HOST HOTELS & RESORTS, INC.
Form 10-Q
October 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x 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

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 þ	No ¨
Host Hotels & Resorts, L.P.	Yes þ	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 þ	No ¨
Host Hotels & Resorts, L.P.	Yes þ	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	þ	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)	þ	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 þ
Host Hotels & Resorts, L.P.	Yes ¨	No þ

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.

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PART I. FINANCIAL INFORMATION

HOST HOTELS & 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, 2014 (unaudited)	December 31, 2013
ASSETS		
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
LIABILITIES, NON-CONTROLLING INTERESTS AND EQUITY		
Debt		
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

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(unaudited, in millions, except per share amounts)

	Quarter ended		Year-to-date ended	
	September 30,		September 30,	
	2014	2013	2014	2013
REVENUES				
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
EXPENSES				
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
OPERATING PROFIT	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
INCOME BEFORE INCOME TAXES	151	13	506	171
Provision for income taxes	(6)	(11)	(17)	(19)
INCOME FROM CONTINUING OPERATIONS	145	2	489	152
Income from discontinued operations, net of tax	—	16	—	47
NET INCOME	145	18	489	199
Less: Net (income) loss attributable to non-controlling interests	(1)	1	(11)	(5)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, INC.	$144	$19	$478	$194
Basic earnings per common share:				
Continuing operations	$.19	$.01	$.63	$.20
Discontinued operations	—	.02	—	.06
Basic earnings per common share	$.19	$.03	$.63	$.26
Diluted earnings per common share:				
Continuing operations	$.19	$.01	$.63	$.20
Discontinued operations	—	.02	—	.06

Diluted earnings per common share	$ .19	$ .03	$ .63	$ .26

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, 2014 and 2013

(unaudited, in millions)

	Quarter ended September 30,		Year-to-date ended 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.

HOST HOTELS & 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	Year-to-date ended September 30, 2013
OPERATING ACTIVITIES		
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
INVESTING ACTIVITIES		
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)
FINANCING ACTIVITIES		
Financing costs	(4)	(4)

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 & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

(in millions)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
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
LIABILITIES, LIMITED PARTNERSHIP INTERESTS OF THIRD PARTIES AND CAPITAL		
Debt		
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
Host Hotels & Resorts, L.P. capital:		
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.

HOST HOTELS & 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 September 30,		Year-to-date ended September 30,	
	2014	2013	2014	2013
REVENUES				
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
EXPENSES				
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
OPERATING PROFIT	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
INCOME BEFORE INCOME TAXES	151	13	506	171
Provision for income taxes	(6)	(11)	(17)	(19)
INCOME FROM CONTINUING OPERATIONS	145	2	489	152
Income from discontinued operations, net of tax	—	16	—	47
NET INCOME	145	18	489	199
Less: Net (income) loss attributable to non-controlling interests	1	1	(4)	(2)
NET INCOME ATTRIBUTABLE TO HOST HOTELS & RESORTS, L.P.	$ 146	$ 19	$ 485	$ 197
Basic earnings per common unit:				
Continuing operations	$ .19	$ .01	$ .65	$ .21
Discontinued operations	—	.02	—	.06
Basic earnings per common unit	$ .19	$ .03	$ .65	$ .27
Diluted earnings per common unit:				
Continuing operations	$ .19	$ .01	$ .65	$ .21
Discontinued operations	—	.02	—	.06

Diluted earnings per common unit	$ .19	$ .03	$ .65	$ .27

See notes to condensed consolidated statements.

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HOST HOTELS & RESORTS, L.P. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

(unaudited, in millions)

	Quarter ended		Year-to-date ended	
	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.

HOST HOTELS & 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
OPERATING ACTIVITIES		
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
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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
INVESTING ACTIVITIES		
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)
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Cash used in investing activities	(168)	(152)
FINANCING ACTIVITIES		
Financing costs	(4)	(4)

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 & 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 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.

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 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,		September 30,	
	2014	2013	2014	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 (1)	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.

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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	
	September 30,		September 30,	
	2014	2013	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 (1)	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, 2014	December 31, 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 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.

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

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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,		September 30,	
	2014	2013	2014	2013
Revenues	$1,295	$1,215	$ 4,042	$ 3,843
Income from continuing operations	145	3	492	154
Net income	145	19	492	201
Host Inc.:				
Net income attributable to Host Inc.	$144	$20	$ 481	$ 196
Basic earnings per common share:				
Continuing operations	$.19	$.01	$ .64	$ .20
Discontinued operations	—	.02	—	.06
Basic earnings per common share	$.19	$.03	$ .64	$ .26
Diluted earnings per common share:				
Continuing operations	$.19	$.01	$ .64	$ .20
Discontinued operations	—	.02	—	.06
Diluted earnings per common share	$.19	$.03	$ .64	$ .26
Host L.P.:				
Net income attributable to Host L.P.	$146	$20	$ 488	$ 199
Basic earnings per common unit:				
Continuing operations	$.19	$.01	$ .65	$ .21
Discontinued operations	—	.02	—	.06
Basic earnings per common unit	$.19	$.03	$ .65	$ .27
Diluted earnings per common unit:				
Continuing operations	$.19	$.01	$ .65	$ .21
Discontinued operations	—	.02	—	.06
Diluted earnings per common unit	$.19	$.03	$ .65	$ .27

The above pro forma results of operations exclude $2 million of acquisition costs for the year-to-date period ended September 30, 2014. The condensed consolidated statements of operations for the quarter and year-to-date periods ended September 30, 2014 include approximately $3 million and $7 million of revenues, respectively, and $2 million of net income for the year-to-date period ended September 30, 2014 related to our 2014 acquisitions. Net income related to our 2014 acquisitions was immaterial for the quarter ended September 30, 2014.

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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 September 30, 2014 and December 31, 2013, respectively (in millions):

	Fair Value at Measurement Date Using			
	Balance at September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measurements on a Recurring Basis:				
Assets				
Foreign currency forward sale contracts [1]	$7	$ —	$ 7	$ —
Liabilities				
Interest rate swap derivatives [1]	(2)	—	(2)	—
Fair Value Measurements on a Non-recurring Basis:				
Impaired hotel properties held and used	18	—	—	18

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

Foreign currency forward sale contracts [1]	(6)	—	(6)	—
Fair Value Measurements on a Non-recurring Basis:				
Impaired hotel properties held and used	9	—	—	9

(1) These derivative contracts have been designated as hedging instruments.

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 September 30, 2014.

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

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

(1) The swap was entered into in connection with the A$86 million ($75 million) mortgage loan on the Hilton Melbourne South Wharf.
(2) The swap was entered into in connection with the NZ$105 million ($82 million) mortgage loan on seven properties in New Zealand.

Foreign Investment Hedging Instruments. We have four 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				Change in Fair Value - All Contracts			
				Gain (Loss) Quarter ended		Gain (Loss) Year-to-date ended	
Transaction Date Range	Total Transaction Amount in Foreign Currency	Total Transaction Amount in Dollars	Forward Purchase Date Range	September 30, 2014	2013	September 30, 2014	2013
July 2011-May 2014	€100	$ 135	August 2015-May 2017	$ 12	$ (6)	$ 13	$ (2)

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 Outstanding US$	Balance Outstanding in Foreign Currency	Gain (Loss) Quarter ended September 30, 2014	Gain (Loss) Quarter ended September 30, 2013	Gain (Loss) Year-to-date ended September 30, 2014	Gain (Loss) Year-to-date ended September 30, 2013
Canadian dollars [1]	$ 28	C$ 31	$ 1	$ (1)	$ 1	$ 1
Euros	$ 97	€ 77	$ 8	$ (3)	$ 9	$ (3)

(1) We have an additional $67 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):

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Senior notes (Level 1)	$2,498	$2,662	$2,647	$2,766
Exchangeable Senior Debentures (Level 1)	382	662	371	603
Credit facility (Level 2)	712	712	946	946
Mortgage debt and other, excluding capital leases (Level 2)	419	426	793	802

Impairment

During the third quarter, an impairment loss of $6 million was triggered for one property due to a change in its expected hold period. The fair value of the property of $18 million is based on the expected cash flows over the remaining life of the property. The loss is included in depreciation expense.

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		Year-to-date ended			
	September 30,		September 30,		September 30,	December 31,
	2014	2013	2014	2013	2014	2013
United States	$1,225	$1,148	$ 3,826	$ 3,640	$10,149	$ 10,498
Australia	10	10	29	30	109	106
Brazil	9	7	29	22	84	76
Canada	22	22	65	69	82	89

Chile	7	7	23	24	46	54
Mexico	7	6	21	17	30	32
New Zealand	14	11	41	33	129	140
Total	$1,294	$1,211	$4,034	$3,835	$10,629	$ 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 $35 million and $34 million as of September 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 September 30, 2014 and December 31, 2013, the fair values of the non-controlling interests in the partnerships with finite lives were approximately $70 million and $68 million, respectively.

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

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:

	September 30, 2014	December 31, 2013
OP units outstanding (millions)	9.4	9.5
Market price per Host Inc. common share	$ 21.33	$ 19.44
Shares issuable upon conversion of one OP unit	1.021494	1.021494
Redemption value (millions)	$ 204	$ 190
Historical cost (millions)	94	95
Book value (millions) (1)	204	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. The net income attributable to the non-controlling interests of Host L.P. for the quarter and year-to-date ended September 30, 2014 was $2 million and $7 million, respectively. The income attributable to the non-controlling interests of Host L.P. was immaterial for the quarter ended September 30, 2013 and $3 million for the year-to-date ended September 30, 2013.

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.

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 $31 million as of September 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 $50 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 October 3, 2014, the final motion for rehearing by Keystone-Texas Property Holding Corporation (“Keystone”) to the Texas Supreme Court was denied, finalizing the court’s decision. As a result, we have reversed the $69 million loss contingency previously recorded related to this litigation in the third quarter of 2014, which is included in corporate and other expenses. In addition, a court-ordered bond of $25 million was released October 17, 2014, which is included in restricted cash as of September 30, 2014. For further details on this legal proceeding, see Part II, Item 1, Legal Proceedings.

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 how long and at what level the U.S. economic recovery will be sustained and global economic prospects, and (ii) other factors such as natural disasters, weather, pandemics, 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 pace of the economic recovery in Europe, 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;

- 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 execute our dividend policy, including factors such as investment activity, operating results and the economic outlook, any or all of 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 that 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			Year-to-date ended		
	September 30,			September 30,		
	2014	2013	Change	2014	2013	Change
Total revenues	$1,294	$1,211	6.9 %	$4,034	$3,835	5.2 %
Net income	145	18	705.6 %	489	199	145.7 %
Operating profit	202	79	155.7 %	561	374	50.0 %
Operating profit margin under GAAP	15.6 %	6.5 %	910 bps	13.9 %	9.8 %	410 bps
Adjusted EBITDA (1)	$331	$270	22.6 %	$1,050	$984	6.7 %
Diluted earnings per share	$.19	$.03	533.3 %	$.63	$.26	142.3 %
NAREIT FFO per diluted share (1)	.42	.25	68.0 %	1.17	.93	25.8 %
Adjusted FFO per diluted share (1)	.34	.25	36.0 %	1.10	.98	12.2 %

Comparable Hotel Data:

	2014 Comparable Hotels (2)					
	Quarter ended			Year-to-date ended		
	September 30,			September 30,		
	2014	2013	Change	2014	2013	Change
Comparable hotel revenues (1)	$1,240	$1,149	7.9 %	$3,794	$3,580	6.0 %
Comparable hotel operating profit (1)	328	269	21.9 %	1,018	904	12.6 %

Comparable hotel adjusted operating profit margin (1)	26.45 %	23.4 %	305 bps	26.8 %	25.25 %	155 bps
Change in comparable hotel RevPAR - Constant US$	7.9 %			6.6 %		
Change in comparable hotel RevPAR - Nominal US$	7.8 %			6.2 %		
Change in comparable domestic RevPAR	7.7 %			6.2 %		
Change in comparable international RevPAR - Constant US$	11.0 %			12.5 %		

(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 that 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 September 30, 2014.

For the third quarter and year-to-date 2014, multiple factors drove significant improvements in our operating results. The increase in total revenues was driven by the continued growth in rooms revenues, as well as strong food and beverage and other revenue results. Room revenues increased as a result of the growth in comparable hotel RevPAR, on a constant US$ basis, of 7.9% for the quarter and 6.6% year-to-date, driven by strong average rate growth of 6.4% and 5.0% for the quarter and year-to-date, respectively, coupled with a 1.1 percentage point increase in occupancy for both the quarter and year-to-date. For the third quarter, occupancy reached 79.9% at our comparable hotels, which was the highest third quarter occupancy since 2000. Improving group demand for the quarter allowed our operators to strengthen average room rates, while maintaining high occupancy levels. Quarterly and year-to-date results also reflect increases of 6.1% and 5.2%, respectively, in comparable food and beverage revenues, which were driven by strong banquet sales and audio visual revenues. 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 $22 million in total revenues for the quarter and $57 million year-to-date.

Operating profit margins (calculated based on GAAP operating profit as a percentage of GAAP revenues) increased 910 basis points and 410 basis points for the third 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, including a $69 million gain recorded in the third quarter for the successful resolution of litigation related to the ground lease for the San Antonio Marriott Rivercenter. Our comparable hotel adjusted operating profit margins, which exclude these items, increased 305 basis points and 155 basis points for the third quarter and year-to-date 2014, respectively, compared to 2013. The improvement in comparable hotel adjusted operating profit margins was driven by the improvements in average room rates and significantly slower growth in operating costs, which increased 3.6% for the quarter and 3.7% year-to-date at our comparable hotels, respectively.

The significant improvements in net income and diluted earnings per share are the result of the overall growth in operations at our properties, as well as several other gains recorded during the year.

- Adjusted EBITDA increased $61 million in the quarter and $66 million year-to-date reflecting improvements in the operating results of our portfolio, as comparable hotel adjusted operating profit increased 21.9% for the quarter and 12.6% year-to-date. The improvements in Adjusted EBITDA partially were offset by $10 million and $41 million for third quarter and year-to-date, respectively, due to the timing of acquisitions and dispositions.
- Interest expense declined $14 million for the quarter and $80 million year-to-date due to a reduction in the overall debt balance and weighted average interest rate, combined with a decline in debt extinguishment costs compared to the prior year.
- As a result of the improvements in EBITDA and interest expense described above, Adjusted FFO per diluted share increased 36% to $0.34 per share for the quarter and 12.2% to $1.10 year-to-date.
- As described above, we recorded a gain in the third quarter of $69 million due to the reversal of previously accrued litigation costs.
- For the quarter, gains on asset sales decreased $14 million, while, year-to-date, gains on asset sales increased $47 million (in 2013, certain of the gains are included in discontinued operations).

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.

Outlook

For the fourth quarter of 2014, we believe that the broad economic trends that have led to the steady improvement in lodging demand should continue to drive RevPAR growth and operating results. GDP growth is expected to improve through the fourth quarter and into 2015, driven by business investment and consumer spending. Additionally, supply growth is expected to remain below historical averages in the majority of our target markets. We expect the combination of improving demand and low supply growth to translate to improving RevPAR, driven by strong rate growth coupled with continued high occupancy levels. While we believe that RevPAR will continue to increase in the fourth quarter, we do not anticipate RevPAR growth will be as strong as it was in the third quarter, mainly as a result of shifting holidays and business disruption related to several significant renovations at our large, convention center hotels. However, when looking at the third and fourth quarter combined, we expect RevPAR growth for the second half of 2014 to be stronger than the first half of the year, resulting in expected comparable hotel RevPAR growth for the full year of 6.0% to 6.25% on a constant US$ basis. For 2015, we generally believe that the current trends in the lodging industry of improving lodging demand outpacing moderate supply growth will continue, leading to the potential for continued RevPAR improvement.

While we believe that the lodging industry will continue to improve, concerns remain in the near term around sluggish wage growth and the risks of economic slowdowns in Europe and developing countries. Therefore, 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.

Investing Activities

Capital Expenditures Projects. We continue to pursue opportunities to invest in our existing portfolio 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 3,745 guestrooms, over 196,000 square feet of meeting space and approximately 98,000 square feet of public space. We anticipate that 35% of our overall 2014 capital expenditures will be in the fourth quarter, including a disproportionally high number of projects that are expected to cause significant disruption to operations, such as rooms and meeting space renovations.

- Redevelopment and Return on Investment Capital Expenditures. Redevelopment and return on investment ("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, the repositioning of a hotel restaurant, the installation of energy efficient systems or the conversion of underutilized space to more profitable uses. We spent approximately $57 million for these projects during the first three quarters of 2014, compared to $71 million during the first three quarters of 2013. During the year, as part of the conversion and rebranding of the Sheraton Memphis Downtown, we renovated over 21,000 square feet of public space and all 600 guest rooms. We also renovated six additional food and beverage outlets, following the success of 16 previous restaurant redevelopments and added, or will be constructing, over 16,000 square feet of meeting space to our portfolio in order to enhance our appeal to the higher rated corporate segment. We expect that ROI capital expenditures for 2014 will range from $65 million to $75 million.
- Acquisition Capital Expenditures. In conjunction with the acquisition of a property, we prepare capital and operational improvement plans designed to maximize profitability and to enhance the guest experience. During the first three quarters of 2014, we spent approximately $12 million on acquisition capital projects, compared to $29 million during the first three quarters of 2013. For the full year 2014, we expect to invest between $20 million to $25 million for acquisition capital expenditures.
- Renewal and Replacement Capital Expenditures. We spent $71 million and $218 million on renewal and replacement capital expenditures during the third quarter and year-to-date 2014, respectively, compared to $76 million and $239 million during the third quarter and year-to-date 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. Major renewal and replacement projects completed during the third quarter included the renovation of all 365 rooms at The Westin Buckhead Atlanta, 50,000 square feet of ballroom space at the Harbor Beach Marriott Resort & Spa and 39,000 square feet of ballroom space at the Grand Hyatt Atlanta Buckhead. We expect that our investment in renewal and replacement expenditures in 2014 will total approximately $330 million to $345 million.

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 over the long term. 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 our target markets that may be operated under a franchise agreement or independently through a third party manager. During the third quarter, we completed the acquisition of the 242-room b2 miami downtown hotel for $58 million. In conjunction with the acquisition, we entered into a management agreement with Destination Hotels & Resorts to reposition and re-launch the hotel under a new independent identity. The hotel is located in Miami's business and financial district, within walking distance of the American Airlines Arena across from Bayfront Park and with unobstructed water views.

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. On October 1, 2014, we sold the 719-room Tampa Marriott Waterside Hotel & Marina for a sales price of $199 million, which includes a $9 million FF&E replacement fund retained at the hotel. Over the next several months, we anticipate asset sales totaling approximately $50 million to $150 million, although given the nature of these transactions, there can be no assurances that we will complete these sales in this time period.

Results of Operations

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

	Quarter ended September 30, 2014	Quarter ended September 30, 2013	Change	Year-to-date ended September 30, 2014	Year-to-date ended September 30, 2013	Change
Total revenues	$1,294	$1,211	6.9 %	$4,034	$3,835	5.2 %
Operating costs and expenses:						
Property-level costs [(1)]	1,137	1,105	2.9	3,458	3,371	2.6
Corporate and other expenses	(38)	27	N/M	25	90	(72.2)
Operating profit	202	79	155.7	561	374	50.0
Interest expense	51	65	(21.5)	164	244	(32.8)
Gain on sale of assets	1	—	N/M	112	33	239.4
Provision for income taxes	6	11	(45.5)	17	19	(10.5)
Income from continuing operations	145	2	7,150.0	489	152	221.7
Income from discontinued operations	—	16	N/M	—	47	N/M
Host Inc.:						
Net income (loss) attributable to non-controlling interests	$1	$(1)	N/M	$11	$5	120.0
Net income attributable to Host Inc.	144	19	657.9	478	194	146.4
Host L.P.:						
Net income (loss) attributable to non-controlling interests	$(1)	$(1)	—	$4	$2	100.0
Net income attributable to Host L.P.	146	19	668.4	485	197	146.2

(1) Amount represents total operating costs and expenses from our unaudited condensed consolidated statements of operations, less corporate and other expenses and gain on insurance settlements.

N/M=Not meaningful.

2014 Compared to 2013

The comparisons of our hotel revenues and expenses are affected by the results of the hotels acquired and sold during the comparable periods (collectively, our “Recent Acquisitions and Dispositions”). Our operations for the third quarter and year-to-date were affected by the sale of two hotels in 2014, most notably the Philadelphia Marriott Downtown, which operations prior to sale are included in continuing operations for prior periods. This resulting decrease in operations was partially offset by the results of the b2 miami downtown hotel, acquired in August 2014, the Powell Hotel, acquired in January 2014, and the Hyatt Place Waikiki Beach, acquired in May 2013.

Hotel Sales Overview

The following table presents total revenues (in millions, except percentages) and includes both comparable and non-comparable hotels:

	Quarter ended September 30, 2014	2013	Change		Year-to-date ended September 30, 2014	2013	Change	
Revenues:								
Rooms	$884	$825	7.2	%	$ 2,613	$ 2,479	5.4	%
Food and beverage	330	310	6.5		1,150	1,097	4.8	
Other	80	76	5.3		271	259	4.6	
Total revenues	$1,294	$1,211	6.9		$ 4,034	$ 3,835	5.2	

Rooms. The improvement in rooms revenues reflects the overall improvement in comparable RevPAR, partially offset by the effect of our Recent Acquisitions and Dispositions. For the third quarter, comparable hotel RevPAR on a constant US$ basis increased 7.9%, driven by average rate improvement of 6.4%. For the year-to-date, comparable hotel RevPAR, on a constant US$ basis, increased 6.6%. The increases in rooms revenues were offset partially by a net decrease of $14 million and $35 million for the quarter and year-to-date periods, respectively, due to the results of our Recent Acquisitions and Dispositions.

Food and beverage. The increase in food and beverage ("F&B") revenues for both the quarter and year-to-date was driven by strong growth in banquet and audio visual revenues, which increased by 8.4% during the quarter and 7.1% year-to-date at our comparable hotels. Overall, comparable F&B revenues increased 6.1% for the quarter and 5.2% year-to-date. Additionally, F&B revenues include an increase of $9 million and $22 million, for the third quarter and year-to-date, respectively, at our non-comparable properties that were under renovation in the prior year. These increases in F&B revenues were offset partially by a net decrease of $6 million and $19 million, for the third quarter and year-to-date, respectively, due to the results of our Recent Acquisitions and Dispositions.

Other revenues. For the third quarter and year-to-date 2014, other revenues increased $4 million and $12 million, respectively, due to increases in parking and lease income.

Comparable Portfolio Operating Results. We discuss operating results for our hotels on a comparable basis. Comparable hotels are those properties that we have consolidated for the entirety of the reporting periods being compared. Comparable hotels do not include the results of properties acquired or sold, or that incurred significant property damage or business interruption, or have undergone large scale capital projects during these periods. As of September 30, 2014, 109 of our 115 owned hotels are classified as comparable hotels. See "Comparable Hotel Operating Statistics" for a complete description of our comparable hotels. We also discuss our comparable operating results by property type (i.e. urban, suburban, resort, or airport), geographic market, and mix of business (i.e. transient, group, or contract).

Comparable Hotel Sales by Geographic Market

The following tables set forth performance information for our comparable hotels by geographic market as of September 30, 2014 and 2013, respectively:

Comparable Hotels by Market in Constant US$

	As of September 30, 2014		Quarter ended September 30, 2014			Quarter ended September 30, 2013			
Market	No. of Properties	No. of Rooms	Average Room Rate	Average Occupancy Percentage	RevPAR	Average Room Rate	Average Occupancy Percentage	RevPAR	Percent Change in RevPAR
Boston	5	3,432	$218.54	89.3 %	$195.07	$199.03	89.0 %	$177.12	10.1 %
New York	9	7,224	280.37	90.1	252.62	271.73	89.3	242.69	4.1
Philadelphia	2	776	207.85	77.8	161.67	198.21	75.2	149.11	8.4

Washington, D.C.	12	6,016	190.32	80.2	152.60	181.20	77.3	140.05	9.0
Atlanta	6	2,280	172.75	76.9	132.86	162.06	74.6	120.95	9.9
Florida	7	3,230	166.67	71.5	119.10	160.65	70.2	112.71	5.7
Chicago	7	2,857	195.46	85.1	166.33	188.97	81.8	154.56	7.6
Denver	3	1,363	156.15	77.8	121.45	145.60	74.5	108.44	12.0
Houston	4	1,706	177.16	71.8	127.22	176.17	72.0	126.79	0.3
Phoenix	4	1,522	141.66	61.5	87.18	136.68	58.7	80.18	8.7
Seattle	3	1,774	218.62	90.8	198.54	183.76	92.2	169.34	17.2
San Francisco	5	3,701	233.25	87.8	204.82	203.93	88.4	180.35	13.6
Los Angeles	8	3,228	193.00	83.8	161.79	172.96	85.1	147.22	9.9
San Diego	5	4,691	199.04	84.7	168.56	191.26	86.4	165.30	2.0
Hawaii	2	1,256	364.59	81.6	297.38	351.66	80.8	284.13	4.7
Other	13	7,929	143.75	66.1	94.96	134.66	63.4	85.35	11.3
Domestic	95	52,985	206.17	80.2	165.44	194.11	79.1	153.61	7.7
Asia-Pacific	7	1,390	$157.25	81.8 %	$128.69	$152.89	81.6 %	$124.74	3.2 %
Canada	3	1,219	189.22	72.2	136.58	179.30	71.9	128.86	6.0
Latin America	4	1,075	253.56	67.0	170.01	215.15	62.7	134.83	26.1
International	14	3,684	192.67	74.4	143.28	176.99	72.9	129.02	11.0
All Markets - Constant US$	109	56,669	205.35	79.9	163.99	193.07	78.7	152.00	7.9

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Comparable Hotels in Nominal US$

International Market	As of September 30, 2014 No. of Properties	No. of Rooms	Quarter ended September 30, 2014 Average Room Rate	Average Occupancy Percentage	RevPAR	Quarter ended September 30, 2013 Average Room Rate	Average Occupancy Percentage	RevPAR	Percent Change in RevPAR
Asia-Pacific	7	1,390	$157.25	81.8 %	$128.69	$147.76	81.6 %	$120.56	6.7 %
Canada	3	1,219	189.22	72.2	136.58	187.96	71.9	135.08	1.1
Latin America	4	1,075	253.56	67.0	170.01	224.62	62.7	140.76	20.8
International	14	3,684	192.67	74.4	143.28	179.98	72.9	131.20	9.2
Domestic	95	52,985	206.17						