

HOST HOTELS & RESORTS, INC.

Form 10-Q

October 31, 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 September 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

(State or Other Jurisdiction of (I.R.S. Employer

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Incorporation or Organization)	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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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	<input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Host Hotels & Resorts, L.P.		
Large accelerated filer	<input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

As of October 28, 2014 there were 757,318,670 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.

INDEX

PART I. FINANCIAL INFORMATION

	Page No.
Item 1. Financial Statements for Host Hotels & Resorts, Inc.:	
<u>Condensed Consolidated Balance Sheets -     September 30, 2014 (unaudited) and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Operations (unaudited) -     Quarter and Year-to-date ended September 30, 2014 and 2013</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) -     Quarter and Year-to-date ended September 30, 2014 and 2013</u>	3
<u>Condensed Consolidated Statements of Cash Flows (unaudited) -     Year-to-date ended September 30, 2014 and 2013</u>	4
Financial Statements for Host Hotels & Resorts, L.P.:	
<u>Condensed Consolidated Balance Sheets -     September 30, 2014 (unaudited) and December 31, 2013</u>	6
<u>Condensed Consolidated Statements of Operations (unaudited) -     Quarter and Year-to-date ended September 30, 2014 and 2013</u>	7
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) -     Quarter and Year-to-date ended September 30, 2014 and 2013</u>	8
<u>Condensed Consolidated Statements of Cash Flows (unaudited) -     Year-to-date ended September 30, 2014 and 2013</u>	9
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	47
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48



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

## CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

(in millions, except share and per share amounts)

	September 30, December 31,	
	2014	2013
	(unaudited)	
<b>ASSETS</b>		
Property and equipment, net	\$ 10,629	\$ 10,995
Assets held for sale	74	—
Due from managers	156	52
Advances to and investments in affiliates	409	415
Deferred financing costs, net	37	42
Furniture, fixtures and equipment replacement fund	158	173
Other	254	244
Restricted cash	31	32
Cash and cash equivalents	387	861
Total assets	\$ 12,135	\$ 12,814
<b>LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY</b>		
<b>Debt</b>		
Senior notes, including \$382 million and \$371 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 2,880	\$ 3,018
Credit facility, including the \$500 million term loan	712	946
Mortgage debt	407	709
Other	13	86
Total debt	4,012	4,759
Accounts payable and accrued expenses	244	214
Other	325	389
Total liabilities	4,581	5,362
Non-controlling interests - Host Hotels & Resorts, L.P.	204	190
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized, 755.7 million shares and 754.8 million shares issued and outstanding, respectively	8	8
Additional paid-in capital	8,494	8,492
Accumulated other comprehensive loss	(32)	(9)
Deficit	(1,155)	(1,263)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,315	7,228
Non-controlling interests—other consolidated partnerships	35	34
Total equity	7,350	7,262

Total liabilities, non-controlling interests and equity	\$ 12,135	\$ 12,814
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See notes to condensed consolidated statements.

1

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

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	September 30, 2014	2013	September 30, 2014	2013
<b>REVENUES</b>				
Rooms	\$884	\$825	\$2,613	\$2,479
Food and beverage	330	310	1,150	1,097
Other	80	76	271	259
Total revenues	1,294	1,211	4,034	3,835
<b>EXPENSES</b>				
Rooms	236	226	696	668
Food and beverage	260	248	829	806
Other departmental and support expenses	314	309	949	932
Management fees	55	50	171	162
Other property-level expenses	94	97	289	283
Depreciation and amortization	178	175	524	520
Corporate and other expenses	(38 )	27	25	90
Gain on insurance settlements	(7 )	—	(10 )	—
Total operating costs and expenses	1,092	1,132	3,473	3,461
<b>OPERATING PROFIT</b>	202	79	561	374
Interest income	1	1	3	3
Interest expense	(51 )	(65 )	(164 )	(244 )
Gain on sale of assets	1	—	112	33
Gain (loss) on foreign currency transactions and derivatives	(1 )	(1 )	(2 )	2
Equity in earnings (losses) of affiliates	(1 )	(1 )	(4 )	3
<b>INCOME BEFORE INCOME TAXES</b>	151	13	506	171
Provision for income taxes	(6 )	(11 )	(17 )	(19 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	145	2	489	152
Income from discontinued operations, net of tax	—	16	—	47
<b>NET INCOME</b>	145	18	489	199
Less: Net (income) loss attributable to non-controlling interests	(1 )	1	(11 )	(5 )
<b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp; RESORTS, INC.</b>	\$144	\$19	\$478	\$194
<b>Basic earnings per common share:</b>				
Continuing operations	\$.19	\$.01	\$.63	\$.20
Discontinued operations	—	.02	—	.06
<b>Basic earnings per common share</b>	\$.19	\$.03	\$.63	\$.26
<b>Diluted earnings per common share:</b>				
Continuing operations	\$.19	\$.01	\$.63	\$.20
Discontinued operations	—	.02	—	.06

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Diluted earnings per common share	\$ .19	\$ .03	\$ .63	\$ .26
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See notes to condensed consolidated statements.

2

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
NET INCOME	\$ 145	\$ 18	\$ 489	\$ 199
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive				
income (loss) of unconsolidated affiliates	(47 )	17	(36 )	(12 )
Change in fair value of derivative instruments	12	(5 )	13	—
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(35 )	12	(23 )	(12 )
COMPREHENSIVE INCOME	110	30	466	187
Less: Comprehensive (income) loss attributable to non-controlling interests	(1 )	1	(11 )	(5 )
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$ 109	\$ 31	\$ 455	\$ 182

See notes to condensed consolidated statements.

3

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(unaudited, in millions)

	Year-to-date ended	
	September 30, 2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$489	\$199
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(32 )
Depreciation	—	9
Depreciation and amortization	524	520
Amortization of finance costs, discounts and premiums, net	18	19
Non-cash loss on extinguishment of debt	2	13
Stock compensation expense	15	12
Deferred income taxes	2	11
Gain on sale of assets	(112 )	(33 )
(Gain) loss on foreign currency transactions and derivatives	2	(2 )
Equity in (earnings) losses of affiliates	4	(3 )
Change in due from managers	(102 )	(12 )
Changes in other assets	(19 )	17
Changes in other liabilities	(59 )	(21 )
Cash provided by operating activities	764	697
<b>INVESTING ACTIVITIES</b>		
Proceeds from sales of assets, net	274	446
Return of investment	42	—
Acquisitions	(137 )	(139 )
Advances to and investments in affiliates	(55 )	(71 )
Capital expenditures:		
Renewals and replacements	(218 )	(239 )
Redevelopment and acquisition-related investments	(69 )	(100 )
New development	(9 )	(15 )
Change in furniture, fixtures and equipment ("FF&E") replacement fund	2	(34 )
Property insurance proceeds	2	—
Cash used in investing activities	(168 )	(152 )
<b>FINANCING ACTIVITIES</b>		
Financing costs	(4 )	(4 )

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Issuances of debt	4	400
Draws on credit facility	4	168
Repayment of credit facility	(225 )	(200)
Repurchase/redemption of senior notes	(150 )	(801)
Mortgage debt and other prepayments and scheduled maturities	(373 )	(246)
Scheduled principal repayments	—	(1 )
Issuance of common stock	4	303
Dividends on common stock	(318 )	(222)
Contributions from non-controlling interests	1	4
Distributions to non-controlling interests	(9 )	(7 )
Change in restricted cash for financing activities	1	—
Cash used in financing activities	(1,065)	(606)
Effects of exchange rate changes on cash held	(5 )	(2 )
DECREASE IN CASH AND CASH EQUIVALENTS	(474 )	(63 )
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$387	\$354

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(unaudited)

Supplemental disclosure of cash flow information (in millions)

	Year-to-date ended	
	September 30, 2014	2013
Interest paid - periodic interest expense	\$ 139	\$ 204
Interest paid - debt extinguishments	2	23
Total interest paid	\$ 141	\$ 227
Income taxes paid	\$ 20	\$ 13

Supplemental disclosure of noncash investing and financing activities:

Host Inc. issued approximately 0.2 million shares for both of the year-to-date periods ended September 30, 2014 and 2013 upon the conversion of OP units of Host L.P. held by non-controlling partners valued at approximately \$4 million and \$3 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

September 30, 2014 and December 31, 2013

(in millions)

	September 30, December 31,	
	2014	2013
	(unaudited)	
<b>ASSETS</b>		
Property and equipment, net	\$ 10,629	\$ 10,995
Assets held for sale	74	—
Due from managers	156	52
Advances to and investments in affiliates	409	415
Deferred financing costs, net	37	42
Furniture, fixtures and equipment replacement fund	158	173
Other	254	244
Restricted cash	31	32
Cash and cash equivalents	387	861
Total assets	\$ 12,135	\$ 12,814
<b>LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL</b>		
<b>Debt</b>		
Senior notes, including \$382 million and \$371 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 2,880	\$ 3,018
Credit facility, including the \$500 million term loan	712	946
Mortgage debt	407	709
Other	13	86
Total debt	4,012	4,759
Accounts payable and accrued expenses	244	214
Other	325	389
Total liabilities	4,581	5,362
Limited partnership interests of third parties	204	190
<b>Host Hotels &amp; Resorts, L.P. capital:</b>		
General partner	1	1
Limited partner	7,346	7,236
Accumulated other comprehensive loss	(32 )	(9 )
Total Host Hotels & Resorts, L.P. capital	7,315	7,228
Non-controlling interests—consolidated partnerships	35	34
Total capital	7,350	7,262
Total liabilities, limited partnership interest of third parties and capital	\$ 12,135	\$ 12,814

See notes to condensed consolidated statements.

6

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## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended	
	September 30, 2014	2013	September 30, 2014	2013
<b>REVENUES</b>				
Rooms	\$884	\$825	\$2,613	\$2,479
Food and beverage	330	310	1,150	1,097
Other	80	76	271	259
<b>Total revenues</b>	<b>1,294</b>	<b>1,211</b>	<b>4,034</b>	<b>3,835</b>
<b>EXPENSES</b>				
Rooms	236	226	696	668
Food and beverage	260	248	829	806
Other departmental and support expenses	314	309	949	932
Management fees	55	50	171	162
Other property-level expenses	94	97	289	283
Depreciation and amortization	178	175	524	520
Corporate and other expenses	(38 )	27	25	90
Gain on insurance settlements	(7 )	—	(10 )	—
<b>Total operating costs and expenses</b>	<b>1,092</b>	<b>1,132</b>	<b>3,473</b>	<b>3,461</b>
<b>OPERATING PROFIT</b>	<b>202</b>	<b>79</b>	<b>561</b>	<b>374</b>
Interest income	1	1	3	3
Interest expense	(51 )	(65 )	(164 )	(244 )
Gain on sale of assets	1	—	112	33
Gain (loss) on foreign currency transactions and derivatives	(1 )	(1 )	(2 )	2
Equity in earnings (losses) of affiliates	(1 )	(1 )	(4 )	3
<b>INCOME BEFORE INCOME TAXES</b>	<b>151</b>	<b>13</b>	<b>506</b>	<b>171</b>
Provision for income taxes	(6 )	(11 )	(17 )	(19 )
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>145</b>	<b>2</b>	<b>489</b>	<b>152</b>
Income from discontinued operations, net of tax	—	16	—	47
<b>NET INCOME</b>	<b>145</b>	<b>18</b>	<b>489</b>	<b>199</b>
Less: Net (income) loss attributable to non-controlling interests	1	1	(4 )	(2 )
<b>NET INCOME ATTRIBUTABLE TO HOST HOTELS &amp; RESORTS, L.P.</b>	<b>\$ 146</b>	<b>\$ 19</b>	<b>\$ 485</b>	<b>\$ 197</b>
<b>Basic earnings per common unit:</b>				
Continuing operations	\$.19	\$.01	\$.65	\$.21
Discontinued operations	—	.02	—	.06
<b>Basic earnings per common unit</b>	<b>\$.19</b>	<b>\$.03</b>	<b>\$.65</b>	<b>\$.27</b>
<b>Diluted earnings per common unit:</b>				
Continuing operations	\$.19	\$.01	\$.65	\$.21
Discontinued operations	—	.02	—	.06

Diluted earnings per common unit	\$ .19	\$ .03	\$ .65	\$ .27
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See notes to condensed consolidated statements.

## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
NET INCOME	\$ 145	\$ 18	\$ 489	\$ 199
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive				
income (loss) of unconsolidated affiliates	(47 )	17	(36 )	(12 )
Change in fair value of derivative instruments	12	(5 )	13	—
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(35 )	12	(23 )	(12 )
COMPREHENSIVE INCOME	110	30	466	187
Less: Comprehensive (income) loss attributable to non-controlling interests	1	1	(4 )	(2 )
COMPREHENSIVE INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$ 111	\$ 31	\$ 462	\$ 185

See notes to condensed consolidated statements.

8

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## HOST HOTELS &amp; RESORTS, L.P. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(unaudited, in millions)

	Year-to-date ended	
	September 30, 2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$489	\$199
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	—	(32 )
Depreciation	—	9
Depreciation and amortization	524	520
Amortization of finance costs, discounts and premiums, net	18	19
Non-cash loss on extinguishment of debt	2	13
Stock compensation expense	15	12
Deferred income taxes	2	11
Gain on sale of assets	(112 )	(33 )
(Gain) loss on foreign currency transactions and derivatives	2	(2 )
Equity in (earnings) losses of affiliates	4	(3 )
Change in due from managers	(102 )	(12 )
Changes in other assets	(19 )	17
Changes in other liabilities	(59 )	(21 )
Cash provided by operating activities	764	697
<b>INVESTING ACTIVITIES</b>		
Proceeds from sales of assets, net	274	446
Return of investment	42	—
Acquisitions	(137 )	(139 )
Advances to and investments in affiliates	(55 )	(71 )
Capital expenditures:		
Renewals and replacements	(218 )	(239 )
Redevelopment and acquisition-related investments	(69 )	(100 )
New development	(9 )	(15 )
Change in furniture, fixtures and equipment ("FF&E") replacement fund	2	(34 )
Property insurance proceeds	2	—
Cash used in investing activities	(168 )	(152 )
<b>FINANCING ACTIVITIES</b>		
Financing costs	(4 )	(4 )

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Issuances of debt	4	400
Draws on credit facility	4	168
Repayment of credit facility	(225 )	(200)
Repurchase/redemption of senior notes	(150 )	(801)
Mortgage debt and other prepayments and scheduled maturities	(373 )	(246)
Scheduled principal repayments	—	(1 )
Issuance of common OP units	4	303
Distributions on common OP units	(322 )	(225)
Contributions from non-controlling interests	1	4
Distributions to non-controlling interests	(5 )	(4 )
Change in restricted cash for financing activities	1	—
Cash used in financing activities	(1,065)	(606)
Effects of exchange rate changes on cash held	(5 )	(2 )
DECREASE IN CASH AND CASH EQUIVALENTS	(474 )	(63 )
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	861	417
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$387	\$354

See notes to condensed consolidated statements



HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended	
	September 30, 2014	2013
Interest paid - periodic interest expense	\$ 139	\$ 204
Interest paid - debt extinguishments	2	23
Total interest paid	\$ 141	\$ 227
Income taxes paid	\$ 20	\$ 13

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended September 30, 2014 and 2013, limited partners converted OP units valued at approximately \$4 million and \$3 million, respectively, in exchange for approximately 0.2 million shares for both of the year-to-date periods ended September 30, 2014 and 2013 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 these 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 September 30, 2014, Host Inc. holds approximately 99% of Host L.P.’s OP units.

## Consolidated Portfolio

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

	Hotels
United States	100
Australia	1
Brazil	1
Canada	3
Chile	2
Mexico	1
New Zealand	7
Total	115

## 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”) (9 hotels).

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

	Hotels
Belgium	3
France	4
Germany	2
Italy	3
Poland	1
Spain	2
Sweden	1
The Netherlands	2
United Kingdom	2
Total	20

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 that owns three operating hotels and four 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 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 financial statements reflect all adjustments necessary to present fairly our financial position as of September 30, 2014, and the results of our operations for the quarter and year-to-date periods ended September 30, 2014 and 2013, respectively, and cash flows for the year-to-date periods ended September 30, 2014 and 2013, respectively. Interim results are not necessarily indicative of full year performance because of the impact of seasonal 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.

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

12

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

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	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income	\$145	\$18	\$489	\$199
Less: Net (income) loss attributable to non-controlling interests	(1 )	1	(11 )	(5 )
Net income attributable to Host Inc.	\$144	\$19	\$478	\$194
Diluted income attributable to Host Inc.	\$144	\$19	\$478	\$194
Basic weighted average shares outstanding	755.6	749.0	755.3	740.9
Assuming weighted average shares for conversion of exchangeable senior debentures	—	—	—	3.2
Assuming distribution of common shares granted under the comprehensive stock plans, less shares assumed purchased at market	0.8	0.7	0.7	0.8
Diluted weighted average shares outstanding <sup>(1)</sup>	756.4	749.7	756.0	744.9
Basic earnings per common share	\$.19	\$.03	\$.63	\$.26
Diluted earnings per common share	\$.19	\$.03	\$.63	\$.26

(1) There were approximately 30 million potentially dilutive shares for both the quarter and year-to-date periods ended September 30, 2014, and approximately 30 million and 29 million potentially dilutive shares for the quarter and year-to-date periods ended September 30, 2013, respectively, 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. Net 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  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

## 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	
	September 30, 2014	2013	September 30, 2014	2013
Net income	\$145	\$18	\$489	\$199
Less: Net (income) loss attributable to non-controlling interests	1	1	(4)	(2)
Net income attributable to Host L.P.	\$146	\$19	\$485	\$197
Diluted income attributable to Host L.P.	\$146	\$19	\$485	\$197
Basic weighted average units outstanding	749.1	743.0	748.8	735.1
Assuming weighted average units for conversion of exchangeable senior debentures	—	—	—	3.1
Assuming distribution of common units granted under the comprehensive stock plans, less units assumed purchased at market	0.8	0.6	0.7	0.8
Diluted weighted average units outstanding <sup>(1)</sup>	749.9	743.6	749.5	739.0
Basic earnings per common unit	\$.19	\$.03	\$.65	\$.27
Diluted earnings per common unit	\$.19	\$.03	\$.65	\$.27

(1) There were approximately 30 million potentially dilutive units for both the quarter and year-to-date periods ended September 30, 2014, respectively, and approximately 29 million potentially dilutive units for both the quarter and year-to-date periods ended September 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):

	September 30,	December 31,
	2014	2013
Land and land improvements	\$ 1,993	\$ 1,973
Buildings and leasehold improvements	13,318	13,435
Furniture and equipment	2,209	2,223
Construction in progress	188	176
	17,708	17,807
Less accumulated depreciation and amortization	(7,079 )	(6,812 )
	\$ 10,629	\$ 10,995

## 5. Investment In Affiliates

On September 30, 2014, the Euro JV Fund II acquired a 90% ownership interest in the 394-room Grand Hotel Esplanade in Berlin. The hotel was acquired based on an aggregate gross value of €81 million (\$102 million), and is

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

subject to approximately €48 million (\$61 million) of debt with a margin of 219 basis points over the Euro Interbank Offered Rate (“Euribor”), which is non-recourse to the Euro JV. We contributed approximately €10 million (\$14 million) to the Euro JV in connection with this acquisition, partially funded through a draw on our credit facility.

Subsequent to quarter end, on October 16, 2014, the Euro JV Fund I sold the 350-room Sheraton Skyline Hotel & Conference Centre for £33 million (\$53 million).

#### 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	478	4	482	7
Issuance of common stock	15	—	15	—
Dividends declared on common stock	(370 )	—	(370 )	—
Distributions to non-controlling interests	—	(5 )	(5 )	(4 )
Other changes in ownership	(13 )	2	(11 )	11
Other comprehensive loss	(23 )	—	(23 )	—
Balance, September 30, 2014	\$7,315	\$ 35	\$7,350	\$ 204

##### Capital of Host L.P.

As of September 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.

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	478	4	482	7
Issuance of common OP units	15	—	15	—
Distributions declared on common OP units	(370 )	—	(370 )	(4 )
Distributions to non-controlling interests	—	(5 )	(5 )	—
Other changes in ownership	(13 )	2	(11 )	11
Other comprehensive loss	(23 )	—	(23 )	—
Balance, September 30, 2014	\$7,315	\$ 35	\$7,350	\$ 204

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 September 30, 2014.

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

### Dividends/Distributions

On July 31, 2014, Host Inc.'s Board of Directors declared a regular dividend of \$0.20 per share on its common stock. The dividend was paid on October 15, 2014 to stockholders of record as of September 30, 2014. Accordingly, Host L.P. made a distribution of \$0.2042988 per unit on its common OP units based on the current conversion ratio.

### 7. Dispositions

Effective January 1, 2014, we adopted ASU 2014-08 Reporting for Discontinued Operations. As a result, operations and any gain or loss on sale of hotels sold subsequent to December 31, 2013 will continue to be reported in 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.

On October 1, 2014, we sold the Tampa Marriott Waterside Hotel & Marina for approximately \$199 million, which includes a \$9 million FF&E replacement fund retained at the hotel. The hotel is classified as held for sale as of September 30, 2014. We will record a gain on sale of approximately \$115 million in the fourth quarter. Additionally, during the first quarter of 2014, we sold an 89% controlling interest in the Philadelphia Marriott Downtown based on a gross sales price of \$303 million and sold the Courtyard Nashua for approximately \$10 million.

The following table provides summary results of operations for the hotel held for sale and two hotels sold in 2014, which are included in continuing operations (in millions):

	Quarter ended		Year-to-date ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues	\$ 11	\$ 35	\$ 45	\$ 117
Income before income taxes	2	1	11	14
Gain on disposition	—	—	112	—

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

	Quarter ended	Year-to-date ended
	September 30, 2013	September 30, 2013
Revenues	\$ 21	\$ 91
Income before income taxes	3	20
Gain on disposition, net of tax	14	32

### 8. Acquisitions

On August 11, 2014, we acquired the 242-room b2 miami downtown hotel for approximately \$58 million. On January 21, 2014, we acquired the 151-room Powell Hotel in San Francisco, California, including retail space, for approximately \$75 million. Accounting for acquisitions requires an allocation of the purchase price to the assets acquired and the liabilities assumed at their respective estimated fair values. The purchase price allocation for the b2 miami downtown hotel is estimated based on currently available information; however, we still are in the process of obtaining appraisals and finalizing the accounting for this acquisition. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed related to these acquisitions (in millions):

Property and equipment	\$ 131
Other assets	3
Total assets	134
Other liabilities	(1 )
Net assets acquired	\$ 133

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

Our summarized unaudited consolidated pro forma results of operations, assuming the acquisitions that were 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 ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues	\$1,295	\$1,215	\$4,042	\$3,843
Income from continuing operations	145	3	492	154
Net income	145	19	492	201
<b>Host Inc.:</b>				
Net income attributable to Host Inc.	\$144	\$20	\$481	\$196
<b>Basic earnings per common share:</b>				
Continuing operations	\$.19	\$.01	\$.64	\$.20
Discontinued operations	—	.02	—	.06
Basic earnings per common share	\$.19	\$.03	\$.64	\$.26
<b>Diluted earnings per common share:</b>				
Continuing operations	\$.19	\$.01	\$.64	\$.20
Discontinued operations	—	.02	—	.06
Diluted earnings per common share				