

HOST HOTELS & RESORTS, INC.
Form 10-Q
November 06, 2013

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, 2013

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)

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Maryland (Host Hotels & Resorts, Inc.)	53-008595
Delaware (Host Hotels & Resorts, L.P.)	52-2095412
(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 <input type="checkbox"/>	No <input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes <input 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 type="checkbox"/>	No <input type="checkbox"/>
Host Hotels & Resorts, L.P.	Yes <input 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 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.		

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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

As of November 4, 2013 there were 756,282,849 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 98.7% 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, 2012 under the heading Explanatory Note.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2013 and December 31, 2012

(in millions, except share and per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Property and equipment, net	\$ 11,110	\$ 11,588
Assets held for sale	42	
Due from managers	85	80
Advances to and investments in affiliates	425	347
Deferred financing costs, net	43	53
Furniture, fixtures and equipment replacement fund	188	154
Other	280	319
Restricted cash	36	36
Cash and cash equivalents	354	417
Total assets	\$ 12,563	\$ 12,994
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
Senior notes, including \$367 million and \$531 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 3,014	\$ 3,569
Credit facility, including the \$500 million term loan	729	763
Mortgage debt	732	993
Other	85	86
Total debt	4,560	5,411
Accounts payable and accrued expenses	193	194
Other	373	372
Total liabilities	5,126	5,977
Non-controlling interests Host Hotels & Resorts, L.P.	175	158
Host Hotels & Resorts, Inc. stockholders' equity:		
Common stock, par value \$.01, 1,050 million shares authorized; 754.6 million and 724.6 million shares issued and outstanding, respectively	8	7
Additional paid-in capital	8,506	8,040
Accumulated other comprehensive income		12
Deficit	(1,288)	(1,234)
Total equity of Host Hotels & Resorts, Inc. stockholders	7,226	6,825
Non-controlling interests other consolidated partnerships	36	34

Total equity		7,262		6,859
Total liabilities, non-controlling interests and equity	\$	12,563	\$	12,994

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	September 30, 2013	September 7, 2012	September 30, 2013	September 7, 2012
REVENUES				
Rooms	\$ 832	\$ 745	\$ 2,500	\$ 2,083
Food and beverage	314	283	1,108	944
Other	68	65	224	199
Ow ned hotel revenues	1,214	1,093	3,832	3,226
Other revenues	9	65	39	189
Total revenues	1,223	1,158	3,871	3,415
EXPENSES				
Rooms	229	207	674	569
Food and beverage	251	233	815	704
Other departmental and support expenses	313	292	944	833
Management fees	50	43	163	130
Other property-level expenses	97	136	285	398
Depreciation and amortization	177	155	524	454
Corporate and other expenses	27	31	90	74
Total operating costs and expenses	1,144	1,097	3,495	3,162
OPERATING PROFIT	79	61	376	253
Interest income	1	4	3	11
Interest expense	(65)	(93)	(244)	(272)
Net gains on property transactions and other		1	33	3
Gain (loss) on foreign currency transactions and derivatives	(1)	(1)	2	(2)
Equity in earnings (losses) of affiliates	(1)	(1)	3	2
INCOME (LOSS) BEFORE INCOME TAXES	13	(29)	173	(5)
Provision for income taxes	(11)	(11)	(19)	(10)
INCOME (LOSS) FROM CONTINUING OPERATIONS	2	(40)	154	(15)
Income from discontinued operations, net of tax	16	4	45	63
NET INCOME (LOSS)	18	(36)	199	48
Less: Net (income) loss attributable to non-controlling interests	1	2	(5)	(2)
NET INCOME (LOSS) ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	\$ 19	\$ (34)	\$ 194	\$ 46
Basic earnings (loss) per common share:				

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Continuing operations	\$.01	\$ (.05)	\$.20	\$ (.02)
Discontinued operations	.02		.06	.08
Basic earnings (loss) per common share	\$.03	\$ (.05)	\$.26	\$.06
Diluted earnings (loss) per common share:				
Continuing operations	\$.01	\$ (.05)	\$.20	\$ (.02)
Discontinued operations	.02		.06	.08
Diluted earnings (loss) per common share	\$.03	\$ (.05)	\$.26	\$.06

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30,	September 7,	September 30,	September 7,
	2013	2012	2013	2012
NET INCOME (LOSS)	\$ 18	\$ (36)	\$ 199	\$ 48
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	17	18	(12)	10
Change in fair value of derivative instruments	(5)	(2)		
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	12	16	(12)	10
COMPREHENSIVE INCOME (LOSS)	30	(20)	187	58
Less: Comprehensive (income) loss attributable to non-controlling interests	1	2	(5)	(2)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC	\$ 31	\$ (18)	\$ 182	\$ 56

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited, in millions)

	Year-to-date ended	
	September 30, 2013	September 7, 2012
OPERATING ACTIVITIES		
Net income	\$ 199	\$ 48
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	(32)	(48)
Depreciation	5	19
Depreciation and amortization	524	454
Amortization of finance costs, discounts and premiums, net	19	14
Stock compensation expense	12	14
Deferred income taxes	11	4
Net gains on property transactions and other	(33)	(3)
(Gain) loss on foreign currency transactions and derivatives	(2)	2
Non-cash loss on extinguishment of debt	13	8
Equity in earnings of affiliates	(3)	(2)
Change in due from managers	(12)	(61)
Changes in other assets	17	(3)
Changes in other liabilities	(21)	(22)
Cash provided by operating activities	697	424
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	446	113
Acquisitions	(139)	(441)
Advances to and investments in affiliates	(71)	(31)
Capital expenditures:		
Renewals and replacements	(239)	(245)
Redevelopment and acquisition-related investments	(100)	(211)
New development	(15)	
Change in furniture, fixtures and equipment (FF&E) replacement fund	(34)	(11)
Property insurance proceeds		4
Cash used in investing activities	(152)	(822)
FINANCING ACTIVITIES		
Financing costs	(4)	(17)
Issuances of debt	400	900
Draws on credit facility	168	135
Term loan issuance		500

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Repayment on credit facility	(200)	(8)
Repurchase/redemption of senior notes	(801)	(1,693)
Mortgage debt prepayments and scheduled maturities	(246)	(113)
Scheduled principal repayments	(1)	(2)
Issuance of common stock	303	255
Dividends on common stock	(222)	(129)
Contributions from non-controlling interests	4	1
Distributions to non-controlling interests	(7)	(5)
Change in restricted cash for financing activities		1
Cash used in financing activities	(606)	(175)
Effects of exchange rate changes on cash held	(2)	1
DECREASE IN CASH AND CASH EQUIVALENTS	(63)	(572)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	417	826
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 354	\$ 254

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited)

Supplemental disclosure of cash flow information (in millions)

	Year-to-date ended	
	September 30,	September 7,
	2013	2012
Interest paid periodic interest expense	\$ 204	\$ 233
Interest paid debt extinguishments	23	19
Total interest paid	\$ 227	\$ 252
Income taxes paid	\$ 13	\$ 9

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended September 30, 2013 and September 7, 2012, Host Inc. issued approximately 0.2 million shares and 0.5 million shares, respectively, upon the conversion of OP units of Host L.P. held by non-controlling partners valued at approximately \$3 million and \$8 million, respectively.

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

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2013 and December 31, 2012

(in millions)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Property and equipment, net	\$ 11,110	\$ 11,588
Assets held for sale	42	
Due from managers	85	80
Advances to and investments in affiliates	425	347
Deferred financing costs, net	43	53
Furniture, fixtures and equipment replacement fund	188	154
Other	280	319
Restricted cash	36	36
Cash and cash equivalents	354	417
Total assets	\$ 12,563	\$ 12,994
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
Senior notes, including \$367 million and \$531 million, respectively, net of discount, of Exchangeable Senior Debentures	\$ 3,014	\$ 3,569
Credit facility, including the \$500 million term loan	729	763
Mortgage debt	732	993
Other	85	86
Total debt	4,560	5,411
Accounts payable and accrued expenses	193	194
Other	373	372
Total liabilities	5,126	5,977
Limited partnership interests of third parties	175	158
Host Hotels & Resorts, L.P. capital:		
General partner	1	1
Limited partner	7,225	6,812
Accumulated other comprehensive income		12
Total Host Hotels & Resorts, L.P. capital	7,226	6,825
Non-controlling interests consolidated partnerships	36	34

Total capital		7,262		6,859
Total liabilities, limited partnership interest of third parties and capital	\$	12,563	\$	12,994

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Quarter and Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited, in millions, except per unit amounts)

	Quarter ended		Year-to-date ended	
	September 30,	September 7,	September 30,	September 7,
	2013	2012	2013	2012
REVENUES				
Rooms	\$ 832	\$ 745	\$ 2,500	\$ 2,083
Food and beverage	314	283	1,108	944
Other	68	65	224	199
Owned hotel revenues	1,214	1,093	3,832	3,226
Other revenues	9	65	39	189
Total revenues	1,223	1,158	3,871	3,415
EXPENSES				
Rooms	229	207	674	569
Food and beverage	251	233	815	704
Other departmental and support expenses	313	292	944	833
Management fees	50	43	163	130
Other property-level expenses	97	136	285	398
Depreciation and amortization	177	155	524	454
Corporate and other expenses	27	31	90	74
Total operating costs and expenses	1,144	1,097	3,495	3,162
OPERATING PROFIT	79	61	376	253
Interest income	1	4	3	11
Interest expense	(65)	(93)	(244)	(272)
Net gains on property transactions and other		1	33	3
Gain (loss) on foreign currency transactions and derivatives	(1)	(1)	2	(2)
Equity in earnings (losses) of affiliates	(1)	(1)	3	2
INCOME (LOSS) BEFORE INCOME TAXES	13	(29)	173	(5)
Provision for income taxes	(11)	(11)	(19)	(10)
INCOME (LOSS) FROM CONTINUING OPERATIONS	2	(40)	154	(15)
Income from discontinued operations, net of tax.	16	4	45	63
NET INCOME (LOSS)	18	(36)	199	48
Less: Net (income) loss attributable to non-controlling interests	1	1	(2)	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$ 19	\$ (35)	\$ 197	\$ 47
Basic earnings (loss) per common unit:				
Continuing operations	\$.01	\$ (.05)	\$.21	\$ (.02)
Discontinued operations	.02		.06	.09

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Basic earnings (loss) per common unit	\$.03	\$ (.05)	\$.27	\$.07
Diluted earnings (loss) per common unit:				
Continuing operations	\$.01	\$ (.05)	\$.21	\$ (.02)
Discontinued operations	.02		.06	.09
Diluted earnings (loss) per common unit	\$.03	\$ (.05)	\$.27	\$.07

See notes to condensed consolidated statements.

HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Quarter and Year-to-date ended September 30, 2013 and September 7, 2012

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	September 30,	September 7,	September 30,	September 7,
	2013	2012	2013	2012
NET INCOME (LOSS)	\$ 18	\$ (36)	\$ 199	\$ 48
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Foreign currency translation and other comprehensive income (loss) of unconsolidated affiliates	17	18	(12)	10
Change in fair value of derivative instruments	(5)	(2)		
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	12	16	(12)	10
COMPREHENSIVE INCOME (LOSS)	30	(20)	187	58
Less: Comprehensive (income) loss attributable to non-controlling interests	1	1	(2)	(1)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	\$ 31	\$ (19)	\$ 185	\$ 57

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, 2013 and September 7, 2012

(unaudited, in millions)

	Year-to-date ended	
	September 30,	September 7,
	2013	2012
OPERATING ACTIVITIES		
Net income	\$ 199	\$ 48
Adjustments to reconcile to cash provided by operations:		
Discontinued operations:		
Gain on dispositions	(32)	(48)
Depreciation	5	19
Depreciation and amortization	524	454
Amortization of financing costs, discounts and premiums, net	19	14
Stock compensation expense	12	14
Deferred income taxes	11	4
Net gains on property transactions and other	(33)	(3)
(Gain) loss on foreign currency transactions and derivatives	(2)	2
Non-cash loss on extinguishment of debt	13	8
Equity in earnings of affiliates	(3)	(2)
Change in due from managers	(12)	(61)
Changes in other assets	17	(3)
Changes in other liabilities	(21)	(22)
Cash provided by operations	697	424
INVESTING ACTIVITIES		
Proceeds from sales of assets, net	446	113
Acquisitions	(139)	(441)
Advances to and investments in affiliates	(71)	(31)
Capital expenditures:		
Renewals and replacements	(239)	(245)
Redevelopment and acquisition-related investments	(100)	(211)
New development	(15)	
Change in furniture, fixtures and equipment (FF&E) replacement fund	(34)	(11)
Property insurance proceeds		4
Cash used in investing activities	(152)	(822)
FINANCING ACTIVITIES		
Financing costs	(4)	(17)
Issuances of debt	400	900
Draws on credit facility	168	135
Term loan issuance		500
Repayment on credit facility	(200)	(8)
Repurchase/redemption of senior notes	(801)	(1,693)

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Mortgage debt prepayments and scheduled maturities	(246)	(113)
Scheduled principal repayments	(1)	(2)
Issuance of common OP units	303	255
Distributions on common OP units	(225)	(131)
Contributions from non-controlling interests	4	1
Distributions to non-controlling interests	(4)	(3)
Change in restricted cash for financing activities		1
Cash used in financing activities	(606)	(175)
Effects of exchange rate changes on cash held	(2)	1
DECREASE IN CASH AND CASH EQUIVALENTS	(63)	(572)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	417	826
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 354	\$ 254

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, 2013 and September 7, 2012

(unaudited)

Supplemental disclosure of cash flow information (in millions):

	Year-to-date ended	
	September 30,	September 7,
	2013	2012
Interest paid periodic interest expenses	\$ 204	\$ 233
Interest paid debt extinguishments	23	19
Total interest paid	\$ 227	\$ 252
Income taxes paid	\$ 13	\$ 9

Supplemental disclosure of noncash investing and financing activities:

For the year-to-date periods ended September 30, 2013 and September 7, 2012, limited partners converted OP units valued at approximately \$3 million and \$8 million, respectively, in exchange for approximately 0.2 million and 0.5 million shares, respectively, of Host Inc. common stock.

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

See notes to condensed consolidated statements.

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

1. Organization

Description of Business

Host Hotels & Resorts, Inc. operates as a self-managed and self-administered real estate investment trust (REIT), with its operations conducted solely through Host Hotels & Resorts, L.P. and its subsidiaries. Host Hotels & Resorts, L.P., a Delaware limited partnership, operates through an umbrella partnership structure, with Host Hotels & Resorts, Inc., a Maryland corporation, as its sole general partner. In the notes to the condensed consolidated financial statements, we use the terms we or our to refer to Host Hotels & Resorts, Inc. and Host Hotels & Resorts, L.P. together, unless the context indicates otherwise. We also use the term Host Inc. specifically to refer to Host Hotels & Resorts, Inc. and the term Host L.P. specifically to refer to Host Hotels & Resorts, L.P. in cases where it is important to distinguish between Host Inc. and Host L.P. As of September 30, 2013, Host Inc. holds approximately 98.7% of Host L.P.'s OP units.

Consolidated Portfolio

As of September 30, 2013, our consolidated portfolio, primarily consisting of luxury and upper upscale hotels, is detailed below:

	Hotels
United States	103
Australia	1
Brazil	1
Canada	3
Chile	2
Mexico	1
New Zealand	7
Total	118

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, 2013, the Euro JV owned hotels located in the following countries:

	Hotels
Belgium	3
France	5
Germany	1
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 with two hotels in India.

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

Change in Reporting Periods

Effective January 1, 2013, we report quarterly operating results on a calendar cycle, which now is consistent across all of our hotel managers and the majority of companies in the lodging industry. Historically, our annual financial statements have been reported on a calendar basis and are unaffected by this change. However, our quarterly operating results had been reported based on a 52-53 week fiscal calendar used by Marriott International, Inc. (Marriott), the manager of approximately 50% of our properties. For 2013, Marriott converted to reporting results based on a 12-month calendar year. During 2012, Marriott used a fiscal year ending on the Friday closest to December 31 and reported twelve weeks of operations for the first three quarters and sixteen weeks for the fourth quarter of the year for its Marriott-managed hotels. Accordingly, our first three quarters of operations in 2012 ended on March 23, June 15 and September 7. In contrast, managers of our other hotels, such as Ritz-Carlton, Hyatt, and Starwood, reported results on a monthly basis. During 2012, we did not report the month of operations that ended after our fiscal quarter until the following quarter for those hotels using a monthly reporting period because these hotel managers did not make mid-month results available to us. Accordingly, the month of operations that ended after our fiscal quarter was included in our quarterly results of operations in the following quarter for those calendar reporting hotel managers. As a result, our 2012 quarterly results of operations include results from hotel managers reporting results on a monthly basis as follows: first quarter (January, February), second quarter (March to May), third quarter (June to August) and fourth quarter (September to December).

We will not restate the previously filed 2012 quarterly financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) because certain property-level operating expenses for our Marriott-managed properties necessary to restate operations are unavailable on a daily basis. Because we rely upon our operators for the hotel operating results used in our financial statements, the unavailability of this information on a calendar quarter basis for 2012 made restating our financial statements in accordance with GAAP unfeasible. Accordingly, the corresponding 2012 quarterly historical operating results are not comparable to our 2013 quarterly operating results.

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, 2012.

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 September 30, 2013, and the results of our operations for the quarter and year-to-date periods ended September 30, 2013 and September 7, 2012, respectively, and cash flows for the year-to-date periods ended September 30, 2013 and September 7, 2012. Interim results are not necessarily indicative of full year performance because of the impact of seasonal and short-term variations.

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

3. Earnings (Loss) Per Common Share (Unit)

Host Inc. Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of Host Inc. common stock outstanding. Diluted earnings (loss) per common share is computed by dividing net income (loss) 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 (loss) per common share is shown below (in millions, except per share amounts):

	Quarter ended		Year-to-date ended	
	September 30, 2013	September 7, 2012	September 30, 2013	September 7, 2012
Net income (loss)	\$ 18	\$ (36)	\$ 199	\$ 48
Less: Net (income) loss attributable to non-controlling interests	1	2	(5)	(2)
Net income (loss) attributable to Host Inc.	\$ 19	\$ (34)	\$ 194	\$ 46
Diluted income (loss) attributable to Host Inc.	\$ 19	\$ (34)	\$ 194	\$ 46
Basic weighted average shares outstanding	749.0	721.3	740.9	715.7
Diluted weighted average shares outstanding (a)	749.7	721.3	744.9	715.7
Basic earnings (loss) per common share	\$.03	\$ (.05)	\$.26	\$.06
Diluted earnings (loss) per common share	\$.03	\$ (.05)	\$.26	\$.06

(a) There were approximately 30 million and 29 million for the quarter and year-to-date periods ended September 30, 2013, respectively, and approximately 40 million for both the quarter and year-to-date periods

ended September 7, 2012, potentially dilutive shares for our exchangeable senior debentures, which shares were not included in the computation of diluted earnings (loss) per share because to do so would have been anti-dilutive for the period.

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

Host L.P. Earnings (Loss) Per Common Unit

Basic earnings (loss) per common unit is computed by dividing net income (loss) attributable to common unitholders by the weighted average number of common units outstanding. Diluted earnings (loss) per common unit is computed by dividing net income (loss) 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 (loss) per unit is shown below (in millions, except per unit amounts):

	Quarter ended		Year-to-date ended	
	September 30,	September 7,	September 30,	September 7,
	2013	2012	2013	2012
Net income (loss)	\$ 18	\$ (36)	\$ 199	\$ 48
Less: Net (income) loss attributable to non-controlling interests	1	1	(2)	(1)
Net income (loss) attributable to Host L.P.	\$ 19	\$ (35)	\$ 197	\$ 47
Diluted income (loss) attributable to Host L.P.	\$ 19	\$ (35)	\$ 197	\$ 47
Basic weighted average units outstanding	743.0	716.2	735.1	710.8
Diluted weighted average units outstanding (a)	743.6	716.2	739.0	710.8
Basic earnings (loss) per common unit	\$.03	\$ (.05)	\$.27	\$.07
Diluted earnings (loss) per common unit	\$.03	\$ (.05)	\$.27	\$.07

(a) There were approximately 29 million for both the quarter and year-to-date periods ended September 30, 2013 and approximately 40 million and 39 million for the quarter and year-to-date ended September 7, 2012, respectively, potentially dilutive units for our exchangeable senior debentures, which units were not included in the computation of diluted earnings (loss) 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, 2013	December 31, 2012
Land and land improvements	\$ 1,948	\$ 1,996
Buildings and leasehold improvements	13,478	