

HOST HOTELS & RESORTS, INC.

Form 10-Q

August 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

Commission File Number: 001-14625 (Host Hotels & Resorts, Inc.)

0-25087 (Host Hotels & Resorts, L.P.)

HOST HOTELS & RESORTS, INC.

HOST HOTELS & RESORTS, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Host Hotels & Resorts, Inc.) 53-008595

Delaware (Host Hotels & Resorts, L.P.) 52-2095412

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(State or Other Jurisdiction of
Incorporation or Organization)

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

6903 Rockledge Drive, Suite 1500 20817

Bethesda, Maryland (Zip Code)

(Address of Principal Executive Offices)

(240) 744-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Host Hotels & Resorts, Inc. Yes No
Host Hotels & Resorts, L.P. 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Host Hotels & Resorts, Inc. Yes No
Host Hotels & Resorts, L.P. Yes No

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.

Host Hotels & Resorts, Inc.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Host Hotels & Resorts, L.P.
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 Exchange Act).

Host Hotels & Resorts, Inc. Yes No
Host Hotels & Resorts, L.P. Yes No

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As of July 30, 2014 there were 757,235,777 shares of Host Hotels & Resorts, Inc.'s common stock, \$.01 par value per share, outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q of Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. Unless stated otherwise or the context requires otherwise, references to “Host Inc.” mean Host Hotels & Resorts, Inc., a Maryland corporation, and references to “Host L.P.” mean Host Hotels & Resorts, L.P., a Delaware limited partnership, and its consolidated subsidiaries, in cases where it is important to distinguish between Host Inc. and Host L.P. We use the terms “we” or “our” or “the company” to refer to Host Inc. and Host L.P. together, unless the context indicates otherwise.

Host Inc. operates as a self-managed and self-administered real estate investment trust (“REIT”). Host Inc. owns properties and conducts operations through Host L.P., of which Host Inc. is the sole general partner and of which it holds approximately 99% of the partnership interests (“OP units”). The remaining OP units are owned by various unaffiliated limited partners. As the sole general partner of Host L.P., Host Inc. has the exclusive and complete responsibility for Host L.P.’s day-to-day management and control. Management operates Host Inc. and Host L.P. as one enterprise. The management of Host Inc. consists of the same persons who direct the management of Host L.P. As general partner with control of Host L.P., Host Inc. consolidates Host L.P. for financial reporting purposes, and Host Inc. does not have significant assets other than its investment in Host L.P. Therefore, the assets and liabilities of Host Inc. and Host L.P. are substantially the same on their respective condensed consolidated financial statements and the disclosures of Host Inc. and Host L.P. also are substantially similar. For these reasons, we believe that the combination into a single report of the quarterly reports on Form 10-Q of Host Inc. and Host L.P. results in benefits to management and investors.

The substantive difference between Host Inc.’s and Host L.P.’s filings is the fact that Host Inc. is a REIT with public stock, while Host L.P. is a partnership with no publicly traded equity. In the condensed consolidated financial statements, this difference primarily is reflected in the equity (or partners’ capital for Host L.P.) section of the consolidated balance sheets and in the consolidated statements of equity (or partners’ capital for Host L.P.). Apart from the different equity treatment, the condensed consolidated financial statements of Host Inc. and Host L.P. nearly are identical.

This combined Form 10-Q for Host Inc. and Host L.P. includes, for each entity, separate interim financial statements (but combined footnotes), separate reports on disclosure controls and procedures and internal control over financial reporting and separate CEO/CFO certifications. In addition, with respect to any other financial and non-financial disclosure items required by Form 10-Q, any material differences between Host Inc. and Host L.P. are discussed separately herein. For a more detailed discussion of the substantive differences between Host Inc. and Host L.P. and why we believe the combined filing results in benefits to investors, see the discussion in the combined Annual Report on Form 10-K for the year ended December 31, 2013 under the heading “Explanatory Note.”

HOST HOTELS & RESORTS, INC. AND HOST HOTELS & RESORTS, L.P.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2014 and December 31, 2013

(in millions, except share and per share amounts)

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Property and equipment, net	\$ 10,749	\$ 10,995
Due from managers	129	52
Advances to and investments in affiliates	416	415
Deferred financing costs, net	39	42
Furniture, fixtures and equipment replacement fund	171	173
Other	238	244
Restricted cash	33	32
Cash and cash equivalents	440	861
Total assets	\$ 12,215	\$ 12,814
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes, including \$378 million and \$371 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 2,876	\$ 3,018
Credit facility, including the \$500 million term loan	722	946
Mortgage debt	419	709
Other	13	86
Total debt	4,030	4,759
Accounts payable and accrued expenses	202	214
Other	388	389
Total liabilities	4,620	5,362
Non-controlling interests - Host Hotels & Resorts, L.P.	211	190
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized, 755.6 million shares and 754.8 million shares issued and outstanding, respectively	8	8
Additional paid-in capital	8,485	8,492
Accumulated other comprehensive income (loss)	3	(9)
Deficit	(1,148)	(1,263)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,348	7,228
Non-controlling interests—other consolidated partnerships	36	34
Total equity	7,384	7,262
Total liabilities, non-controlling interests and equity	\$ 12,215	\$ 12,814

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended June 30,	
	June 30,	2013	2014	2013
REVENUES				
Rooms	\$921	\$891	\$ 1,729	\$ 1,654
Food and beverage	415	418	820	787
Other	95	90	191	183
Total revenues	1,431	1,399	2,740	2,624
EXPENSES				
Rooms	234	227	460	442
Food and beverage	285	286	569	558
Other departmental and support expenses	320	316	635	623
Management fees	66	65	116	111
Other property-level expenses	98	92	195	187
Depreciation and amortization	174	171	346	345
Corporate and other expenses	29	37	63	63
Gain on insurance settlements	—	—	(3)	—
Total operating costs and expenses	1,206	1,194	2,381	2,329
OPERATING PROFIT	225	205	359	295
Interest income	1	1	2	2
Interest expense	(55)	(103)	(113)	(179)
Gain on sale of assets	—	21	111	32
Gain (loss) on foreign currency transactions and derivatives	(1)	1	(1)	3
Equity in earnings (losses) of affiliates	4	6	(3)	4
INCOME BEFORE INCOME TAXES	174	131	355	157
Provision for income taxes	(15)	(15)	(11)	(7)
INCOME FROM CONTINUING OPERATIONS	159	116	344	150
Income from discontinued operations, net of tax	—	5	—	31
NET INCOME	159	121	344	181
Less: Net income attributable to non-controlling interests	(4)	(2)	(10)	(6)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$ 155	\$ 119	\$ 334	\$ 175
Basic earnings per common share:				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04
Basic earnings per common share	\$.21	\$.16	\$.44	\$.24
Diluted earnings per common share:				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04

Diluted earnings per common share	\$.21	\$.16	\$.44	\$.24
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See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions)

	Quarter ended		Year-to-date ended June 30,	
	June 30,	2013	2014	2013
NET INCOME	\$159	\$121	\$ 344	\$ 181
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive				
income (loss) of unconsolidated affiliates	4	(26)	11	(29)
Change in fair value of derivative instruments	1	—	1	5
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	5	(26)	12	(24)
COMPREHENSIVE INCOME	164	95	356	157
Less: Comprehensive income attributable to non-controlling interests	(4)	(2)	(10)	(6)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$160	\$93	\$ 346	\$ 151

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions)

	Year-to-date ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$344	\$181
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(19)
Depreciation	—	6
Depreciation and amortization	346	345
Amortization of finance costs, discounts and premiums, net	13	14
Non-cash loss on extinguishment of debt	2	12
Stock compensation expense	10	8
Deferred income taxes	(3)	(1)
Gain on sale of assets	(111)	(32)
(Gain) loss on foreign currency transactions and derivatives	1	(3)
Equity in (earnings) losses of affiliates	3	(4)
Change in due from managers	(76)	(55)
Changes in other assets	6	34
Changes in other liabilities	(10)	(26)
Cash provided by operating activities	525	460
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	274	446
Return of investment	42	—
Acquisitions	(73)	(139)
Advances to and investments in affiliates	(32)	(50)
Capital expenditures:		
Renewals and replacements	(147)	(163)
Redevelopment and acquisition-related investments	(36)	(69)
New development	(5)	(11)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(11)	(39)
Cash provided by (used in) investing activities	12	(25)
FINANCING ACTIVITIES		
Financing costs	(4)	(4)
Issuances of debt	—	400
Draws on credit facility	—	148

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Repayment of credit facility	(225)	(200)
Repurchase/redemption of senior notes	(150)	(601)
Mortgage debt and other prepayments and scheduled maturities	(373)	(246)
Scheduled principal repayments	—	(1)
Issuance of common stock	3	192
Dividends on common stock	(204)	(140)
Contributions from non-controlling interests	1	3
Distributions to non-controlling interests	(7)	(6)
Change in restricted cash for financing activities	(1)	1
Cash used in financing activities	(960)	(454)
Effects of exchange rate changes on cash held	2	(5)
DECREASE IN CASH AND CASH EQUIVALENTS	(421)	(24)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$440	\$393

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2014 and 2013

(unaudited)

Supplemental disclosure of cash flow information (in millions)

	Year-to-date ended June 30,	
	2014	2013
Interest paid - periodic interest expense	\$ 93	\$ 148
Interest paid - debt extinguishments	2	20
Total interest paid	\$ 95	\$ 168
Income taxes paid	\$ 14	\$ 6

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended June 30, 2014 and 2013, Host Inc. issued approximately 0.1 million shares and 0.1 million shares, respectively, upon the conversion of OP units of Host L.P. held by non-controlling partners valued at approximately \$3 million and \$2 million, respectively.

In March 2013, holders of approximately \$174 million of the 3.25% exchangeable debentures elected to exchange their debentures for approximately 11.7 million shares of Host Inc. common stock.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

June 30, 2014 and December 31, 2013

(in millions)

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Property and equipment, net	\$ 10,749	\$ 10,995
Due from managers	129	52
Advances to and investments in affiliates	416	415
Deferred financing costs, net	39	42
Furniture, fixtures and equipment replacement fund	171	173
Other	238	244
Restricted cash	33	32
Cash and cash equivalents	440	861
Total assets	\$ 12,215	\$ 12,814
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes, including \$378 million and \$371 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 2,876	\$ 3,018
Credit facility, including the \$500 million term loan	722	946
Mortgage debt	419	709
Other	13	86
Total debt	4,030	4,759
Accounts payable and accrued expenses	202	214
Other	388	389
Total liabilities	4,620	5,362
Limited partnership interests of third parties	211	190
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,344	7,236
Accumulated other comprehensive income (loss)	3	(9)
Total Host Hotels & Resorts, L.P. capital	7,348	7,228
Non-controlling interests—consolidated partnerships	36	34
Total capital	7,384	7,262
Total liabilities, limited partnership interest of third parties and capital	\$ 12,215	\$ 12,814

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended June 30,	
	June 30,	2013	2014	2013
REVENUES				
Rooms	\$921	\$891	\$ 1,729	\$ 1,654
Food and beverage	415	418	820	787
Other	95	90	191	183
Total revenues	1,431	1,399	2,740	2,624
EXPENSES				
Rooms	234	227	460	442
Food and beverage	285	286	569	558
Other departmental and support expenses	320	316	635	623
Management fees	66	65	116	111
Other property-level expenses	98	92	195	187
Depreciation and amortization	174	171	346	345
Corporate and other expenses	29	37	63	63
Gain on insurance settlements	—	—	(3)	—
Total operating costs and expenses	1,206	1,194	2,381	2,329
OPERATING PROFIT	225	205	359	295
Interest income	1	1	2	2
Interest expense	(55)	(103)	(113)	(179)
Gain on sale of assets	—	21	111	32
Gain (loss) on foreign currency transactions and derivatives	(1)	1	(1)	3
Equity in earnings (losses) of affiliates	4	6	(3)	4
INCOME BEFORE INCOME TAXES	174	131	355	157
Provision for income taxes	(15)	(15)	(11)	(7)
INCOME FROM CONTINUING OPERATIONS	159	116	344	150
Income from discontinued operations, net of tax	—	5	—	31
NET INCOME	159	121	344	181
Less: Net income attributable to non-controlling interests	(2)	(1)	(5)	(4)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$ 157	\$ 120	\$ 339	\$ 177
Basic earnings per common unit:				
Continuing operations	\$.21	\$.15	\$.45	\$.20
Discontinued operations	—	.01	—	.04
Basic earnings per common unit	\$.21	\$.16	\$.45	\$.24
Diluted earnings per common unit:				
Continuing operations	\$.21	\$.15	\$.45	\$.20
Discontinued operations	—	.01	—	.04

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Diluted earnings per common unit	\$.21	\$.16	\$.45	\$.24
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See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions)

	Quarter ended		Year-to-date ended June 30,	
	June 30,	2013	2014	2013
NET INCOME	\$159	\$121	\$ 344	\$ 181
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive				
income (loss) of unconsolidated affiliates	4	(26)	11	(29)
Change in fair value of derivative instruments	1	—	1	5
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	5	(26)	12	(24)
COMPREHENSIVE INCOME	164	95	356	157
Less: Comprehensive income attributable to non-controlling interests	(2)	(1)	(5)	(4)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$162	\$94	\$ 351	\$ 153

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2014 and 2013

(unaudited, in millions)

	Year-to-date ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$344	\$181
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(19)
Depreciation	—	6
Depreciation and amortization	346	345
Amortization of finance costs, discounts and premiums, net	13	14
Non-cash loss on extinguishment of debt	2	12
Stock compensation expense	10	8
Deferred income taxes	(3)	(1)
Gain on sale of assets	(111)	(32)
(Gain) loss on foreign currency transactions and derivatives	1	(3)
Equity in (earnings) losses of affiliates	3	(4)
Change in due from managers	(76)	(55)
Changes in other assets	6	34
Changes in other liabilities	(10)	(26)
Cash provided by operating activities	525	460
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	274	446
Return of investment	42	—
Acquisitions	(73)	(139)
Advances to and investments in affiliates	(32)	(50)
Capital expenditures:		
Renewals and replacements	(147)	(163)
Redevelopment and acquisition-related investments	(36)	(69)
New development	(5)	(11)
Change in furniture, fixtures and equipment ("FF&E") replacement fund	(11)	(39)
Cash provided by (used in) investing activities	12	(25)
FINANCING ACTIVITIES		
Financing costs	(4)	(4)

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Issuances of debt	—	400
Draws on credit facility	—	148
Repayment of credit facility	(225)	(200)
Repurchase/redemption of senior notes	(150)	(601)
Mortgage debt and other prepayments and scheduled maturities	(373)	(246)
Scheduled principal repayments	—	(1)
Issuance of common OP units	3	192
Distributions on common OP units	(207)	(142)
Contributions from non-controlling interests	1	3
Distributions to non-controlling interests	(4)	(4)
Change in restricted cash for financing activities	(1)	1
Cash used in financing activities	(960)	(454)
Effects of exchange rate changes on cash held	2	(5)
DECREASE IN CASH AND CASH EQUIVALENTS	(421)	(24)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$440	\$393

See notes to condensed consolidated statements

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended June 30, 2014 and 2013

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended June 30,	
	2014	2013
Interest paid - periodic interest expense	\$ 93	\$ 148
Interest paid - debt extinguishments	2	20
Total interest paid	\$ 95	\$ 168
Income taxes paid	\$ 14	\$ 6

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended June 30, 2014 and 2013, limited partners converted OP units valued at approximately \$3 million and \$2 million, respectively, in exchange for approximately 0.1 million and 0.1 million shares, respectively, of Host Inc. common stock.

In March 2013, holders of approximately \$174 million of the 3.25% exchangeable debentures elected to exchange their debentures for approximately 11.7 million shares of Host Inc. common stock. In connection with the debentures exchanged for Host Inc. common stock, Host L.P. issued 11.5 million common OP units.

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

Description of Business

Host Hotels & Resorts, Inc. operates as a self-managed and self-administered real estate investment trust (“REIT”), with its operations conducted solely through Host Hotels & Resorts, L.P. and its subsidiaries. Host Hotels & Resorts, L.P., a Delaware limited partnership, operates through an umbrella partnership structure, with Host Hotels & Resorts, Inc., a Maryland corporation, as its sole general partner. In the notes to the condensed consolidated financial statements, we use the terms “we” or “our” to refer to Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. together, unless the context indicates otherwise. We also use the term “Host Inc.” specifically to refer to Host Hotels & Resorts, Inc. and the term “Host L.P.” specifically to refer to Host Hotels & Resorts, L.P. in cases where it is important to distinguish between Host Inc. and Host L.P. As of June 30, 2014, Host Inc. holds approximately 99% of Host L.P.’s OP units.

Consolidated Portfolio

As of June 30, 2014, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is located in the following countries:

	Hotels
United States	99
Australia	1
Brazil	1
Canada	3
Chile	2
Mexico	1
New Zealand	7
Total	114

International Joint Ventures

We own a non-controlling interest in a joint venture in Europe (“Euro JV”) that owns hotels in two separate funds. We own a 32.1% interest in the first fund (“Euro JV Fund I”) (11 hotels) and a 33.4% interest in the second fund (“Euro JV Fund II”) (8 hotels).

As of June 30, 2014, the Euro JV owned hotels located in the following countries:

Hotels

Belgium	3
France	4
Germany	1
Italy	3
Poland	1
Spain	2
Sweden	1
The Netherlands	2
United Kingdom	2
Total	19

In addition, our joint venture in Asia (“Asia/Pacific JV”), in which we own a 25% non-controlling interest, owns one hotel in Australia and a non-controlling interest in an entity with two hotels operational and five additional hotels in various stages of development in India.

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Summary of Significant Accounting Policies

We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP in the accompanying unaudited condensed consolidated financial statements. We believe the disclosures made herein are adequate to prevent the information presented from being misleading. However, the unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

In our opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary to present fairly our financial position as of June 30, 2014, and the results of our operations for the quarter and year-to-date periods ended June 30, 2014 and 2013, respectively, and cash flows for the year-to-date periods ended June 30, 2014 and 2013, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform with the current year presentation.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which affects virtually all aspects of an entity's revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods beginning after December 15, 2016. We have not yet completed our assessment of the effect of the new standard on our financial statements, including possible transition alternatives.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosure of Disposal of Components of an Entity ("ASU 2014-08 Reporting for Discontinued Operations.") Under this standard, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. In addition, it requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. As a result, the operations of sold properties through the date of their disposal will be included in continuing operations, unless the sale represents a strategic shift. We adopted this standard as of January 1, 2014. No prior year restatements are permitted for this change in policy.

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3. Earnings Per Common Share (Unit)

Host Inc. Earnings Per Common Share

Basic earnings per common share is computed by dividing net income attributable to common stockholders by the weighted average number of shares of Host Inc. common stock outstanding. Diluted earnings per common share is computed by dividing net income attributable to common stockholders, as adjusted for potentially dilutive securities, by the weighted average number of shares of Host Inc. common stock outstanding plus other potentially dilutive securities. Dilutive securities may include shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per common share is shown below (in millions, except per share amounts):

	Quarter ended		Year-to-date ended June 30,	
	June 30, 2014	2013	2014	2013
Net income	\$ 159	\$ 121	\$ 344	\$ 181
Less: Net income attributable to non-controlling interests	(4)	(2)	(10)	(6)
Net income attributable to Host Inc.	\$ 155	\$ 119	\$ 334	\$ 175
Diluted income attributable to Host Inc.	\$ 155	\$ 119	\$ 334	\$ 175
Basic weighted average shares outstanding	755.4	745.2	755.1	736.8
Assuming weighted average shares for conversion of exchangeable senior debentures	—	—	—	4.9
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.5	0.7	0.5	0.7
Diluted weighted average shares outstanding ⁽¹⁾	755.9	745.9	755.6	742.4
Basic earnings per common share	\$.21	\$.16	\$.44	\$.24
Diluted earnings per common share	\$.21	\$.16	\$.44	\$.24

(1) There were approximately 30 million potentially dilutive shares for both the quarter and year-to-date periods ended June 30, 2014, and approximately 29 million potentially dilutive shares for both the quarter and year-to-date periods ended June 30, 2013, related to our exchangeable senior debentures, which shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the period. Income allocated to non-controlling interests of Host L.P. has been excluded from the numerator and common OP units in

Host L.P. have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts would have no impact.

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Host L.P. Earnings Per Common Unit

Basic earnings per common unit is computed by dividing net income attributable to common unitholders by the weighted average number of common units outstanding. Diluted earnings per common unit is computed by dividing net income attributable to common unitholders, as adjusted for potentially dilutive securities, by the weighted average number of common units outstanding plus other potentially dilutive securities. Dilutive securities may include units issued to Host Inc. to support Host Inc. common shares granted under comprehensive stock plans, other non-controlling interests that have the option to convert their limited partnership interests to common OP units and convertible debt securities. No effect is shown for any securities that are anti-dilutive. The calculation of basic and diluted earnings per unit is shown below (in millions, except per unit amounts):

	Quarter ended		Year-to-date ended June 30,	
	June 30, 2014	2013	2014	2013
Net income	\$159	\$121	\$ 344	\$ 181
Less: Net income attributable to non-controlling interests	(2)	(1)	(5)	(4)
Net income attributable to Host L.P.	\$157	\$120	\$ 339	\$ 177
Diluted income attributable to Host L.P.	\$157	\$120	\$ 339	\$ 177
Basic weighted average units outstanding	748.9	739.3	748.7	731.1
Assuming weighted average units for conversion of exchangeable senior debentures	—	—	—	4.8
Assuming distribution of common units granted under the comprehensive stock plans, less units assumed purchased at market	0.6	0.7	0.5	0.6
Diluted weighted average units outstanding ⁽¹⁾	749.5	740.0	749.2	736.5
Basic earnings per common unit	\$.21	\$.16	\$.45	\$.24
Diluted earnings per common unit	\$.21	\$.16	\$.45	\$.24

(1) There were approximately 30 million and 29 million potentially dilutive units for the quarter and year-to-date periods ended June 30, 2014, respectively, and approximately 29 million potentially dilutive units for both the quarter and year-to-date periods ended June 30, 2013, related to our exchangeable senior debentures, which units were not included in the computation of diluted earnings per unit because to do so would have been anti-dilutive for the period.

4. Property and Equipment

Property and equipment consists of the following (in millions):

	June 30, 2014	December 31, 2013
Land and land improvements	\$1,998	\$ 1,973
Buildings and leasehold improvements	13,354	13,435
Furniture and equipment	2,214	2,223
Construction in progress	163	176
	17,729	17,807
Less accumulated depreciation and amortization	(6,980)	(6,812)
	\$10,749	\$ 10,995

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5. Debt

Credit facility. On June 27, 2014, we amended and restated our senior unsecured credit facility with Bank of America, N.A. as administrative agent. The borrowing capacity under the credit facility remains the same at \$1 billion and now includes the ability to draw in Mexican pesos and swingline borrowings in Euros and British pound sterling. Under the amendment, we extended the maturity of the revolver portion of the credit facility to June 2018, with two six-month renewal options and amended the maturity of the \$500 million term loan under the credit facility to June 2017, with two one-year renewal options, resulting in a maturity for the entire credit facility in June 2019, if all renewal options are exercised. The amendment also reduced the interest rate margin and facility fee on our borrowings. Interest on revolver borrowings consists of floating rates equal to LIBOR plus a margin ranging from 87.5 to 155 basis points (depending on Host L.P.'s unsecured long-term debt rating). We also pay a facility fee ranging from 12.5 to 30 basis points depending on our rating, regardless of usage. Based on Host L.P.'s long-term debt rating as of June 30, 2014, our applicable margin on the revolver borrowings will be 100 basis points and we will pay a facility fee of 20 basis points. Interest on the term loan consists of floating interest rates equal to LIBOR plus a margin ranging from 90 to 175 basis points (depending on Host L.P.'s unsecured long-term debt rating). Based on Host L.P.'s long-term debt rating as of June 30, 2014, our applicable margin on the term loan is 112.5 basis points, for an all-in interest rate of 1.28%. As of June 30, 2014, we have \$778 million of available capacity under the credit facility.

Other. On June 25, 2014, we redeemed the \$40 million 7.75% Philadelphia Airport Industrial Development Revenue Bonds. Additionally, on June 15, 2014, we redeemed the \$32 million 7% Newark Airport Industrial Development Refunding Revenue Bonds.

6. Equity of Host Inc. and Capital of Host L.P.

Equity of Host Inc.

Equity of Host Inc. is allocated between controlling and non-controlling interests as follows (in millions):

	Equity of			
	Host Inc.	Non-redeemable, non-controlling interests	Total equity	Redeemable, non-controlling interests
Balance, December 31, 2013	\$7,228	\$ 34	\$7,262	\$ 190
Net income	334	5	339	5
Issuance of common stock	13	—	13	—
Dividends declared on common stock	(219)	—	(219)	—
Distributions to non-controlling interests	—	(4)	(4)	(3)
Other changes in ownership	(20)	1	(19)	19
Other comprehensive income	12	—	12	—
Balance, June 30, 2014	\$7,348	\$ 36	\$7,384	\$ 211

Capital of Host L.P.

As of June 30, 2014, Host Inc. is the owner of approximately 99% of Host L.P.'s common OP units. The remaining common OP units are held by third party limited partners. Each OP unit may be redeemed for cash or, at the election of Host Inc., Host Inc. common stock, based on the conversion ratio of 1.021494 shares of Host Inc. common stock for each OP unit.

In exchange for any shares issued by Host Inc., Host L.P. will issue OP units to Host Inc. based on the applicable conversion ratio. Additionally, funds used by Host Inc. to pay dividends on its common stock are provided by distributions from Host L.P.

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Capital of Host L.P. is allocated between controlling and non-controlling interests as follows (in millions):

	Capital of Host L.P.	Non- controlling Interests	Total Capital	Limited Partnership Interests of Third Parties
Balance, December 31, 2013	\$7,228	\$ 34	\$7,262	\$ 190
Net income	334	5	339	5
Issuance of common OP units	13	—	13	—
Distributions declared on common OP units	(219)	—	(219)	(3)
Distributions to non-controlling interests	—	(4)	(4)	—
Other changes in ownership	(20)	1	(19)	19
Other comprehensive income	12	—	12	—
Balance, June 30, 2014	\$7,348	\$ 36	\$7,384	\$ 211

For Host Inc. and Host L.P., there were no material amounts reclassified out of accumulated other comprehensive income (loss) to net income for the quarter and year-to-date periods ended June 30, 2014.

Dividends/Distributions

On May 14, 2014, Host Inc.'s Board of Directors declared a regular dividend of \$0.15 per share on its common stock. The dividend was paid on July 15, 2014 to stockholders of record as of June 30, 2014. Accordingly, Host L.P. made a distribution of \$0.1532241 per unit on its common OP units based on the current conversion ratio. In addition, on July 31, 2014, Host Inc.'s Board of Directors declared a regular dividend of \$0.20 per share on its common stock for the third quarter. The dividend is payable on October 15, 2014 to stockholders of record as of September 30, 2014.

7. Dispositions

Effective January 1, 2014, we adopted ASU 2014-08 Reporting for Discontinued Operations. As a result, operations of hotels sold subsequent to December 31, 2013 will continue to be reported in continuing operations, while gains on sales will be included in gain on sale of assets, within income from continuing operations. The results of properties sold in 2013, including the gain on sale, prior to adoption will continue to be reported in discontinued operations.

The following table provides summary results of operations for the five hotels sold in 2013 which have been included in discontinued operations (in millions):

	Quarter ended June 30, 2013	Year-to-date ended June 30, 2013
Revenues	\$ 35	\$ 70
Income before income taxes	5	17
Gain on disposition, net of tax	—	19

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8. Acquisitions

On January 21, 2014, we acquired the 151-room Powell Hotel in San Francisco, California, including retail space and the fee simple interest in the land, for approximately \$75 million. Accounting for the acquisition requires an allocation of the purchase price to the assets acquired and the liabilities assumed at their respective estimated fair values. The purchase price allocations are estimated based on currently available information; however, we still are in the process of obtaining appraisals and finalizing the accounting for the acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed related to this acquisition (in millions):

Property and equipment	\$74
Other assets	2
Total assets	76
Other liabilities	(1)
Net assets acquired	\$75

Our summarized unaudited consolidated pro forma results of operations, assuming the acquisition that was completed during 2014 occurred on January 1, 2013, are as follows (in millions, except per share and per unit amounts):

	Quarter ended		Year-to-date	
	June 30, 2014	2013	ended June 30, 2014	2013
Revenues	\$1,431	\$1,401	\$2,740	\$2,628
Income from continuing operations	159	117	346	151
Net income	159	122	346	182
Host Inc.:				
Net income attributable to Host Inc.	\$155	\$120	\$336	\$176
Basic earnings per common share:				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04
Basic earnings per common share	\$.21	\$.16	\$.44	\$.24
Diluted earnings per common share:				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04
Diluted earnings per common share	\$.21	\$.16	\$.44	\$.24

Host L.P.:

Net income attributable to Host L.P.	\$ 157	\$ 121	\$ 341	\$ 178
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Basic earnings per common unit:

Continuing operations	\$.21	\$.15	\$.46	\$.20
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Discontinued operations	—	.01	—	.04
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Basic earnings per common unit	\$.21	\$.16	\$.46	\$.24
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Diluted earnings per common unit:

Continuing operations	\$.21	\$.15	\$.46	\$.20
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Discontinued operations	—	.01	—	.04
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Diluted earnings per common unit	\$.21	\$.16	\$.46	\$.24
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The above pro forma results of operations exclude \$2 million of acquisition costs for the year-to-date period ended June 30, 2014. The condensed consolidated statements of operations for the quarter and year-to-date periods ended June 30, 2014 include approximately \$2 million and \$4 million of revenues, respectively, and \$1 million of net income for both the quarter and year-to-date periods ended June 30, 2014 related to our 2014 acquisition.

9. Fair Value Measurements

The following tables detail the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis, as well as non-recurring fair value measurements, at June 30, 2014 and December 31, 2013, respectively (in millions):

	Fair Value at Measurement Date Using Quoted Prices			
	Balance at June 30, 2014	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Liabilities				
Interest rate swap derivatives ⁽¹⁾	\$ (3)	\$ —	\$ (3)	\$ —
Foreign currency forward sale contracts ⁽¹⁾	(5)	—	(5)	—

	Fair Value at Measurement Date Using Quoted Prices			
	Balance at December 31, 2013	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Interest rate swap derivatives ⁽¹⁾	\$ 1	\$ —	\$ 1	\$ —
Foreign currency forward sale contracts ⁽¹⁾	3	—	3	—
Liabilities				

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Interest rate swap derivatives ⁽¹⁾	(3)	—	(3)	—
Foreign currency forward sale contracts ⁽¹⁾	(6)	—	(6)	—

Fair Value Measurements on a Non-recurring Basis:

Impaired hotel properties held and used ⁽²⁾	9	—	—	9
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(1) These derivative contracts have been designated as hedging instruments.

(2) The fair value measurements are as of the measurement date of the impairment and may not reflect subsequent book values.

Derivatives and Hedging

Interest rate swap derivatives designated as cash flow hedges. We have designated our floating-to-fixed interest rate swap derivatives as cash flow hedges. The purpose of the interest rate swaps is to hedge against changes in cash flows (interest payments) attributable to fluctuations in variable rate debt. The derivatives are valued based on the prevailing market yield curve on the date of measurement. We also evaluate counterparty credit risk when we calculate the fair value of the swaps. Changes in the fair value of the derivatives are recorded to other comprehensive income (loss). The hedges were fully effective as of June 30, 2014.

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The following table summarizes our interest rate swap derivatives designated as cash flow hedges (in millions):

Transaction Date	Total Notional Amount	Maturity Date	Swapped Index	All-in- Rate	Change in Fair Value Gain	
					Quarter ended June 30, 2013	Gain (Loss) Year-to-date ended June 30, 2014
November 2011 ⁽¹⁾	A\$ 62	November 2016	Reuters BBSY	6.7 %	\$ —	\$ —
February 2011 ⁽²⁾	NZ\$ 79	February 2016	NZ\$ Bank Bill	7.15 %	\$ —	\$ 1

(1) The swap was entered into in connection with the A\$82 million (\$77 million) mortgage loan on the Hilton Melbourne South Wharf.

(2) The swap was entered into in connection with the NZ\$105 million (\$92 million) mortgage loan on seven properties in New Zealand.

Foreign Investment Hedging Instruments. We have five foreign currency forward sale contracts that hedge a portion of the foreign currency exposure resulting from the eventual repatriation of our net investment in foreign operations. These derivatives are considered hedges of the foreign currency exposure of a net investment in a foreign operation and are marked-to-market with changes in fair value recorded to other comprehensive income (loss). The forward sale contracts are valued based on the forward yield curve of the foreign currency to U.S. dollar forward exchange rate on the date of measurement. We also evaluate counterparty credit risk when we calculate the fair value of the derivatives.

The following table summarizes our foreign currency sale contracts (in millions):

Transaction Date Range	Foreign Currency	Total Transaction Amount in Dollars	Forward Purchase Date Range	Change in Fair Value - All Contracts	
				Gain (Loss) Quarter ended June 30, 2013	Gain (Loss) Year-to-date ended June 30, 2014