connection with an obligation to complete property improvements at the JW Marriott Essex House Hotel (see note 17).

On January 5, 2015, the Company redeemed all of the outstanding shares of its Series B Preferred Stock (see note 11).

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STRATEGIC HOTELS & RESORTS, INC.
SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014
(In Thousands)

Description	Location	Debt	Initial Costs			Gross Amount at December 31, 2014			Accumulated Depreciation
			Land	Building & Improvements	Subsequent Costs Capitalized	Land	Building & Improvements	Total	
Marriott Lincolnshire Resort	Lincolnshire, IL	\$—	\$—	\$47,248	\$6,931	\$—	\$54,179	\$54,179	\$(28,800)
Loews Santa Monica Beach Hotel	Santa Monica, CA	120,000	5,833	91,717	5,773	5,833	97,490	103,323	(44,510)
Hyatt Regency La Jolla	La Jolla, CA	89,247	13,093	66,260	—	13,093	66,260	79,353	(26,330)
Ritz-Carlton Half Moon Bay	Half Moon Bay, CA	—	20,100	79,400	3,088	20,100	82,488	102,588	(24,900)
InterContinental Chicago	Chicago, IL	142,442	20,259	139,204	4,747	20,252	143,958	164,210	(37,510)
InterContinental Miami	Miami, FL	115,000	41,891	69,296	20,206	41,877	89,516	131,393	(30,300)
Fairmont Chicago	Chicago, IL	93,124	17,347	129,153	26,370	17,347	155,523	172,870	(56,550)
Four Seasons Washington, D.C.	Washington, D.C.	120,000	44,900	75,600	27,462	44,900	103,062	147,962	(40,850)
Westin St. Francis	San Francisco, CA	209,588	61,400	287,800	4,826	61,400	292,626	354,026	(66,850)
Ritz-Carlton Laguna Niguel	Dana Point, CA	—	76,700	176,300	1,567	76,700	177,867	254,567	(43,760)
Four Seasons Jackson Hole	Teton Village, WY	—	19,669	33,894	—	19,669	33,894	53,563	(3,400)
Four Seasons Silicon Valley	East Palo Alto, CA	—	5,518	27,669	—	5,518	27,669	33,187	(2,780)
JW Marriott Essex House	New York, NY	225,000	230,951	88,470	1	230,952	88,470	319,422	(5,290)
Fairmont Scottsdale	Scottsdale, AZ	117,000	26,732	229,326	—	26,732	229,326	256,058	(4,920)
Princess Hotel del Coronado	San Diego, CA	475,000	236,497	411,528	—	236,497	411,528	648,025	(6,340)
Four Seasons Resort Scottsdale at Troon North	Scottsdale, AZ	—	37,800	83,132	—	37,800	83,132	120,932	(200)
Totals		\$1,706,401	\$858,690	\$2,035,997	\$100,971	\$858,670	\$2,136,988	\$2,995,658	\$(423,000)

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STRATEGIC HOTELS & RESORTS, INC.

SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2014

(In Thousands)

Notes:

(A) The change in total cost of properties for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Balance, beginning of period	\$2,044,799	\$2,180,534	\$1,869,903
Additions:			
Acquisition of properties	1,025,015	—	319,421
Improvements	270	15,887	13,129
Currency translation adjustment	486	1,389	3,170
Deductions:			
Reclassifications (1)	—	(153,011)) —
Dispositions	(74,912)) —	—
Impairment	—	—	(25,089)
Balance, end of period	\$2,995,658	\$2,044,799	\$2,180,534

(1) Includes reclassifications to assets held for sale and investment in unconsolidated affiliates.

(B) The change in accumulated depreciation and amortization of real estate assets for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Balance, beginning of period	\$387,487	\$355,497	\$304,779
Depreciation and amortization	52,635	50,548	50,172
Reclassification to assets held for sale	—	(18,945)) —
Disposition	(16,815)) —	—
Currency translation adjustment	109	387	546
Balance, end of period	\$423,416	\$387,487	\$355,497

(C) The aggregate cost of properties for Federal income tax purposes is approximately \$2,778,346 at December 31, 2014.

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ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
9. FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of the period covered by this annual report on Form 10-K, was made under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer. Based upon this evaluation, as of December 31, 2014, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. Internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations, which include the possibility of human error and the circumvention or overriding of the controls and procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentations and all misstatements may not be prevented or detected. Also, the effectiveness of internal control over financial reporting may deteriorate in future periods due to either changes in conditions or declining levels of compliance with policies or procedures.

Our management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. In making this assessment, management used criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management believes that, as of December 31, 2014, our internal control over financial reporting was effective based on such criteria.

Deloitte & Touche LLP, an independent registered public accounting firm, issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2014. This report appears below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Strategic Hotels & Resorts, Inc.
Chicago, Illinois

We have audited the internal control over financial reporting of Strategic Hotels & Resorts, Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2014 of the Company and our report dated February 24, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 24, 2015

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Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

2014 Cash Bonuses. On February 23, 2015, we approved annual cash bonuses to our named executive officers for calendar year 2014 as set forth below:

Name & Position	2014 Cash Bonus
Raymond L. Gellein, Jr., President & Chief Executive Officer	\$2,256,000
Diane M. Morefield, Executive Vice President, Chief Financial Officer	\$455,625
Richard J. Moreau, Executive Vice President, Chief Operating Officer	\$455,625
Paula C. Maggio, Executive Vice President, General Counsel & Secretary	\$393,975

2015 Equity Awards. On February 23, 2015, we granted equity awards under our Second Amended and Restated 2004 Incentive Plan in the form of time-vested restricted stock units (RSUs) and performance-based RSUs.

Performance-based RSUs. Performance-based RSUs granted provide the recipient the opportunity to earn shares of our common stock based on the total shareholder return (share price appreciation plus the reinvestment of dividends) (TSR) of the shares of our common stock over the period from January 2, 2015 through December 31, 2017 or through the date of a change of control, if earlier. The Company's TSR over the performance period is ranked relative to the TSR of the companies that comprise the SNL Lodging Index. The TSR of such companies will be calculated by determining the starting and ending share price based on a 60-trading day average price (except in the case of a change of control of the Company when the change of control price for the Company would be used). Performance-based RSU awards provide the recipient the opportunity to earn from 25% to 200% of the target performance share number applicable to the index companies based on the Company's relative TSR. Certain minimum stock price and total shareholder return requirements are set forth in the performance-based RSUs.

RSU awards. RSUs granted vest ratably in annual one-third increments on January 1 of each of 2016, 2017 and 2018, with vesting acceleration upon certain events. The RSUs are convertible after vesting on a one-for-one basis to shares of common stock.

The number of target performance-based RSUs and RSUs granted to our named executive officers on February 23, 2015 are set forth below:

Name & Position	Target Performance-Based RSUs	RSUs
Raymond L. Gellein, Jr., President & Chief Executive Officer	119,552	58,884
Diane M. Morefield, Executive Vice President, Chief Financial Officer	46,358	22,833
Richard J. Moreau, Executive Vice President, Chief Operating Officer	46,358	22,833
Paula C. Maggio, Executive Vice President, General Counsel & Secretary	40,085	19,744

2015 Base Salary Adjustments. On February 23, 2015, certain of our named executive officers received base salary adjustments, retroactive to January 1, 2015, as set forth below:

Name & Position	% Increase from 2014 Base Salary	2015 Base Salary
Diane M. Morefield, Executive Vice President, Chief Financial Officer	3%	\$417,150
Richard J. Moreau, Executive Vice President, Chief Operating Officer	3%	\$417,150
Paula C. Maggio, Executive Vice President, General Counsel	~10%	\$385,000

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by Items 401, 405, 406, and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by Item 403 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Equity Compensation Plan Information" of this annual report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to the Company's definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following is a list of documents filed as part of this report:

(1) Financial Statements.

All financial statements are set forth under Item 8. Financial Statements and Supplementary Data of this report.

(2) Financial Statement Schedules.

The following financial statement schedule is included herein at pages 102 and 103.

Schedule III – Real Estate and Accumulated Depreciation

All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(b) The exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index on pages 110 through 116 of this report, which is incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 24, 2015

STRATEGIC HOTELS & RESORTS, INC.

By: /S/ RAYMOND L. GELLEIN, JR.
Raymond L. Gellein, Jr.
President and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Each Dated: February 24, 2015

By: /S/ RAYMOND L. GELLEIN, JR.
Raymond L. Gellein, Jr.
President, Chief Executive Officer and Director and
Chairman of the Board
(principal executive officer)

By: /S/ DIANE M. MOREFIELD
Diane M. Morefield
Executive Vice President and Chief Financial Officer
(principal financial officer and principal accounting officer)

By: /S/ ROBERT P. BOWEN
Robert P. Bowen
Director

By: /S/ JAMES A. JEFFS
James A. Jeffs
Director

By: /S/ DAVID W. JOHNSON
David W. Johnson
Director

By: /S/ RICHARD D. KINCAID
Richard D. Kincaid
Director

By: /S/ DAVID M.C. MICHELS
David M.C. Michels
Director

By: /S/ WILLIAM A. PREZANT
William A. Prezant
Director

By: /S/ EUGENE F. REILLY
Eugene F. Reilly
Director

By: /S/ SHELI Z. ROSENBERG
Sheli Z. Rosenberg
Director

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Exhibit Index

Exhibit No.	Description of Exhibit
3.1.a	Articles of Amendment and Restatement of the Company (filed as Exhibit 3.1 to the Company's Amendment No. 3 to the Registration Statement on Form S-11 (File No. 333-112846), filed with the SEC on June 8, 2004 and incorporated herein by reference).
3.1.b	Articles of Amendment relating to the Company's name change to Strategic Hotels & Resorts, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 15, 2006 and incorporated herein by reference).
3.1.c	Articles of Amendment (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 19, 2010 and incorporated herein by reference).
3.1.d	Articles of Amendment (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on April 19, 2012 and incorporated herein by reference).
3.2	By-Laws of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on November 18, 2008 and incorporated herein by reference).
4.1	Form of Certificate of Common Stock, par value \$0.01 per share, of the Company (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-3 (File No. 333-133353) filed with the SEC on April 18, 2006 and incorporated herein by reference).
10.1	Limited Liability Company Agreement of Strategic Hotel Funding, L.L.C. (filed as Exhibit 10.1 to the Company's Amendment No. 4 to Registration Statement on Form S-11 (File No. 333-112846), filed with the SEC on June 18, 2004 and incorporated herein by reference).
10.2	First Amendment to the Limited Liability Company Agreement of Strategic Hotel Funding, L.L.C., dated as of March 15, 2005 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 18, 2005 and incorporated herein by reference).
10.3	Third Amendment to the Limited Liability Company Agreement of Strategic Hotel Funding, L.L.C., dated as of January 31, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 2, 2006 and incorporated herein by reference).
10.4	Fourth Amendment to the Limited Liability Company Agreement of Strategic Hotel Funding, L.L.C., dated as of May 17, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 18, 2006 and incorporated herein by reference).
10.5	Fifth Amendment to the Limited Liability Company Agreement of Strategic Hotel Funding, L.L.C., dated as of March 1, 2007 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 7, 2007 and incorporated herein by reference).

reference).

- 10.6 Structuring and Contribution Agreement, dated as of February 13, 2004, by and among Strategic Hotel Funding, LLC, Strategic Hotel Capital, LLC and the other parties thereto (filed as Exhibit 10.2 to the Company's Amendment No. 1 to Registration Statement on Form S-11 (File No. 333-112846), filed with the SEC on April 9, 2004 and incorporated herein by reference).
- 10.7 Registration Rights Agreement, dated as of June 29, 2004, by and between Strategic Hotel Capital, Inc. and Rockmark Corporation (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 25, 2010 and incorporated herein by reference).
- 10.8 Stock Transfer Restriction and Registration Rights Agreement, dated as of March 11, 2011, by and among the Company, WJH Holdings Inc. and WPA Hotel Holdings Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 16, 2011 and incorporated herein by reference).
- 10.9 Registration Rights Agreement, dated as of September 14, 2012, by and among the Company, Monroe EH Holdings Trust, Monroe EH TRS, LLC and Monroe EH Condo Investment, LLC. (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 8, 2012 and incorporated herein by reference).

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- + 10.10 Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 24, 2011 and incorporated herein by reference).
- + 10.11 Amendment No. 1 to the Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 27, 2012 and incorporated herein by reference).
- + 10.12 Employee Stock Purchase Plan (filed as Exhibit 10.14 to the Company's Amendment No. 3 to Registration Statement on Form S-11 (File No. 333-112846), filed with the SEC on June 8, 2004 and incorporated herein by reference).
- + 10.13 Form of Stock Unit Award Agreement for directors (filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on March 7, 2005 and incorporated herein by reference).
- + 10.14 Form of Stock Unit Award Agreement for employees (filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on March 7, 2005 and incorporated herein by reference).
- + 10.15 Strategic Hotels & Resorts, Inc. Severance Program (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 4, 2010 and incorporated herein by reference).
- + 10.16 Separation Agreement, dated as of November 2, 2012, by and between the Company and Laurence S. Geller (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on November 5, 2012 and incorporated herein by reference).
- + 10.17 Offer Letter, dated as of March 9, 2010, by and between Diane M. Morefield and the Company (filed as Exhibit 99.2 to the Company's Form 8-K (File No. 001-32223), filed with the SEC on March 9, 2010 and incorporated herein by reference).
- + 10.18 Employment Agreement, dated as of November 19, 2012, by and between Raymond L. Gellein, Jr. and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A (File No. 001-32223), filed with the SEC on November 20, 2012 and incorporated herein by reference).
- + 10.19 Amendment No. 1 to Employment Agreement, dated as of October 10, 2014, by and between Raymond L. Gellein, Jr. and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223) filed with the SEC on October 16, 2014 and incorporated herein by reference).
- + 10.20 Form of Employment Agreement to be entered into between Strategic Hotels & Resorts, Inc. and certain executives thereof (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223) filed with the SEC on November 18, 2008 and incorporated herein by reference).
- + 10.21 Strategic Hotels & Resorts, Inc. Value Creation Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on August 28, 2009 and

incorporated herein by reference).

+ 10.22 Strategic Hotels & Resorts, Inc. Value Creation Plan Normal Unit Distributions Deferral Election and Deferral Program (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on July 6, 2011 and incorporated herein by reference).

+ 10.23 Performance Share Award Agreement under Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (including Amendment Two to Value Creation Plan and Unit Agreement Thereunder) for Laurence S. Geller (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 27, 2012 and incorporated herein by reference).

+ 10.24 Form of Performance Share Award Agreement under Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (including Amendment Two to Value Creation Plan and Unit Agreement Thereunder) for executives other than Laurence S. Geller (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 27, 2012 and incorporated herein by reference).

+ 10.25 Amendment to Form of Performance Share Award Agreement under Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on August 7, 2012 and incorporated herein by reference).

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+ 10.26	Form of Stock Unit Award Agreement under Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 27, 2012 and incorporated herein by reference).
+ 10.27	Form of 2012 Performance Share Award Deferral Election (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on February 27, 2012 and incorporated herein by reference).
+ 10.28	Investment Election for Vested and Deferred Awards for Richard J. Moreau under the Strategic Hotels & Resorts, Inc. Second Amended and Restated 2004 Incentive Plan, dated November 6, 2014 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on November 6, 2014 and incorporated herein by reference).
+ 10.29	Separation Agreement, dated May 5, 2014, by and between Stephen Briggs and Strategic Hotel Funding, L.L.C. (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 8, 2014 and incorporated herein by reference).
10.30	Agreement, dated March 7, 2014, by and among Orange Capital, LLC, Orange Capital Master I. Ltd., Daniel Lewis and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 10, 2014 and incorporated herein by reference).
10.31	Restructuring Agreement by and among SHR Scottsdale, L.L.C., Strategic Hotel Funding, L.L.C., DTRS Scottsdale, L.L.C. and Bank of America, National Association, Successor by Merger to LaSalle Bank National Association, as Trustee for the Registered Holders of the Citigroup Commercial Mortgage Trust 2007-FL3 Commercial Mortgage Pass-Through Certificates, Series 2007-FL3, dated June 9, 2011 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on June 10, 2011 and incorporated herein by reference).
10.32	First Amendment to Restructuring Agreement, entered into effective as of December 17, 2012, by and among U.S. Bank National Association, as Trustee, as successor in interest to Bank of America, National Association, as Trustee for the Registered Holders of the Citigroup Commercial Mortgage Trust 2007-FL3 Commercial Mortgage Pass-Through Certificates, Series 2007-FL3, FMT Scottsdale Owner, LLC, Walton/SHR FPH, LLC and certain guarantor parties thereto (filed as Exhibit 10.43 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 28, 2013 and incorporated herein by reference).
10.33	Second Amendment to Restructuring Agreement, entered into effective as of December 20, 2013, by and among U.S. Bank National Association, as Trustee, as successor in interest to interest to Bank of America, National Association, as Trustee for the Registered Holders of the Citigroup Commercial Mortgage Trust 2007-FL3 Commercial Mortgage Pass-Through Certificates, Series 2007-FL3, FMT Scottsdale Owner, LLC, Walton/SHR FPH, LLC and certain guarantor parties thereto (filed as Exhibit 10.42 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 27, 2014 and incorporated herein by reference).

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- 10.34 Amended and Restated Limited Liability Company Agreement of SHC Aventine II, L.L.C., dated as of August 31, 2007 (filed as Exhibit 10.102 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 25, 2010 and incorporated herein by reference).
- 10.35 Letter Agreement, dated August 20, 2012, by and between New Aventine, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on August 24, 2012 and incorporated herein by reference).
- 10.36 Mortgage Loan Application, dated September 12, 2012, by and between New Aventine, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on September 17, 2012 and incorporated herein by reference).
- 10.37 Deed of Trust, Security Agreement and Fixture Filing by New Aventine, L.L.C. and New DTRS La Jolla, L.L.C. to First American Title Insurance Company as Trustee for the benefit of Metropolitan Life Insurance Company (filed as Exhibit 10.47 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 28, 2013 and incorporated herein by reference).

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- 10.38 Floating Rate Promissory Note, dated as of November 1, 2012, between New Aventine, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.48 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 28, 2013 and incorporated herein by reference).
- 10.39 Fixed Rate Promissory Note, dated as of November 1, 2012, between New Aventine, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.49 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 28, 2013 and incorporated herein by reference).
- 10.40 Mortgage Loan Application, dated as of April 27, 2010, among SHR St. Francis, L.L.C., SHC Columbus Drive, LLC and Metropolitan Life Insurance Company (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 3, 2010 and incorporated herein by reference).
- 10.41 Promissory Note, dated May 5, 2010, by and between SHR St. Francis, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.42 Promissory Note, dated May 5, 2010, by and between SHC Columbus Drive, LLC and Metropolitan Life Insurance Company (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.43 Deed of Trust, Security Agreement and Fixture Filing, dated May 5, 2010, by SHR St. Francis, L.L.C. and DTRS St. Francis, L.L.C. to Fidelity National Title Insurance Company for the benefit of Metropolitan Life Insurance Company (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.44 Subordinate Deed of Trust, Security Agreement and Fixture Filing, dated May 5, 2010, by SHR St. Francis, L.L.C. and DTRS St. Francis, L.L.C. to Fidelity National Title Insurance Company for the benefit of Metropolitan Life Insurance Company (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.45 First Modification of Deed of Trust, Security Agreement and Fixture Filing, Promissory Note and Other Loan Documents, dated as of September 9, 2013, by and among Metropolitan Life Insurance Company, SHR St. Francis, L.L.C. and DTRS St. Francis, L.L.C. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.46 First Modification of Subordinate Deed of Trust, Security Agreement and Fixture Filing, dated as of September 9, 2013, by and among Metropolitan Life Insurance Company, SHR St. Francis, L.L.C. and DTRS St. Francis, L.L.C. (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.47

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Mortgage, Security Agreement and Fixture Filing, dated May 5, 2010, by SHC Columbus Drive, LLC and DTRS Columbus Drive, LLC to Metropolitan Life Insurance Company (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).

10.48 Subordinate Mortgage, Security Agreement and Fixture Filing, dated May 5, 2010, by SHC Columbus Drive, LLC and DTRS Columbus Drive, LLC to Metropolitan Life Insurance Company (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).

10.49 First Modification of Mortgage, Security Agreement and Fixture Filing, Promissory Note and Other Loan Documents, dated as of September 9, 2013, by and among Metropolitan Life Insurance Company, SHC Columbus Drive, LLC and DTRS Columbus Drive, LLC (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).

10.50 First Modification of Subordinate Mortgage, Security Agreement and Fixture Filing, dated as of September 9, 2013, by and among Metropolitan Life Insurance Company, SHC Columbus Drive, LLC and DTRS Columbus Drive, LLC (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).

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- 10.51 Guaranty, dated May 5, 2010, by Strategic Hotel Funding, L.L.C. in favor of Metropolitan Life Insurance Company (filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.52 Guaranty, dated May 5, 2010, by Strategic Hotel Funding, L.L.C. in favor of Metropolitan Life Insurance Company (filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.53 First Amendment to Guaranty, dated as of September 9, 2013, by and between Strategic Hotel Funding, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.54 First Amendment to Guaranty, dated as of September 9, 2013, by and between Strategic Hotel Funding, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.55 Affiliated Guaranty, dated May 5, 2010, by SHC Columbus Drive, LLC in favor of Metropolitan Life Insurance Company (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.56 Affiliated Guaranty, dated May 5, 2010, by SHR St. Francis, L.L.C. in favor of Metropolitan Life Insurance Company (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 6, 2010 and incorporated herein by reference).
- 10.57 First Amendment to Affiliated Guaranty, dated as of September 9, 2013, by and between SHR St. Francis, L.L.C. and Metropolitan Life Insurance Company (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.58 First Amendment to Affiliated Guaranty, dated as of September 9, 2013, by and between SHC Columbus Drive, LLC and Metropolitan Life Insurance Company (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 12, 2013 and incorporated herein by reference).
- 10.59 Loan Agreement, dated as of July 28, 2011, by and among SHC Michigan Avenue, LLC, New DTRS Michigan Avenue, LLC and JPMorgan Chase Bank, National Association (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on July 29, 2011 and incorporated herein by reference).
- 10.60 Promissory Note, dated as of July 28, 2011 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on July 29, 2011 and incorporated herein by reference).
- 10.61 Purchase and Sale Agreement, dated August 13, 2012, between DIG EH Hotel LLC and SHR Essex House LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No.

001-32223), filed with the SEC on August 17, 2012 and incorporated herein by reference).

- 10.62 First Amendment to Purchase and Sale Agreement, dated September 7, 2012, by and among DIG EH Hotel LLC, SHR Essex House, LLC and SHR Essex House Condominiums, LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on September 11, 2012 and incorporated herein by reference).
- 10.63 Limited Liability Company Agreement of SHR Essex House Holdings, LLC, dated as of September 14, 2012, by and between Monroe EH Holdings Trust and Strategic Hotel Funding, L.L.C. (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 8, 2012 and incorporated herein by reference).
- 10.64 Limited Liability Company Agreement of SHR Essex House Condominiums Holdings, LLC, dated as of September 14, 2012, by and between Monroe EH Condo Investment, LLC and SHC DTRS, Inc. (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 8, 2012 and incorporated herein by reference).
- 10.65 Limited Liability Company Agreement of DTRS Essex House Holdings, LLC, dated as of September 14, 2012, by and between Monroe EH TRS, LLC and SHC DTRS, Inc. (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on November 8, 2012 and incorporated herein by reference).

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- 10.66 Mezzanine B Loan Agreement, dated as of March 8, 2013, between BSK Mezz 2, LLC, as borrower, and JPMorgan Chase Bank, National Association and German American Capital Corporation, as lenders (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 14, 2013 and incorporated herein by reference).
- 10.67 Mezzanine A Loan Agreement, dated as of March 8, 2013, between BSK Mezz 1, LLC, as borrower, and JPMorgan Chase Bank, National Association and German American Capital Corporation, as lenders (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 14, 2013 and incorporated herein by reference).
- 10.68 Loan Agreement, dated as of March 8, 2013, between BSK del Partners, LLC, as borrower, and JPMorgan Chase Bank, National Association and German American Capital Corporation, as lenders (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on March 14, 2013 and incorporated herein by reference).
- 10.69 Purchase and Sale Agreement, dated as of December 12, 2013, by and among SHC Mexico Holdings, L.L.C., SHC Holdings, L.L.C., SBA Villas, LLC and Santa Barbara US, L.P., as sellers, and Mt. Joya Holdings, LLC and Mt. Joya Operations, LLC as buyer (filed as Exhibit 10.87 to the Company's Annual Report on Form 10-K (File No. 001-32223), filed with the SEC on February 27, 2014 and incorporated herein by reference).
- 10.70 Membership Interest Purchase Agreement, dated as of March 31, 2014, by and between Walton Scottsdale Investors VI, L.L.C. and SHR FPH Investor, LLC (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 8, 2014 and incorporated herein by reference).
- 10.71 Membership Interest Purchase Agreement, dated as of March 31, 2014, by and between Walton Scottsdale Investors VI, L.L.C. and SHR Scottsdale Investor, LLC (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 8, 2014 and incorporated herein by reference).
- 10.72 Agreement, dated March 31, 2014, by and among SHR Grosvenor Square LLC, Strategic Hotel Funding, L.L.C., Western Treasure Limited and SHR Grosvenor Square S.A.R.L. (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on May 8, 2014 and incorporated herein by reference).
- 10.73 Amended and Restated Loan Agreement, dated May 29, 2014, by and among New Santa Monica Beach Hotel, L.L.C., DTRS Santa Monica, L.L.C. and Wells Fargo Bank, National Association (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on August 6, 2014 and incorporated herein by reference).
- 10.74 Loan and Security Agreement, dated June 30, 2014, by and among SHC Washington, L.L.C., Deutsche Bank AG New York Branch and the lenders from time to time party thereto (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (File No. 001-32223), filed with the SEC on August 6, 2014 and incorporated herein by reference).
- 10.75 Purchase and Sale Agreement, dated May 27, 2014, by and among BRE Del GP LLC, BRE Del LP LLC and SHR Del Partners, LP (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 27, 2014 and incorporated herein by

reference).

10.76 Credit Agreement, dated as of April 25, 2014, among Strategic Hotel Funding, L.L.C., Deutsche Bank AG New York Branch, as administrative agent, and the various financial institutions as are or may become parties thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on May 1, 2014 and incorporated herein by reference).

10.77 Loan Agreement, dated August 29, 2014, by and among SHC Chopin Plaza, LLC, DTRS InterContinental Miami, LLC and German American Capital Corporation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-32223), filed with the SEC on September 4, 2014 and incorporated herein by reference).

* 10.78 Loan Agreement, dated as of December 30, 2014, by and among SHR Essex House, LLC and DTRS Essex House, LLC, as borrower, and Metropolitan Life Insurance Company, as lender.

* 10.79 Purchase and Sale Agreement and Escrow Instructions, dated as of January 28, 2015, by and among Laguna Beach Luxury Hotel LLC, Ohana Holdings, L.L.C., SHR MLB, LLC and Strategic Hotels & Resorts, Inc.

* 10.80 Registration Rights Agreement, dated as of January 29, 2015, by and between Strategic Hotels & Resorts, Inc. and Ohana Holdings, L.L.C.

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* 10.81	Amended and Restated Loan Agreement, dated as of January 29, 2015, by and between SHR MLB, LLC, as borrower, and Massachusetts Mutual Life Insurance Company, as lender.
* 14.1	Strategic Hotels & Resorts, Inc. Code of Business Conduct and Ethics.
* 21.1	Subsidiaries of Strategic Hotels & Resorts, Inc.
* 23.1	Consent of Deloitte & Touche LLP.
* 23.2	Consent of Deloitte & Touche LLP.
* 23.3	Consent of Deloitte & Touche LLP.
* 31.1	Certification of Raymond L. Gellein, Jr., Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
* 31.2	Certification of Diane M. Morefield, Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
** 32.1	Certification of Raymond L. Gellein, Jr., Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
** 32.2	Certification of Diane M. Morefield, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 99.1	Consolidated financial statements of BSK Del Partner, L.P.
* 99.2	Combined financial statements of FMT Scottsdale Holdings, L.L.C. and Walton/SHR FPH Holdings, L.L.C.
101.INS	XBRL Instance Document ***
101.SCH	XBRL Taxonomy Extension Schema Document ***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document ***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document ***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document ***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ***
+	Represents a management contract or compensatory plan or arrangement.
*	Filed herewith.
**	This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Exchange Act.
***	Attached as Exhibit 101 to this Annual Report on Form 10-K are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2014 and 2013; (ii) the Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012;

(iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012; (iv) the Consolidated Statements of Equity for the years ended December 31, 2014, 2013 and 2012; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; and (vi) Notes to the Consolidated Financial Statements that have been detail tagged.