

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.

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## 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 &amp; 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
<b>ASSETS</b>		
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
<b>LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY</b>		
<b>Debt</b>		
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
<b>Host Hotels &amp; Resorts, Inc. stockholders' equity:</b>		
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 &amp; 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
<b>REVENUES</b>				
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
<b>EXPENSES</b>				
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
<b>OPERATING PROFIT</b>	<b>225</b>	<b>205</b>	<b>359</b>	<b>295</b>
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
<b>INCOME BEFORE INCOME TAXES</b>	<b>174</b>	<b>131</b>	<b>355</b>	<b>157</b>
Provision for income taxes	(15 )	(15 )	(11 )	(7 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>159</b>	<b>116</b>	<b>344</b>	<b>150</b>
Income from discontinued operations, net of tax	—	5	—	31
<b>NET INCOME</b>	<b>159</b>	<b>121</b>	<b>344</b>	<b>181</b>
Less: Net income attributable to non-controlling interests	(4 )	(2 )	(10 )	(6 )
<b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp; RESORTS, INC.</b>	<b>\$ 155</b>	<b>\$ 119</b>	<b>\$ 334</b>	<b>\$ 175</b>
<b>Basic earnings per common share:</b>				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04
<b>Basic earnings per common share</b>	<b>\$.21</b>	<b>\$.16</b>	<b>\$.44</b>	<b>\$.24</b>
<b>Diluted earnings per common share:</b>				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04

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

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## HOST HOTELS &amp; 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 &amp; 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
<b>OPERATING ACTIVITIES</b>		
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
<b>INVESTING ACTIVITIES</b>		
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 )
<b>FINANCING ACTIVITIES</b>		
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 )
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(421)</b>	<b>(24 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>861</b>	<b>417</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$440</b>	<b>\$393</b>

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 &amp; 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
<b>ASSETS</b>		
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
<b>Total assets</b>	<b>\$ 12,215</b>	<b>\$ 12,814</b>
<b>LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL</b>		
<b>Debt</b>		
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
<b>Total debt</b>	<b>4,030</b>	<b>4,759</b>
Accounts payable and accrued expenses	202	214
Other	388	389
<b>Total liabilities</b>	<b>4,620</b>	<b>5,362</b>
Limited partnership interests of third parties	211	190
<b>Host Hotels &amp; Resorts, L.P. capital:</b>		
General partner	1	1
Limited partner	7,344	7,236
Accumulated other comprehensive income (loss)	3	(9)
<b>Total Host Hotels &amp; Resorts, L.P. capital</b>	<b>7,348</b>	<b>7,228</b>
Non-controlling interests—consolidated partnerships	36	34
<b>Total capital</b>	<b>7,384</b>	<b>7,262</b>
<b>Total liabilities, limited partnership interest of third parties and capital</b>	<b>\$ 12,215</b>	<b>\$ 12,814</b>

See notes to condensed consolidated statements.

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## HOST HOTELS &amp; 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
<b>REVENUES</b>				
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
<b>EXPENSES</b>				
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
<b>OPERATING PROFIT</b>	<b>225</b>	<b>205</b>	<b>359</b>	<b>295</b>
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
<b>INCOME BEFORE INCOME TAXES</b>	<b>174</b>	<b>131</b>	<b>355</b>	<b>157</b>
Provision for income taxes	(15 )	(15 )	(11 )	(7 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>159</b>	<b>116</b>	<b>344</b>	<b>150</b>
Income from discontinued operations, net of tax	—	5	—	31
<b>NET INCOME</b>	<b>159</b>	<b>121</b>	<b>344</b>	<b>181</b>
Less: Net income attributable to non-controlling interests	(2 )	(1 )	(5 )	(4 )
<b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp; RESORTS, L.P.</b>	<b>\$ 157</b>	<b>\$ 120</b>	<b>\$ 339</b>	<b>\$ 177</b>
<b>Basic earnings per common unit:</b>				
Continuing operations	\$.21	\$.15	\$ .45	\$ .20
Discontinued operations	—	.01	—	.04
<b>Basic earnings per common unit</b>	<b>\$.21</b>	<b>\$.16</b>	<b>\$ .45</b>	<b>\$ .24</b>
<b>Diluted earnings per common unit:</b>				
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 &amp; 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 &amp; 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
<b>OPERATING ACTIVITIES</b>		
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
<b>INVESTING ACTIVITIES</b>		
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 )
<b>FINANCING ACTIVITIES</b>		
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 )
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(421)</b>	<b>(24 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>861</b>	<b>417</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$440</b>	<b>\$393</b>

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 &amp; RESORTS, INC., HOST HOTELS &amp; 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  
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## 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.



HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
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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 <sup>(1)</sup>	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.



HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
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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 <sup>(1)</sup>	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

HOST HOTELS & RESORTS, INC., HOST HOTELS & RESORTS, L.P., AND SUBSIDIARIES  
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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
<b>Host Inc.:</b>				
Net income attributable to Host Inc.	\$155	\$120	\$336	\$176
<b>Basic earnings per common share:</b>				
Continuing operations	\$.21	\$.15	\$.44	\$.20
Discontinued operations	—	.01	—	.04
Basic earnings per common share	\$.21	\$.16	\$.44	\$.24
<b>Diluted earnings per common share:</b>				
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	in Active	Significant	
	June	Markets	Other	Significant
	30,	for	Observable	Unobservable
	30,	Identical	Inputs	Inputs
	Assets			
	2014	(Level 1)	(Level 2)	(Level 3)
<b>Fair Value Measurements on a Recurring Basis:</b>				
<b>Liabilities</b>				
Interest rate swap derivatives <sup>(1)</sup>	\$ (3)	\$ —	\$ (3)	\$ —
Foreign currency forward sale contracts <sup>(1)</sup>	(5)	—	(5)	—

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

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Interest rate swap derivatives <sup>(1)</sup>	(3)	—	(3 )	—
Foreign currency forward sale contracts <sup>(1)</sup>	(6)	—	(6 )	—

Fair Value Measurements on a Non-recurring Basis:

Impaired hotel properties held and used <sup>(2)</sup>	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, 2014	Gain (Loss) Year-to-date ended June 30, 2013	
November 2011 <sup>(1)</sup>	A\$ 62	November 2016	Reuters BBSY	6.7 %	\$ —	\$ —	\$ 1
February 2011 <sup>(2)</sup>	NZ\$ 79	February 2016	NZ\$ Bank Bill	7.15 %	\$ —	\$ 1	\$ 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):

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

July 2010-May 2014	€120	\$ 160	October 2014-May 2017	\$1	\$ (2 )	\$ 1	\$ 1
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In addition to the forward sale contracts, we have designated a portion of the foreign currency draws on our credit facility as hedges of net investments in foreign operations. Changes in fair value of the designated credit facility draws are recorded to other comprehensive income (loss).

The following table summarizes the draws on our credit facility that are designated as hedges of net investments in foreign operations (in millions):

Currency	Balance	Balance	Gain		Gain (Loss)			
	Outstanding	Outstanding in Foreign Currency	Quarter ended June 30,	2014	2013	Year-to-date ended June 30,	2014	2013
Canadian dollars <sup>(1)</sup>	\$ 29	C\$ 31	\$ (1)	\$ 1	\$ —	\$ 2		
Euros	\$ 102	€ 74	\$ 1	\$ (1)	\$ 1	\$ —		

(1) We have an additional \$71 million outstanding on the credit facility in Canadian dollars, which draw has not been designated as a hedging instrument.

#### Other Liabilities

**Fair Value of Other Financial Liabilities.** We did not elect the fair value measurement option for any of our other financial liabilities. Valuations for secured debt and our credit facility are determined based on the expected future payments discounted at risk-adjusted rates. Senior Notes and the Exchangeable Senior Debentures are valued based on quoted market prices. The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts.

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The fair value of certain financial liabilities is shown below (in millions):

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial liabilities</b>				
Senior notes (Level 1)	\$2,498	\$2,693	\$2,647	\$2,766
Exchangeable Senior Debentures (Level 1)	378	682	371	603
Credit facility (Level 2)	722	722	946	946
Mortgage debt and other, excluding capital leases (Level 2)	431	437	793	802

#### 10. Geographic Information

We consider each of our hotels to be an operating segment, none of which meets the threshold for a reportable segment. We also allocate resources and assess operating performance based on individual hotels. All of our other real estate investment activities (primarily office buildings and apartments) are immaterial and, with our operating segments, meet the aggregation criteria, and thus, we report one segment: hotel ownership. Our consolidated foreign operations consist of hotels in six countries. There were no intersegment sales during the periods presented.

The following table presents total revenues and property and equipment for each of the geographical areas in which we operate (in millions):

	Revenues		Property and Equipment, net			
	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Year-to-date ended June 30, 2014	Year-to-date ended June 30, 2013	December 31, 2014	December 31, 2013
United States	\$1,358	\$1,332	\$2,601	\$2,492	\$10,236	\$10,498
Australia	10	10	19	20	112	106
Brazil	12	8	19	15	87	76
Canada	24	26	44	47	86	89
Chile	8	8	16	17	50	54
Mexico	7	5	14	11	31	32
New Zealand	12	10	27	22	147	140
Total	\$1,431	\$1,399	\$2,740	\$2,624	\$10,749	\$10,995

#### 11. Non-controlling Interests

**Other Consolidated Partnerships.** We consolidate six majority-owned partnerships that have third-party, non-controlling ownership interests. The third-party partnership interests are included in non-controlling interests — other consolidated partnerships on the condensed consolidated balance sheets and totaled \$36 million and \$34 million as of June 30, 2014 and December 31, 2013, respectively. Two of the partnerships have finite lives that terminate between 2081 and 2095, and the associated non-controlling interests are mandatorily redeemable at our option at the end of, but not prior to, the finite life. At both June 30, 2014 and December 31, 2013, the fair values of the non-controlling interests in the partnerships with finite lives were approximately \$68 million.

Net income attributable to non-controlling interests of consolidated partnerships is included in our determination of net income. Net income attributable to non-controlling interests of third parties, which is included in the determination of net income attributable to Host Inc. and Host L.P., was \$2 million and \$1 million for the quarters ended June 30, 2014 and 2013, respectively. Net income attributable to non-controlling interests of third parties was \$5 million and \$4 million for the year-to-date periods ended June 30, 2014 and 2013, respectively.

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Host Inc.'s treatment of the non-controlling interests of Host L.P.: Host Inc. adjusts the non-controlling interests of Host L.P. each period so that the amount presented equals the greater of its carrying value based on accumulated historical cost or its redemption value. The historical cost is based on the proportional relationship between the historical cost of equity held by our common stockholders relative to that of the unitholders of Host L.P. The redemption value is based on the amount of cash or Host Inc. common stock, at our option, that would be paid to the non-controlling interests of Host L.P. if it were terminated. Therefore, the redemption value of the common OP units is equivalent to the number of shares that would be issued upon conversion of the common OP units held by third parties valued at the market price of Host Inc. common stock at the balance sheet date. One common OP unit may be exchanged into 1.021494 shares of Host Inc. common stock. Non-controlling interests of Host L.P. are classified in the mezzanine section of our balance sheets as they do not meet the requirements for equity classification because the redemption feature requires the delivery of registered shares.

The table below details the historical cost and redemption values for the non-controlling interests:

	June 30, 2014	December 31, 2013
OP units outstanding (millions)	9.4	9.5
Market price per Host Inc. common share	\$22.01	\$19.44
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	\$211	\$190
Historical cost (millions)	95	95
Book value (millions) <sup>(1)</sup>	211	190

(1) The book value recorded is equal to the greater of redemption value or historical cost.

Net income is allocated to the non-controlling interests of Host L.P. based on their weighted average ownership interest during the period. Net income attributable to Host Inc. has been reduced by the amount attributable to non-controlling interests of Host L.P. The net income attributable to the non-controlling interests of Host L.P. for the quarter and year-to-date ended June 30, 2014 was \$2 million and \$5 million, respectively. The income attributable to the non-controlling interests of Host L.P. for the quarter and year-to-date ended June 30, 2013 was \$1 million and \$2 million, respectively.

## 12. Legal Proceedings

We are involved in various legal proceedings in the normal course of business regarding the operation of our hotels and company matters. To the extent not covered by insurance, these legal proceedings generally fall into the following broad categories: disputes involving hotel-level contracts, employment litigation, compliance with laws such as the Americans with Disabilities Act, tax disputes and other general matters. Under our management agreements, our operators have broad latitude to resolve individual hotel-level claims for amounts generally less than \$150,000. However, for matters exceeding such threshold, our operators may not settle claims without our consent.

Excluding the San Antonio litigation discussed below, based on our analysis of legal proceedings with which we currently are involved or of which we are aware and our experience in resolving similar claims in the past, we have accrued approximately \$23 million as of June 30, 2014 for liabilities related to legal proceedings and estimate that, in the aggregate, our losses related to these proceedings could be as much as \$51 million. We believe this range represents the maximum potential loss for all of our legal proceedings. We are not aware of any other matters with a reasonably possible unfavorable outcome for which disclosure of a loss contingency is required. No assurances can be given as to the outcome of any pending legal proceedings.

On May 16, 2012, we filed a Petition for Review in the Texas Supreme Court related to the litigation concerning the ground lease for the San Antonio Marriott Rivercenter and provided briefing on the merits, which were concluded in January 2013. On June 28, 2013, the Court issued an order denying the petition for review; however, on December 13, 2013, the Court granted our motion for rehearing on that order and heard oral arguments on our appeal on February 4, 2014. On June 13, 2014, the Court reversed the court of appeals judgment, the effect of which is that we are no longer liable for the jury verdict and punitive damages award. However, Keystone-Texas Property Holding Corporation (“Keystone”) has indicated that it will request a rehearing on the Court’s decision. We have accrued a loss contingency of approximately \$69 million related to this litigation, which includes the funding of a court-ordered \$25 million escrow reserve. If the motion for rehearing is denied, we will reverse the accrual and cancel the escrow reserve bond when the Court concludes the case by issuance of its final mandate. No assurances can be given, however, as to the outcome of the motion for rehearing.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this report. Host Inc. operates as a self-managed and self-administered REIT. Host Inc. is the sole general partner of Host L.P. and holds approximately 99% of its partnership interests. Host L.P. is a limited partnership operating through an umbrella partnership structure. The remaining common OP units are owned by various unaffiliated limited partners.

### Forward-Looking Statements

In this report on Form 10-Q, we make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "expect," "may," "intend," "predict," "project," "plan," "will," "estimate" and other similar phrases, including references to assumptions and forecasts of future results. Forward-looking statements are based on management's current expectations and assumptions and are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results to differ materially from those anticipated at the time the forward-looking statements are made.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the effect on lodging demand of (i) changes in national and local economic and business conditions, including concerns about global economic prospects and the speed and strength of a recovery, and (ii) other factors such as natural disasters, weather, changes in the international political climate, and the occurrence or potential occurrence of terrorist attacks, all of which will affect occupancy rates at our hotels and the demand for hotel products and services;
- operating risks associated with the hotel business, including the effect of increasing labor costs or changes in workplace rules that affect labor costs;
- the continuing volatility in global financial and credit markets, and the impact of budget deficits and pending and future U.S. governmental action to address such deficits through reductions in spending and similar austerity measures, which could materially adversely affect U.S. and global economic conditions, business activity, credit availability, borrowing costs, and lodging demand;
- the impact of geopolitical developments outside the U.S., such as the sovereign credit issues in certain countries in the European Union, or unrest in the Middle East, which could affect the relative volatility of global credit markets generally, global travel and lodging demand, including for our foreign hotel properties;
- the effect of rating agency downgrades of our debt securities on the cost and availability of new debt financings;
- the reduction in our operating flexibility and the limitation on our ability to pay dividends and make distributions resulting from restrictive covenants in our debt agreements, which limit the amount of distributions from Host L.P. to Host Inc., and other risks associated with the level of our indebtedness or related to restrictive covenants in our debt agreements, including the risk of default that could occur;
- our ability to maintain our properties in a first-class manner, including meeting capital expenditures requirements, and the effect of renovations on our hotel occupancy and financial results;
- our ability to compete effectively in areas such as access, location, quality of accommodations and room rate structures;
- our ability to acquire or develop additional properties and the risk that potential acquisitions or developments may not perform in accordance with our expectations;
- relationships with property managers and joint venture partners and our ability to realize the expected benefits of our joint ventures and other strategic relationships;
- our ability to recover fully under our existing insurance policies for terrorist acts and our ability to maintain adequate or full replacement cost "all-risk" property insurance policies on our properties on commercially reasonable terms;

the effects of tax legislative action and other changes in laws and regulations, or the interpretation thereof, including the need for compliance with new environmental and safety requirements;

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·the ability of Host Inc. and each of the REIT entities acquired, established or to be established by Host Inc. to continue to satisfy complex rules in order to qualify as REITs for federal income tax purposes, Host L.P.'s ability to satisfy the rules required to maintain its status as a partnership for federal income tax purposes, and Host Inc.'s and Host L.P.'s ability and the ability of our subsidiaries, and similar entities to be acquired or established by us, to operate effectively within the limitations imposed by these rules; and

·risks associated with our ability to effectuate our dividend policy, including factors such as investment activity, operating results and the economic outlook which may influence our board of director's decision whether to pay future dividends at levels previously disclosed or to use available cash to make special dividends.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions, including those risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2013 and in other filings with the Securities and Exchange Commission ("SEC"). Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material.

## Operating Results and Outlook

### Operating Results

The following table reflects certain line items from our statement of operations and significant operating statistics (in millions, except per share and hotel statistics):

#### Historical Income Statement Data:

	Quarter ended June 30,			Year-to-date ended June 30,		
	2014	2013	Change	2014	2013	Change
Total revenues	\$1,431	\$1,399	2.3 %	\$2,740	\$2,624	4.4 %
Net income	159	121	31.4 %	344	181	90.1 %
Operating profit	225	205	9.8 %	359	295	21.7 %
Operating profit margin under GAAP	15.7 %	14.7 %	100 bps	13.1 %	11.2 %	190 bps
Adjusted EBITDA <sup>(1)</sup>	\$411	\$431	(4.6)%	\$719	\$714	0.7 %
Diluted earnings per share	\$.21	\$.16	31.3 %	\$.44	\$.24	83.3 %
NAREIT FFO per diluted share <sup>(1)</sup>	.43	.39	10.3 %	.75	.68	10.3 %
Adjusted FFO per diluted share <sup>(1)</sup>	.43	.45	(4.4)%	.76	.73	4.1 %

#### Comparable Hotel Data:

	2014 Comparable Hotels <sup>(2)</sup> Quarter ended June 30,			Year-to-date ended June 30,		
	2014	2013	Change	2014	2013	Change
Comparable hotel revenues <sup>(1)</sup>	\$1,350	\$1,305	3.4 %	\$2,553	\$2,431	5.0 %
Comparable hotel operating profit <sup>(1)</sup>	400	379	5.5 %	689	636	8.3 %
Comparable hotel adjusted operating profit margin <sup>(1)</sup>	29.6 %	29.0 %	60 bps	27.0 %	26.2 %	80 bps
	5.1 %			5.9 %		

Change in comparable hotel RevPAR - Constant US\$				
Change in comparable hotel RevPAR - Nominal US\$	4.8	%	5.4	%
Change in comparable domestic RevPAR	4.5	%	5.5	%
Change in comparable international RevPAR - Constant US\$	16.2	%	13.3	%

(1) Adjusted EBITDA, NAREIT and Adjusted FFO per diluted share and comparable hotel operating results (including comparable hotel revenues and comparable hotel adjusted operating profit and margins) are non-GAAP (U.S. generally accepted accounting principles) financial measures within the meaning of the rules of the SEC. See “-Non-GAAP Financial Measures” for more information on these measures, including why we believe these supplemental measures are useful, reconciliations to the most directly comparable GAAP measure, and the limitations on the use of these supplemental measures.

(2) Comparable hotel operating statistics for 2014 and 2013 are based on 109 hotels as of June 30, 2014.

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The growth in revenues for the second quarter and year-to-date was driven by an increase in rooms revenues as comparable hotel RevPAR, on a constant US\$ basis, increased 5.1% for the second quarter, reflecting a 4.1% increase in average room rates and an increase in occupancy to 81%, primarily due to strong transient business. Group business increased 2.1% for the quarter, primarily reflecting a 6.6% decline in April group results due to the Easter holiday shift to the second quarter in 2014. RevPAR increased 5.9% year-to-date on a constant dollar basis, reflecting a 4.3% increase in average room rates and a slight increase in occupancy to 77.5% due to improvements in both group and transient business. On a nominal US\$ basis, which includes the effect of foreign currency fluctuations, comparable hotel RevPAR increased 4.8% and 5.4%, respectively, for the second quarter and year-to-date. Comparable food and beverage revenues increased 0.8% for the quarter. Food and beverage revenues decreased by \$3 million for the quarter and increased \$33 million year-to-date. For the quarter, food & beverage revenues were affected negatively by the weakness in group business. The growth in revenues for all revenue categories were affected negatively by the timing of hotels acquired and sold during the comparable periods, which resulted in a net decrease of \$25 million in total revenues for the quarter and \$35 million year-to-date.

Operating profit margins (calculated based on GAAP operating profit as a percentage of GAAP revenues) increased 100 basis points and 190 basis points for the second quarter and year-to-date 2014, respectively, as compared to the same periods in 2013. These operating profit margins are affected significantly by several items, including operations from recently acquired hotels, depreciation, impairment expense, and corporate expenses. Our comparable hotel adjusted operating profit margins, which exclude these items, increased 60 basis points and 80 basis points for the second quarter and year-to-date 2014, respectively, compared to 2013. The improvement in operating profit margins was driven by the improvements in average room rates at the properties and well-managed operating costs, which increased 2.6% for the quarter and 3.8% year-to-date at our comparable hotels, respectively.

The increase in net income for the second quarter of 2014 primarily reflects the improvement in operations, described above, and a \$48 million, or 47%, decline in interest expense. The improvements in net income were partially offset by several recent transactions, including (i) the second quarter 2013 gain of \$21 million on sale of four acres of excess land adjacent to the Newport Beach Marriott Resort & Spa (ii) the timing of acquisitions and dispositions and (iii) cost (primarily selling expenses) recorded for the Maui timeshare, which is currently under development. The significant decline in interest expense reflects an improvement of \$17 million due to the refinancing or repayment of debt that has resulted in lower weighted average interest rates and a decrease in total debt and a decline in debt extinguishment costs of \$30 million for the quarter. Year-to-date 2014, net income also benefited from \$108 million of gains on property sales. The trends and transactions described for Host Inc. affected similarly the operating results for Host L.P, as the only significant difference between the Host Inc. and the Host L.P. statements of operations relates to the treatment of income attributable to the third party limited partners of Host L.P. For the second quarter and year-to-date 2014, Host Inc.'s diluted income per common share improved \$0.05 per common share and \$0.20 per common share, respectively. Host L.P.'s diluted income per common unit improved \$0.05 per common unit for the second quarter 2014 and improved \$0.21 per common unit for year-to-date 2014.

Comparable hotel adjusted operating profit increased \$21 million, or 5.5%, for the quarter and increased \$53 million, or 8.3%, year-to-date. However, for the quarter, Adjusted EBITDA declined \$20 million and Adjusted FFO per diluted share decreased \$.02 while, year-to-date, Adjusted EBITDA increased by \$5 million and Adjusted FFO per diluted share increased \$.03 compared to the corresponding 2013 periods. Comparisons of Adjusted EBITDA and Adjusted FFO per diluted share to prior periods were also negatively affected by the recent transactions described above by \$39 million and \$57 million for the quarter and year-to-date, respectively.

## Outlook

For the remainder of 2014, we believe that the broad economic trends that have translated into the steady improvement in lodging demand should continue to drive RevPAR growth and operating results. Forecasts for full

year 2014 GDP and investment growth in the U.S. have declined significantly since January, as the weather-induced slump and the expiration of unemployment benefits in the first quarter of the year had a much more severe affect than initially anticipated. However, consumer confidence has been strong in recent months, and growth is expected to accelerate in the last two quarters. While we believe these economic trends will continue to effect individual markets unevenly, based on our current overall group bookings, we believe that increasing group demand will allow our operators to shift the business mix to higher-rated corporate group and transient demand, as opposed to lower-rated transient discount business, helping to drive profitability. As a result, we believe the majority of the RevPAR growth will be driven by improvements in average rate, and we expect occupancy growth will be similar to that experienced in 2013. For the full year 2014, we believe these trends will result in improved operating performance and comparable hotel RevPAR growth on a constant US\$ basis of 5.75% to 6.25%.

While we believe that the lodging industry will continue to improve, there can be no assurances that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower than anticipated growth in the economy and changes in travel patterns.

**Capital Expenditures Projects.** We continue to pursue opportunities to enhance asset value through select capital improvements, including projects that are designed specifically to increase the eco-efficiency of our hotels, incorporate elements of sustainable design and replace aging equipment and systems with more efficient technology. Year-to-date, we have completed renovations of 2,800 guestrooms, over 100,000 square feet of meeting space and approximately 60,000 square feet of public space.

**Redevelopment and Return on Investment Capital Expenditures.** Redevelopment and ROI projects primarily consist of large-scale redevelopment projects designed to increase cash flow and improve profitability by capitalizing on changing market conditions and the favorable locations of our properties, including projects such as the redevelopment of a hotel, repositioning of a hotel restaurant or the installation of energy efficient systems. Approximately \$29 million of cash was used for these projects during the first half of 2014, compared to \$47 million used during the first half of 2013. During 2014, we plan to spend between \$65 million and \$75 million for redevelopment and ROI projects. Significant redevelopment and ROI capital expenditures completed during the second quarter included the renovation of approximately 10,000 square feet of restaurant and public space at the Denver Marriott West.

**Acquisition Capital Expenditures.** In conjunction with the acquisition of a property, we prepare capital and operational improvement plans designed to maximize profitability. During the first two quarters of 2014, we spent approximately \$7 million on acquisition capital projects, compared to \$22 million during the first two quarters of 2013. For the full year 2014, we expect to invest between \$25 million and \$30 million.

**Renewal and Replacement Capital Expenditures.** We spent \$71 million and \$147 million on renewal and replacement capital expenditures during the second quarter and year-to-date of 2014, respectively, compared to \$76 million and \$163 million during the second quarter and year-to-date of 2013. These expenditures are designed to ensure that our high standards for product quality are maintained and to enhance the overall competitiveness of our properties in the marketplace. During the second quarter of 2014, we completed the renovation of 428 rooms in the south tower of the Sheraton Boston Hotel along with 2,700 square feet of restaurant and public space. We expect that our investment in renewal and replacement expenditures in 2014 will total approximately \$330 million to \$350 million.

#### Investing activities

**Acquisitions.** We continue to seek investment opportunities in our target markets, which we have identified as those that are expected to have the greatest lodging demand growth, the fewest additions to supply, and consequently the strongest potential for revenue growth. We see increased competition for acquisitions in our target markets due to an abundance of capital and the current availability of inexpensive financing. Consequently, pricing for upper upscale and luxury assets has become more aggressive, and recent transaction values have approached replacement cost levels. Our acquisition strategy also includes the acquisition or development of midscale and upscale properties in select target markets.

**Dispositions.** We attempt to dispose of properties which are considered non-core assets when we believe the potential for growth is constrained or where we are able opportunistically to take advantage of the pricing in the market. During the second half of 2014, we anticipate asset sales totaling approximately \$200 million, although given the nature of these transactions, there can be no assurances that we will complete these sales in this time period.

#### Financing activities

**Debt Transactions.** On June 27, 2014, we completed the amendment and restatement of our revolving credit facility, scheduled to mature in 2015, and our term loan, scheduled to mature in 2017, extending the final maturity for both to

2019, including extensions. The new credit facility also improved pricing and based on Host L.P.'s current unsecured long-term debt rating, the all-in-pricing for borrowings was reduced 30 basis points on the revolver and 32.5 basis points on the term loan. Therefore, U.S. dollar denominated borrowings today on the revolver and term loan would result in an initial all-in rate of 1.35% and 1.28%, respectively.



Results of Operations

The following tables reflect certain line items from our statements of operations (in millions, except percentages):