

STRATEGIC HOTELS & RESORTS, INC
Form PREM14A
October 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 - Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
 - Definitive Proxy Statement
 - Definitive Additional Materials
 - Soliciting Material Pursuant to §240.14a-12
- Strategic Hotels & Resorts, Inc.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, \$0.01 par value per share, of Strategic Hotels & Resorts, Inc. (which we refer to as SHR common stock)

(2) Aggregate number of securities to which transaction applies:

285,699,627 shares of SHR common stock, which consists of (a) 282,090,156 shares of issued and outstanding SHR common stock as of September 30, 2015 and (b) 3,609,471 shares of SHR common stock with respect to outstanding awards of restricted stock units, performance units, performance shares and deferred stock units as of September 30, 2015. The calculation of the aggregate amount of outstanding awards of performance units and performance shares assumes the satisfaction of the applicable performance goal(s) at the level calculated in accordance with the merger agreement described herein.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

In accordance with Exchange Act Rule 0-11, the filing fee of \$409,972.00 was determined by multiplying 0.0001007 by the proposed maximum aggregate value of the transaction. The proposed maximum aggregate value of the transaction was calculated as the sum of (a) 282,090,156 shares of SHR common stock multiplied by \$14.25 per share and (b) 3,609,471 shares of SHR common stock with respect to outstanding awards of restricted stock units, performance units, performance shares and deferred stock units as of September 30, 2015 multiplied by \$14.25 per share.

(4) Proposed maximum aggregate value of transaction:

\$4,071,219,685.00

(5) Total fee paid:

\$409,972.00

Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY PROXY STATEMENT, SUBJECT TO COMPLETION, DATED OCTOBER 5, 2015

[], 2015

Dear Fellow Stockholder:

A special meeting of stockholders of Strategic Hotels & Resorts, Inc., a Maryland corporation (*SHR*), will be held on [], 2015, at [] a.m. Central Time at []. You are cordially invited to attend. The purpose of the meeting is to consider and vote on proposals relating to the proposed acquisition of SHR by BRE Diamond Hotel Holdings LLC, a Delaware limited liability company (*BRE Holdings*), for \$14.25 per share in cash. Regardless of whether you plan to attend the meeting, we encourage you to vote your shares by mail, by telephone or through the Internet by following the procedures outlined below.

On September 4, 2015, SHR entered into an Agreement and Plan of Merger (the *merger agreement*) with BRE Holdings, BRE Diamond Hotel LLC, a Delaware limited liability company whose sole member is BRE Holdings (*Merger Sub*), BRE Diamond Hotel Acquisition LLC, a Delaware limited liability company whose sole member is Merger Sub (*Merger Opco*), and Strategic Hotel Funding, L.L.C., a Delaware limited liability company and subsidiary of SHR, providing for, subject to the satisfaction or waiver of specified conditions, the acquisition of SHR by BRE Holdings at a price of \$14.25 per share in cash. Subject to the terms and conditions of the merger agreement, SHR will be merged with and into Merger Sub (the *merger*), with Merger Sub surviving the merger as a wholly-owned subsidiary of BRE Holdings. At the special meeting, SHR will ask you to approve the merger and the other transactions contemplated by the merger agreement.

At the effective time of the merger, each share of SHR common stock issued and outstanding immediately prior to the effective time (other than shares of SHR common stock owned of record by SHR or any of our wholly-owned subsidiaries or owned of record by BRE Holdings, Merger Sub or Merger Opco) will be converted into the right to receive \$14.25 in cash, without interest and less required withholding taxes.

The proxy statement accompanying this letter provides you with more specific information concerning the special meeting, the merger agreement, the merger and the other transactions contemplated by the merger agreement. We encourage you to carefully read the accompanying proxy statement and the copy of the merger agreement attached as Annex A to the proxy statement.

After careful review and consideration, the board of directors of SHR (the *Board*) has unanimously (i) determined that it was advisable and in the best interests of SHR and the SHR stockholders to enter into the merger agreement, (ii) determined that the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of SHR and the SHR stockholders, (iii) approved the merger agreement and the consummation by SHR of the transactions contemplated thereby, including the merger, on the terms and subject to the conditions set forth in the merger agreement, (iv) directed that the merger, on the terms set forth in the merger agreement, be submitted to the SHR stockholders for consideration at a special meeting and (v) recommended that the SHR stockholders approve the merger and the other transactions contemplated by the merger agreement. **Accordingly, the Board unanimously recommends a vote FOR the proposal to approve the merger and the other transactions contemplated by the merger agreement.**

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Your vote is important. Whether or not you plan to attend the special meeting and regardless of the number of shares you own, your careful consideration of, and vote on, the proposal to approve the merger and the other transactions contemplated by the merger agreement is important, and we encourage you to vote promptly. The merger cannot be completed unless the merger and the other transactions contemplated by the merger agreement are approved by the affirmative vote of the holders of a majority of the outstanding shares of SHR common stock entitled to vote on such matter. **The failure to vote will have the same effect as a vote AGAINST the proposal to approve the merger and the other transactions contemplated by the merger agreement.**

After reading the accompanying proxy statement, please make sure to vote your shares promptly by completing, signing and dating the accompanying proxy card and returning it in the enclosed prepaid envelope or by voting by telephone or through the Internet by following the instructions on the accompanying proxy card. Instructions regarding all three methods of voting are provided on the proxy card. If you hold shares through an account with a bank, broker, trust or other nominee, please follow the instructions you receive from it to vote your shares.

Thank you in advance for your continued support and your consideration of this matter.

Raymond L. Gellein, Jr.

Chairman of the Board of Directors,

President and Chief Executive Officer

Neither the United States Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated [], 2015 and is first being mailed to SHR stockholders on or about [], 2015.

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STRATEGIC HOTELS & RESORTS, INC.

200 West Madison Street, Suite 1700

Chicago, Illinois 60606

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on [], 2015

To the Stockholders of Strategic Hotels & Resorts, Inc.:

A special meeting of stockholders of Strategic Hotels & Resorts, Inc., a Maryland corporation (**SHR**), will be held on [], 2015, at [] a.m. Central Time, at [], for the following purposes:

1. To consider and vote on a proposal to approve the merger (the **merger**) of SHR with and into BRE Diamond Hotel LLC, a Delaware limited liability company (**Merger Sub**), contemplated by that certain Agreement and Plan of Merger, dated as of September 4, 2015 (as may be amended from time to time, the **merger agreement**), by and among SHR, BRE Diamond Hotel Holdings LLC, a Delaware limited liability company (**BRE Holdings**), Merger Sub, whose sole member is BRE Holdings, BRE Diamond Hotel Acquisition LLC, a Delaware limited liability company whose sole member is Merger Sub, and Strategic Hotel Funding, L.L.C., a Delaware limited liability company and subsidiary of SHR, and the other transactions contemplated by the merger agreement;
2. To consider and vote on a proposal to approve, by a non-binding advisory vote, the compensation that may be paid or become payable to SHR's named executive officers that is based on or otherwise relates to the merger; and
3. To consider and vote on a proposal to adjourn the special meeting to a later date or time if necessary or appropriate, including to solicit additional proxies in favor of the proposal to approve the merger and the other transactions contemplated by the merger agreement if there are insufficient votes at the time of the special meeting to approve the merger and the other transactions contemplated by the merger agreement.

Only stockholders of record at the close of business on [], 2015 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof.

For more information concerning the special meeting, the merger agreement, the merger and the other transactions contemplated by the merger agreement, please review the accompanying proxy statement and the copy of the merger agreement attached as Annex A to the proxy statement.

After careful review and consideration, the board of directors of SHR (the *Board*) has unanimously (i) determined that it was advisable and in the best interests of SHR and the SHR stockholders to enter into the merger agreement, (ii) determined that the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of SHR and the SHR stockholders, (iii) approved the merger agreement and the consummation by SHR of the transactions contemplated thereby, including the merger, on the terms and subject to the conditions set forth in the merger agreement, (iv) directed that the merger, on the terms set forth in the merger agreement, be submitted to the SHR stockholders for consideration at a special meeting and (v) recommended that the SHR stockholders approve the merger and the other transactions contemplated by the merger agreement.

The Board unanimously recommends that at the special meeting you vote FOR the proposal to approve the merger and the other transactions contemplated by the merger agreement, FOR the approval, by a non-binding advisory vote, of the compensation that may be paid or become payable to SHR's named executive officers that is based on or otherwise relates to the merger and FOR the proposal to adjourn the special meeting if necessary or appropriate, including to solicit additional proxies.

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To assure that your shares are represented and voted at the special meeting, regardless of whether you plan to attend the special meeting in person, please complete, sign and mail the enclosed proxy card as soon as possible. We have enclosed a return envelope, which requires no postage if mailed in the United States. Alternatively, you may vote your shares by telephone or through the Internet. Instructions regarding each of the methods of voting are provided on the enclosed proxy card. If you are voting by telephone or through the Internet, then your voting instructions must be received by 11:59 p.m. Eastern Time on the day before the special meeting. If you hold shares through an account with a bank, broker, trust or other nominee, please follow the instructions you receive from it to cause your shares to be voted at the special meeting. Your proxy is being solicited by the Board.

If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call our proxy solicitor, MacKenzie Partners, Inc., toll-free at (800) 322-2885.

If you fail to return your proxy card, fail to vote your shares by telephone or through the Internet and fail to attend the special meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote AGAINST the proposal to approve the merger and the other transactions contemplated by the merger agreement.

By Order of the Board of Directors

Paula C. Maggio
Secretary

Chicago, Illinois

[], 2015

Please Vote Your Vote is Important

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SUMMARY TERM SHEET

*This summary highlights certain information in this proxy statement, but may not contain all of the information that may be important to you. You should carefully read the entire proxy statement and the attached Annexes and the other documents to which this proxy statement refers you for a more complete understanding of the matters being considered at the special meeting. In addition, this proxy statement incorporates by reference important business and financial information about Strategic Hotels & Resorts, Inc., a Maryland corporation. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions in the section entitled *Where You Can Find More Information*. Unless the context otherwise indicates, we refer to Strategic Hotels & Resorts, Inc. as **SHR**, **we**, **us** or **our**.*

The Parties (see page [])

Strategic Hotels & Resorts, Inc.

200 West Madison Street, Suite 1700

Chicago, Illinois 60606

(312) 658-5000

SHR is a Maryland corporation qualified as a real estate investment trust (**REIT**) for U.S. federal income tax purposes that owns and provides value-enhancing asset management of high-end hotels and resorts in the United States (the **U.S.**). SHR currently has ownership interests in seventeen (17) properties with an aggregate of 7,921 rooms and 847,000 square feet of multi-purpose meeting and banqueting space.

Strategic Hotel Funding, L.L.C.

c/o Strategic Hotels & Resorts, Inc.

200 West Madison Street, Suite 1700

Chicago, Illinois 60606

(312) 658-5000

Strategic Hotel Funding, L.L.C. (which we refer to as **SH Funding**) is a Delaware limited liability company through which we conduct substantially all of our business and own, either directly or indirectly through subsidiaries, substantially all of our assets. We serve as the sole managing member of SH Funding and own approximately 99.7% of the limited liability company interests of SH Funding.

BRE Diamond Hotel Holdings LLC

BRE Diamond Hotel Holdings LLC

c/o The Blackstone Group L.P.

345 Park Avenue

New York, New York 10154

(212) 583-5000

BRE Diamond Hotel Holdings LLC (which we refer to as ***BRE Holdings***) is a Delaware limited liability company and an affiliate of Blackstone Real Estate Partners VIII L.P., a Delaware limited partnership (which we refer to as the ***Sponsor***). BRE Holdings was formed solely for the purpose of engaging in the transactions contemplated by the merger agreement (as defined below) and has not carried on any activities to date, other than those incidental to its formation and pursuant to the transactions contemplated by the merger agreement. The Sponsor is an affiliate of The Blackstone Group L.P. (which we refer to as ***Blackstone***).

Blackstone is a global leader in real estate investing. Blackstone's real estate business was founded in 1991 and has \$92 billion in investor capital under management. Blackstone's real estate portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe, Asia and Latin America. Major investments include Hilton Worldwide, Invitation Homes (single family homes), Logisor (pan-European logistics), SCP (Chinese shopping malls), and prime office buildings in the world's major cities. Blackstone real estate also

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operates one of the leading real estate finance platforms, including management of the publicly traded Blackstone Mortgage Trust (NYSE:BXMT).

BRE Diamond Hotel LLC

BRE Diamond Hotel LLC

c/o The Blackstone Group L.P.

345 Park Avenue

New York, New York 10154

(212) 583-5000

BRE Diamond Hotel LLC (which we refer to as ***Merger Sub***) is a Delaware limited liability company whose sole member is BRE Holdings. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by the merger agreement and has not carried on any activities to date, other than those incidental to its formation and pursuant to the transactions contemplated by the merger agreement. Upon completion of the merger (as defined below), SHR will merge with and into Merger Sub, and SHR will cease to exist.

BRE Diamond Hotel Acquisition LLC

BRE Diamond Hotel Acquisition LLC

c/o The Blackstone Group L.P.

345 Park Avenue

New York, New York 10154

(212) 583-5000

BRE Diamond Hotel Acquisition LLC (which we refer to as ***Merger Opco***) is a Delaware limited liability company whose sole member is Merger Sub. Merger Opco was formed solely for the purpose of engaging in the transactions contemplated by the merger agreement and has not carried on any activities to date, other than those incidental to its formation and pursuant to the transactions contemplated by the merger agreement. Upon completion of the partnership merger (as defined below), Merger Opco will merge with and into SH Funding, and Merger Opco will cease to exist.

The Mergers (see page [])

On September 4, 2015 (which we refer to as the ***date of the merger agreement***), SHR, SH Funding, BRE Holdings, Merger Sub and Merger Opco entered into an Agreement and Plan of Merger (which, as may be amended from time to time, we refer to as the ***merger agreement***).

Under the terms of the merger agreement, SHR will merge with and into Merger Sub (which we refer to as the ***merger***), with Merger Sub continuing as the surviving limited liability company (which we refer to as the ***surviving company***). As a result of the merger, each share of SHR common stock, par value \$0.01 per share (which we refer to

as **SHR common stock**), that is issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive \$14.25 in cash (which we refer to as the **merger consideration**), without interest and less required withholding taxes (other than shares of SHR common stock that are owned of record by us or any of our wholly-owned subsidiaries and all shares of SHR common stock owned of record by BRE Holdings or any of its wholly-owned subsidiaries, which will be cancelled and cease to exist, with no payment being made with respect to those shares).

Immediately prior to the merger, Merger Opco will merge with and into SH Funding (which we refer to as the **partnership merger** and, together with the merger, the **mergers**), with SH Funding continuing as the surviving limited liability company (which we refer to as the **surviving partnership**). As a result of the partnership merger, each membership unit of SH Funding (which we refer to as the **SH Funding membership**

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units) issued and outstanding immediately prior to the effective time of the partnership merger will be converted into the right to receive the merger consideration, without interest and less required withholding taxes (other than (i) SH Funding membership units held by SHR immediately prior to the effective time of the partnership merger, which will remain outstanding as membership units of the surviving partnership and (ii) SH Funding membership units held by BRE Holdings or any of its wholly-owned subsidiaries, which will be cancelled and cease to exist, with no payment being made with respect to those membership units).

Certain Effects of the Merger (see page [])

Following the completion of the mergers, SHR will cease to be a publicly traded company and SHR and SH Funding will become wholly-owned subsidiaries of BRE Holdings. Following the completion of the merger, shares of SHR common stock will no longer be traded on the New York Stock Exchange (which we refer to as the *NYSE*) or any other public market. In addition, the registration of shares of SHR common stock under the Securities Exchange Act of 1934, as amended (which we refer to as the *Exchange Act*), will be terminated.

The Special Meeting (see page [])

The special meeting will be held on [], 2015, at [] a.m. Central Time, at []. At the special meeting, you will be asked to, among other things, consider and vote on the proposal to approve the merger and the other transactions contemplated by the merger agreement. See the section entitled *The Special Meeting* beginning on page [], for additional information on the special meeting, including how to vote your shares of SHR common stock.

Stockholders Entitled to Vote; Vote Required to Approve the Merger (see page [])

You may vote at the special meeting if you were a holder of record of shares of SHR common stock as of the close of business on [], which is the record date for the special meeting (which we refer to as the *record date*). You will be entitled to one vote for each share of SHR common stock that you held and owned as of the record date. As of the record date, there were [] shares of SHR common stock issued and outstanding and entitled to vote at the special meeting. The approval of the merger and the other transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of SHR common stock entitled to vote on such matter.

How to Vote

Stockholders of record have a choice of voting by completing a proxy card and mailing it in the prepaid envelope provided, by calling the toll-free telephone number listed on your proxy card or through the Internet website listed on your proxy card. The telephone and Internet voting facilities for stockholders of record will close at 11:59 p.m. Eastern Time on the day before the special meeting.

If you wish to vote by proxy and your shares are held by a bank, broker, trust or other nominee, you must follow the voting instructions provided to you by your bank, broker, trust or other nominee. Unless you give your bank, broker, trust or other nominee instructions on how to vote your shares of SHR common stock, your bank, broker, trust or other nominee will not be able to vote your shares at the special meeting.

If you wish to vote in person at the special meeting and your shares are held in the name of a bank, broker, trust or other holder of record, you must obtain a legal proxy, executed in your favor, from the bank, broker, trust or other holder of record authorizing you to vote at the special meeting.

YOU SHOULD NOT SEND IN YOUR STOCK CERTIFICATE(S) WITH YOUR PROXY CARD. A letter of transmittal with instructions for the surrender of certificates representing shares of SHR common stock will be mailed to stockholders if the merger is completed.

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For additional information regarding the procedure for delivering your proxy, see the sections entitled "The Special Meeting How to Vote" beginning on page [] and "The Special Meeting Solicitation of Proxies" beginning on page []. If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call our proxy solicitor, MacKenzie Partners, Inc. (*MacKenzie Partners*), toll-free at (800) 322-2885.

Recommendation of the Board; Reasons for Recommending the Approval of the Merger (see page [])

After careful review and consideration, the board of directors of SHR (the *Board*) has unanimously (i) determined that it was advisable and in the best interests of SHR and the SHR stockholders to enter into the merger agreement, (ii) determined that the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of SHR and the SHR stockholders, (iii) approved the merger agreement and the consummation by SHR of the transactions contemplated thereby, including the merger, on the terms and subject to the conditions set forth in the merger agreement, (iv) directed that the merger, on the terms set forth in the merger agreement, be submitted to the SHR stockholders for consideration at a special meeting and (v) recommended that the SHR stockholders approve the merger and the other transactions contemplated by the merger agreement.

Accordingly, the Board unanimously recommends that at the special meeting you vote FOR the proposal to approve the merger and the other transactions contemplated by the merger agreement, FOR the proposal to approve, by a non-binding advisory vote, the compensation that may be paid or become payable to SHR's named executive officers that is based on or otherwise relates to the merger and FOR the proposal to adjourn the special meeting if necessary or appropriate, including to solicit additional proxies.

For a discussion of material factors considered by the Board in reaching its conclusions, see the section entitled "The Merger Reasons for Recommending the Approval of the Merger" beginning on page [].

Opinion of Our Financial Advisor (see page [])

SHR retained J.P. Morgan Securities LLC (*J.P. Morgan*) to act as its financial advisor in connection with the proposed merger. At the meeting of the Board on September 4, 2015, J.P. Morgan rendered its oral opinion to the Board that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the merger consideration to be paid to the holders of SHR common stock in the proposed merger, was fair, from a financial point of view, to such holders. The oral opinion was subsequently confirmed in writing by delivery of J.P. Morgan's written opinion dated September 4, 2015.

The full text of the written opinion of J.P. Morgan, dated September 4, 2015, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by J.P. Morgan in rendering its opinion, is attached as Annex B to this proxy statement and is incorporated herein by reference. SHR's stockholders are urged to read the opinion in its entirety. J.P. Morgan's opinion is addressed to the Board, is directed only to the fairness from a financial point of view of the merger consideration to be paid to the holders of SHR's common stock in the proposed merger as of the date of the opinion and does not constitute a recommendation to any holder of SHR common stock as to how such stockholder should vote with respect to the approval of the merger or any other matter.

Market Price and Dividend Data (see page [])

SHR common stock is traded on the NYSE under the symbol *BEE*. On September 4, 2015, the last full trading day prior to the public announcement of the merger, the closing price for SHR common stock was \$13.60 per share. On [],

2015, the last full trading day prior to the date of this proxy statement, the closing price for SHR common stock was \$[] per share.

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Consequences if the Merger is Not Completed (see page [])

If the proposal to approve the merger and the other transactions contemplated by the merger agreement does not receive the required approval from SHR stockholders, or if the merger is not completed for any other reason, you will not receive any consideration from BRE Holdings for your shares of SHR common stock. Instead, SHR will remain a public company, and SHR common stock will continue to be listed and traded on the NYSE.

In addition, if the merger agreement is terminated under specified circumstances, SHR would be obligated to pay BRE Holdings a termination fee of \$100 million, including if, after following certain procedures and adhering to certain restrictions, the Board approves, and concurrently with the termination of the merger agreement, SHR enters into, a definitive agreement providing for the implementation of a superior proposal (as described in the section entitled "The Agreement and Plan of Merger - Restriction on Solicitation of Competing Proposals"). Upon termination of the merger agreement in certain other circumstances, SHR would be obligated to pay BRE Holdings an amount not to exceed \$5 million for reasonable transaction costs and expenses incurred by BRE Holdings, Merger Sub, Merger Opco and their respective affiliates. Under certain other circumstances under which the merger agreement is terminated, BRE Holdings would be obligated to pay SHR a termination fee of \$400 million. See the section entitled "The Agreement and Plan of Merger - Termination Fees" beginning on page [].

Treatment of Outstanding Equity Awards (see page [])

As a result of the merger, all outstanding RSU Awards, Performance Awards and DSU Awards that were granted pursuant to SHR's stock plans prior to the date of the merger agreement will vest in full and/or be cancelled as set forth below. In addition, the merger agreement provides that, prior to the effective time of the merger:

the Board will cause each outstanding award of restricted stock units with respect to shares of SHR common stock (each, an **RSU Award**) granted pursuant to our stock plans to be fully vested immediately prior to the effective time of the merger and be cancelled, and, in exchange, each holder of any such cancelled RSU Award will be entitled to receive a cash payment, without interest and less required withholding taxes, in an amount equal to the product of (i) the merger consideration and (ii) the number of restricted stock units subject to such RSU Award;

the Board will cause each outstanding award of performance units and performance shares with respect to shares of SHR common stock (each, a **Performance Award**) granted pursuant to our stock plans to be vested immediately prior to the effective time of the merger at the level calculated using the merger consideration as the applicable measure of SHR's performance and using the average closing market price of SHR's designated peer group during the 60-day trading period ending on the date of the merger agreement as the applicable measure of peer group performance and cancelled, and, in exchange, each holder of any such cancelled vested Performance Award will be entitled to receive a cash payment, without interest and less required withholding taxes, in an amount equal to the product of (i) the merger consideration and (ii) the number of performance units or performance shares, as the case may be, subject to such vested Performance Award; and

the Board will cause each outstanding award of deferred stock units with respect to shares of SHR common stock (each, a **DSU Award**) granted pursuant to our stock plans to be cancelled, and, in exchange, each

holder of any such cancelled DSU Award will be entitled to receive a cash payment, without interest and less required withholding taxes, in an amount equal to the product of (i) the merger consideration and (ii) the number of deferred stock units subject to such DSU Award.

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Interests of Directors and Executive Officers in the Merger (see page [])

In considering the recommendation of the Board that you vote **FOR** the proposals to be considered and voted on at the special meeting, you should be aware that some of our directors and executive officers have interests that may be different from, or in addition to, the interests of SHR stockholders generally. The Board was aware of these interests and considered them, among other matters, in reaching its decision to approve the merger agreement and recommend that the SHR stockholders approve the merger and the other transactions contemplated by the merger agreement.

Conditions Precedent to the Mergers (see page [])

Each party's obligations to complete the merger are subject to the satisfaction or waiver (where permitted) of the following conditions:

SHR must have obtained the requisite SHR stockholder approval; and

no governmental entity of competent jurisdiction has issued any order, injunction or decree that is in effect, and no law has been enacted or promulgated, that renders the mergers illegal, or prohibits, enjoins or otherwise prevents the mergers (provided, that this condition is not available to any party whose failure to fulfill its obligations described in the sections entitled *The Agreement and Plan of Merger Obligations with Respect to the Special Meeting* and *The Agreement and Plan of Merger Efforts to Complete the Merger* results in the failure of this condition to be satisfied).

The obligations of BRE Holdings, Merger Sub and Merger Opco to effect the mergers are also subject to the satisfaction or waiver by BRE Holdings of additional conditions, including:

each of the representations and warranties of SHR and SH Funding must be true and correct in the manner described in the section entitled *The Agreement and Plan of Merger Conditions Precedent to the Mergers* ;

each of SHR and SH Funding must have performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by them on or prior to the effective time of the partnership merger;

since the date of the merger agreement, there must not have been any change, event, state of facts or development that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect (as defined in the section entitled *The Agreement and Plan of Merger Representations and Warranties*); and

BRE Holdings must have received a tax opinion, dated as of the closing date, as described in the section entitled *The Agreement and Plan of Merger Conditions Precedent to the Mergers* ;

The obligations of SHR and SH Funding to effect the mergers are also subject to the satisfaction or waiver by us of additional conditions, including:

each of the representations and warranties of BRE Holdings, Merger Sub and Merger Opco must be true and correct in the manner described in the section entitled "The Agreement and Plan of Merger - Conditions Precedent to the Mergers"; and

each of BRE Holdings, Merger Sub and Merger Opco must have performed or complied in all material respects with all agreements and covenants required under the merger agreement to be performed or complied with by them on or prior to the effective time of the partnership merger.

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Regulatory Approvals (see page [])

We are unaware of any consent, approval, authorization or permit of, or filing or registration with or notification to any federal, state, local or foreign governmental entity that is required for the execution of the merger agreement or the completion of either the merger or the partnership merger, other than as required under the applicable requirements of the Exchange Act, the rules and regulations of the NYSE or applicable federal or state securities or blue sky laws, the filing of the articles of merger with respect to the merger with, and the acceptance of such articles of merger for record by, the State Department of Assessments and Taxation of Maryland, the filing of the certificate of merger with respect to the merger with the Secretary of State of the State of Delaware and the filing of a certificate of merger with respect to the partnership merger by SH Funding with the Secretary of State of the State of Delaware.

Financing (see page [])

In connection with the closing of the mergers, BRE Holdings will cause an aggregate of approximately \$4 billion to be paid to the holders of SHR common stock, holders of SHR equity awards and holders (other than the surviving company) of SH Funding membership units. Our credit agreement will be repaid at the closing, and our mortgage loans will be repaid or remain outstanding. As of September 30, 2015, we had an aggregate principal amount of approximately \$1,763 million of consolidated indebtedness under our credit agreement and mortgage loans outstanding.

BRE Holdings has informed us that it is currently in the process of obtaining debt financing to be provided in connection with the mergers. In addition, it is expected that the Sponsor will contribute equity to BRE Holdings for the purpose of funding the acquisition costs (including the merger consideration) that are not covered by such debt financing.

In addition to the payment of the cash merger consideration, the funds to be obtained from the debt and equity financing will be used for purposes such as reserves, the refinancing of our existing debt and for other costs and expenses related to the mergers.

The completion of the mergers is not conditioned upon BRE Holdings, Merger Sub or Merger Opco obtaining any debt or equity financing. Under the merger agreement, we have agreed to provide, and cause our subsidiaries to provide, all cooperation reasonably requested by BRE Holdings in connection with BRE Holding arranging any debt financing. For more information, see The Agreement and Plan of Merger Conditions Precedent to the Mergers and The Agreement and Plan of Merger Financing.

Restriction on Solicitation of Competing Proposals (see page [])

Under the terms of the merger agreement, SHR and SH Funding are subject to restrictions on their ability to solicit any competing proposal (as defined in the section entitled The Agreement and Plan of Merger Obligations with Respect to the Special Meeting), furnish non-public information regarding SHR or any of our subsidiaries to, or participate in discussions with, third-parties with respect to any competing proposal or the making of any proposal or offer that constitutes or could reasonably be expected to lead to a competing proposal. Subject to the terms of the merger agreement, SHR is permitted to furnish information with respect to SHR and our subsidiaries and participate in discussions or negotiations with a person making a written unsolicited competing proposal that the Board determines in good faith, after consultation with its financial advisors and outside legal counsel, constitutes or could reasonably be expected to lead to a superior proposal. Under certain circumstances and after following certain procedures and adhering to certain restrictions, SHR is permitted to terminate the merger agreement if the Board approves and, concurrently with the termination of the merger agreement, SHR has entered into a definitive agreement

providing for the implementation of a superior proposal (it being understood that such termination will not be effective and SHR will not enter into any such agreement unless SHR has paid the \$100 million termination fee concurrently with such termination).

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Termination of the Merger Agreement (see page [])

The merger agreement may be terminated at any time by the mutual written consent of BRE Holdings and SHR. The merger agreement may also be terminated by either BRE Holdings or SHR if:

the effective time of the partnership merger has not occurred on or before the March 2, 2016 (which we refer to as the *outside date*) (it being understood that the right to terminate the merger agreement in such an event will not be available to SHR, if SHR or SH Funding, or to BRE Holdings, if BRE Holdings, Merger Sub or Merger Opco, as applicable, has breached in any material respect its obligations under the merger agreement in any manner that will have caused the failure of the effective time of the partnership merger to have occurred on or before such date);

the Company stockholder approval (as defined in the section entitled *The Agreement and Plan of Merger Obligations with Respect to the Special Meeting*) has not been obtained upon a vote taken thereon at the stockholder meeting, including any adjournment or postponement thereof; or

any governmental entity of competent jurisdiction has issued any order, injunction or decree permanently enjoining, restraining or prohibiting the mergers, and such law has become final and non-appealable, if applicable (it being understood that the right to terminate the merger agreement under such a circumstance will not be available to SHR, if SHR or SH Funding, or to BRE Holdings, if BRE Holdings, Merger Sub or Merger Opco, as applicable, has failed to comply with the provisions described below in the section entitled *The Agreement and Plan of Merger Efforts to Complete the Merger* beginning on page []).

SHR may also terminate the merger agreement if:

at any time prior to approval by the SHR stockholders of the merger and the other transactions contemplated by the merger agreement, if the Board has effected a change of company recommendation in accordance with the provisions described in the section entitled *The Agreement and*