Hilton Worldwide Holdings Inc.
Form 10-Q
October 28, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission File Number 001-36243
Hilton Worldwide Holdings Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 27-4384691 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 7930 Jones Branch Drive, Suite 1100, McLean, VA | 22102 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant’s telephone number, including area code: (703) 883-1000

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. Yes x 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). Yes x 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:

| | | |
|---|---|---|
| Large accelerated filer x | | 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). Yes ¨ No x

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of October 26, 2015 was 987,451,862.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $628 | $566 |
| Restricted cash and cash equivalents | 276 | 202 |
| Accounts receivable, net of allowance for doubtful accounts of $30 and $29 | 929 | 844 |
| Inventories | 430 | 404 |
| Deferred income tax assets | 20 | 20 |
| Current portion of financing receivables, net | 68 | 66 |
| Current portion of securitized financing receivables, net | 56 | 62 |
| Prepaid expenses | 182 | 133 |
| Income taxes receivable | 19 | 132 |
| Other | 38 | 70 |
| Total current assets (variable interest entities - $136 and $136) | 2,646 | 2,499 |
| Property, Intangibles and Other Assets: | | |
| Property and equipment, net | 9,132 | 7,483 |
| Property and equipment, net held for sale | — | 1,543 |
| Financing receivables, net | 544 | 416 |
| Securitized financing receivables, net | 321 | 406 |
| Investments in affiliates | 154 | 170 |
| Goodwill | 5,902 | 6,154 |
| Brands | 4,929 | 4,963 |
| Management and franchise contracts, net | 1,176 | 1,306 |
| Other intangible assets, net | 603 | 674 |
| Deferred income tax assets | 157 | 155 |
| Other | 368 | 356 |
| Total property, intangibles and other assets (variable interest entities - $519 and $613) | 23,286 | 23,626 |
| TOTAL ASSETS | $25,932 | $26,125 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, accrued expenses and other | $2,261 | $2,099 |
| Current maturities of long-term debt | 116 | 10 |
| Current maturities of non-recourse debt | 132 | 127 |
| Income taxes payable | 49 | 21 |
| Total current liabilities (variable interest entities - $183 and $162) | 2,558 | 2,257 |
| Long-term debt | 9,945 | 10,803 |
| Non-recourse debt | 623 | 752 |
| Deferred revenues | 341 | 495 |
| Deferred income tax liabilities | 5,293 | 5,216 |
| Liability for guest loyalty program | 754 | 720 |
| Other | 1,238 | 1,168 |

| | | |
|---|---|---|
| Total liabilities (variable interest entities - $667 and $788) | 20,752 | 21,411 |
| Commitments and contingencies - see Note 18 | | |
| Equity: | | |
| Preferred stock, $0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of September 30, 2015 and December 31, 2014 | — | — |
| Common stock, $0.01 par value; 30,000,000,000 authorized shares, 987,480,629 issued and 987,451,862 outstanding as of September 30, 2015 and 984,623,863 issued and outstanding as of December 31, 2014 | 10 | 10 |
| Additional paid-in capital | 10,134 | 10,028 |
| Accumulated deficit | (4,137) | (4,658) |
| Accumulated other comprehensive loss | (793) | (628) |
| Total Hilton stockholders' equity | 5,214 | 4,752 |
| Noncontrolling interests | (34) | (38) |
| Total equity | 5,180 | 4,714 |
| TOTAL LIABILITIES AND EQUITY | $25,932 | $26,125 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | |
| Owned and leased hotels | $1,082 | $1,079 | $3,174 | $3,141 |
| Management and franchise fees and other | 416 | 364 | 1,194 | 1,030 |
| Timeshare | 334 | 295 | 974 | 850 |
| | 1,832 | 1,738 | 5,342 | 5,021 |
| Other revenues from managed and franchised properties | 1,063 | 906 | 3,074 | 2,653 |
| Total revenues | 2,895 | 2,644 | 8,416 | 7,674 |
| Expenses | | | | |
| Owned and leased hotels | 798 | 816 | 2,383 | 2,420 |
| Timeshare | 219 | 199 | 673 | 564 |
| Depreciation and amortization | 171 | 159 | 519 | 470 |
| General, administrative and other | 145 | 119 | 493 | 349 |
| | 1,333 | 1,293 | 4,068 | 3,803 |
| Other expenses from managed and franchised properties | 1,063 | 906 | 3,074 | 2,653 |
| Total expenses | 2,396 | 2,199 | 7,142 | 6,456 |
| Gain on sales of assets, net | 164 | — | 306 | — |
| Operating income | 663 | 445 | 1,580 | 1,218 |
| Interest income | 3 | 2 | 11 | 8 |
| Interest expense | (138) | (156) | (431) | (467) |
| Equity in earnings from unconsolidated affiliates | 9 | 4 | 22 | 16 |
| Gain (loss) on foreign currency transactions | (8) | (5) | (21) | 41 |
| Other gain (loss), net | 1 | 24 | (6) | 38 |
| Income before income taxes | 530 | 314 | 1,155 | 854 |
| Income tax expense | (247) | (127) | (555) | (331) |
| Net income | 283 | 187 | 600 | 523 |
| Net income attributable to noncontrolling interests | (4) | (4) | (10) | (8) |
| Net income attributable to Hilton stockholders | $279 | $183 | $590 | $515 |
| Earnings per share | | | | |
| Basic | $0.28 | $0.19 | $0.60 | $0.52 |
| Diluted | $0.28 | $0.19 | $0.60 | $0.52 |

| | | | | |
|---|---|---|---|---|
| Cash dividends declared per share | $0.07 | $— | $0.07 | $— |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $283 | $187 | $600 | $523 |
| Other comprehensive income (loss), net of tax benefit (expense): | | | | |
| Currency translation adjustment, net of tax of $(79), $(95), $(49) and $7 | (115) | (212) | (157) | (131) |
| Pension liability adjustment, net of tax of $(1), $(2), $(2) and $(3) | 1 | (1) | 3 | 3 |
| Cash flow hedge adjustment, net of tax of $4, $(3), $7 and $2 | (6) | 5 | (11) | (4) |
| Total other comprehensive loss | (120) | (208) | (165) | (132) |
| Comprehensive income (loss) | 163 | (21) | 435 | 391 |
| Comprehensive income attributable to noncontrolling interests | (4) | (8) | (10) | (10) |
| Comprehensive income (loss) attributable to Hilton stockholders | $159 | $(29) | $425 | $381 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Operating Activities | | |
| Net income | $600 | $523 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 519 | 470 |
| Gain on sales of assets, net | (306) | — |
| Equity in earnings from unconsolidated affiliates | (22) | (16) |
| Loss (gain) on foreign currency transactions | 21 | (41) |
| Other loss (gain), net | 6 | (38) |
| Share-based compensation | 114 | 57 |
| Distributions from unconsolidated affiliates | 22 | 20 |
| Deferred income taxes | 34 | (62) |
| Change in restricted cash and cash equivalents | (13) | (3) |
| Working capital changes and other | 16 | (11) |
| Net cash provided by operating activities | 991 | 899 |
| | | |
| Investing Activities | | |
| Capital expenditures for property and equipment | (214) | (184) |
| Acquisitions, net of cash acquired | (1,410) | — |
| Payments received on other financing receivables | 3 | 18 |
| Issuance of other financing receivables | (9) | (1) |
| Investments in affiliates | (5) | (6) |
| Distributions from unconsolidated affiliates | 18 | 32 |
| Proceeds from asset dispositions | 2,197 | 40 |
| Contract acquisition costs | (27) | (54) |
| Software capitalization costs | (38) | (45) |
| Net cash provided by (used in) investing activities | 515 | (200) |
| | | |
| Financing Activities | | |
| Borrowings | 35 | 350 |
| Repayment of debt | (1,342) | (1,075) |
| Debt issuance costs | — | (9) |
| Change in restricted cash and cash equivalents | (53) | (19) |
| Capital contribution | — | 13 |
| Dividends paid | (69) | — |
| Distributions to noncontrolling interests | (6) | (3) |
| Excess tax benefits from share-based compensation | 8 | — |
| Net cash used in financing activities | (1,427) | (743) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (17) | (7) |
| Net increase (decrease) in cash and cash equivalents | 62 | (51) |
| Cash and cash equivalents, beginning of period | 566 | 594 |

| | | |
|---|---|---|
| Cash and cash equivalents, end of period | $628 | $543 |
| | | |
| Supplemental Disclosures | | |
| Cash paid during the year: | | |
| Interest | $329 | $353 |
| Income taxes, net of refunds | 359 | 284 |
| | | |
| Non-cash investing activities: | | |
| Acquisition of property and equipment | — | 144 |
| Acquisition of other intangible assets | — | 1 |
| Disposition of equity investments | — | (59) |
| Long-term debt assumed | (450) | — |
| Capital lease restructuring | — | 11 |
| | | |
| Non-cash financing activities: | | |
| Long-term debt assumed | 450 | 64 |
| Capital lease restructuring | (24) | 11 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)
(Unaudited)

| | Equity Attributable to Hilton Stockholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| | Shares | Amount | | | | | |
| Balance as of December 31, 2014 | 985 | $10 | $10,028 | $(4,658) | $(628) | $(38) | $4,714 |
| Net income | — | — | — | 590 | — | 10 | 600 |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Currency translation adjustment | — | — | — | — | (157) | — | (157) |
| Pension liability adjustment | — | — | — | — | 3 | — | 3 |
| Cash flow hedge adjustment | — | — | — | — | (11) | — | (11) |
| Other comprehensive loss | — | — | — | — | (165) | — | (165) |
| Dividends | — | — | — | (69) | — | — | (69) |
| Share-based compensation | 2 | — | 98 | — | — | — | 98 |
| Excess tax benefits on equity awards | — | — | 8 | — | — | — | 8 |
| Distributions | — | — | — | — | — | (6) | (6) |
| Balance as of September 30, 2015 | 987 | $10 | $10,134 | $(4,137) | $(793) | $(34) | $5,180 |

| | Equity Attributable to Hilton Stockholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| | Shares | Amount | | | | | |
| Balance as of December 31, 2013 | 985 | $10 | $9,948 | $(5,331) | $(264) | $(87) | $4,276 |
| Net income | — | — | — | 515 | — | 8 | 523 |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Currency translation adjustment | — | — | — | — | (133) | 2 | (131) |
| Pension liability adjustment | — | — | — | — | 3 | — | 3 |
| Cash flow hedge adjustment | — | — | — | — | (4) | — | (4) |
| Other comprehensive income (loss) | — | — | — | — | (134) | 2 | (132) |
| Share-based compensation | — | — | 73 | — | — | — | 73 |
| Capital contribution | — | — | 13 | — | — | — | 13 |
| Distributions | — | — | — | — | — | (3) | (3) |
| Equity contributions to consolidated variable | — | — | (34) | — | (6) | 40 | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| interest entities | | | | | | | |
| Balance as of September 30, 2014 | 985 | $10 | $10,000 | $(4,816) | $(404) | $(40) | $4,750 |

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See notes to condensed consolidated financial statements.

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HILTON WORLDWIDE HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Organization and Basis of Presentation

Organization

Hilton Worldwide Holdings Inc. (the "Parent," or together with its subsidiaries, "Hilton," "we," "us," "our" or the "Company"), a Delaware corporation, is one of the largest hospitality companies in the world based upon the number of hotel rooms and timeshare units under our 12 distinct brands. We are engaged in owning, leasing, managing, developing and franchising hotels, resorts and timeshare properties. As of September 30, 2015, we owned, leased, managed or franchised 4,480 hotel and resort properties, totaling 737,922 rooms in 97 countries and territories, as well as 45 timeshare properties comprising 7,152 units.

As of September 30, 2015, affiliates of The Blackstone Group L.P. ("Blackstone" or "our Sponsor") beneficially owned approximately 45.9 percent of our common stock.

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 have been prepared in accordance with United States of America ("U.S.") generally accepted accounting principles ("GAAP") and are unaudited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP. Although we believe the disclosures made are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and, accordingly, ultimate results could differ from those estimates. Interim results are not necessarily indicative of full year performance.

In our opinion, the accompanying condensed consolidated financial statements reflect all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods. All material intercompany transactions have been eliminated in consolidation.

Note 2: Recently Issued Accounting Pronouncements

Accounting Standards Not Yet Adopted

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-16 ("ASU 2015-16"), Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires adjustments to provisional amounts that are identified during the measurement period of a business combination to be recognized in the reporting period in which the adjustment amounts are determined. Acquirers are no longer required to revise comparative information for prior periods as if the accounting for the business combination had been completed as of the acquisition date. The provisions of ASU 2015-16 are effective for reporting periods beginning after December 15, 2015. We have elected, as permitted by the standard, to early adopt ASU 2015-16 on a prospective basis as of October 1, 2015. The adoption is not expected to have a material effect on our consolidated financial position or results of operations.

In May 2015, the FASB issued ASU No. 2015-07 ("ASU 2015-07"), Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). This ASU removes the requirement to categorize the investments for which fair value is measured using net asset value per share within the fair value hierarchy. The provisions of ASU 2015-07 are effective for reporting periods beginning after December 15, 2015 and are to be applied retrospectively; early adoption is permitted. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 ("ASU 2015-05"), Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides a basis for evaluating whether a cloud computing arrangement includes a software license, whereby if an arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses, and if it does not, the customer should account for the arrangement as a service contract. The provisions of ASU 2015-05 are effective for reporting periods beginning after December 15, 2015; early adoption is permitted. The adoption is not expected to have a material effect on our consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03 ("ASU 2015-03"), Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset, which is consistent with the presentation of debt discounts and premiums. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies that absent authoritative guidance in ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the staff of the Securities and Exchange Commission would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The provisions of ASU 2015-03 are effective for reporting periods beginning after December 15, 2015 and are to be applied retrospectively; early adoption is permitted. The adoption of this ASU is not expected to have a material effect on our consolidated financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02 ("ASU 2015-02"), Consolidation (Topic 810) - Amendments to the Consolidation Analysis. This ASU modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The provisions of ASU 2015-02 are effective for reporting periods beginning after December 15, 2015; early adoption is permitted. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)," and requires entities to recognize revenue in a way that depicts 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. In August 2015, the FASB issued ASU No. 2015-14 ("ASU 2015-14"), Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 for reporting periods beginning after December 15, 2016 to reporting periods beginning after December 15, 2017. The provisions of this ASU are to be applied retrospectively; early adoption is not permitted. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

Note 3: Acquisitions

Tax Deferred Exchange

In February 2015, we used proceeds from the sale of the Waldorf Astoria New York (see Note 4: "Disposals") to acquire, as part of a tax deferred exchange of real property, the following properties from sellers affiliated with Blackstone for a total purchase price of $1.76 billion:

- the resort complex consisting of the Waldorf Astoria Orlando and the Hilton Orlando Bonnet Creek in Orlando, Florida (the "Bonnet Creek Resort");
- the Casa Marina Resort in Key West, Florida;

- the Reach Resort in Key West, Florida; and
- the Parc 55 in San Francisco, California.

In June 2015, we acquired the Juniper Hotel Cupertino in Cupertino, California to complete the tax deferred exchange of real property, discussed above, for a total purchase price of $112 million.

We incurred transaction costs of $26 million recognized in other gain (loss), net in our condensed consolidated statement of operations for the nine months ended September 30, 2015.

As of the acquisition dates, the fair values of the assets acquired and liabilities assumed were as follows:

| | (in millions) |
|---|---|
| Cash and cash equivalents | $16 |
| Restricted cash and cash equivalents | 8 |
| Inventories | 1 |
| Prepaid expenses | 3 |
| Other current assets | 1 |
| Property and equipment | 1,868 |
| Other intangible assets | 4 |
| Accounts payable, accrued expenses and other | (25) |
| Long-term debt | (450) |
| Net assets acquired | $1,426 |

These fair values are subject to adjustments as additional information relative to the fair values at the acquisition date becomes available through the measurement period, which can extend for up to one year after the acquisition date. See Note 11: "Fair Value Measurements" for additional details on the fair value techniques and inputs used for the measurement of the assets and liabilities.

The results of operations from these properties included in the condensed consolidated statements of operations were as follows:

| | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2015 |
|---|---|---|
| | (in millions) | |
| Total revenues | $84 | $228 |
| Income before income taxes | 10 | 44 |

Equity Investments Exchange

In July 2014, we entered into an agreement to exchange our ownership interest in six hotels for the remaining interest in five other hotels that were part of an equity investment portfolio we owned with one other partner. As a result of this exchange, we have a 100 percent ownership interest in five hotels and no longer have any ownership interest in the remaining six hotels. This transaction was accounted for as a business combination achieved in stages, resulting in a remeasurement gain based upon the fair values of the equity investments. The carrying values of these equity investments immediately before the exchange totaled $59 million and the fair values of these equity investments immediately before the exchange totaled $83 million, resulting in a pre-tax gain of $23 million, net of transaction costs, recognized in other gain (loss), net in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014.

Note 4: Disposals

Hilton Sydney

In July 2015, we completed the sale of the Hilton Sydney for a purchase price of 442 million Australian Dollars ("AUD") (equivalent to $340 million as of the closing date). As a result of the sale, we recognized a pre-tax gain of $163 million included in gain on sales of assets, net in our condensed consolidated statements of operations for the three and nine months ended September 30, 2015. The pre-tax gain was net of transaction costs, a goodwill reduction of $36 million and reclassification of a currency translation adjustment of $25 million from accumulated other comprehensive loss into earnings concurrent with the disposition. The goodwill reduction was due to our consideration of the Hilton Sydney property as a business within our ownership segment; therefore, we reduced the carrying amount of our goodwill by the amount representing the fair value of the business disposed relative to the fair value of the portion of our ownership reporting unit goodwill that was retained.

Waldorf Astoria New York

In February 2015, we completed the sale of the Waldorf Astoria New York for a purchase price of $1.95 billion and we repaid in full the existing mortgage loan secured by our Waldorf Astoria New York property (the "Waldorf Astoria Loan") of approximately $525 million. As a result of the sale, we recognized a gain of $143 million included in gain on sales of assets, net in our condensed consolidated statement of operations for the nine months ended September 30, 2015. The gain was net of transaction costs and a goodwill reduction of $185 million. The goodwill reduction was due to our consideration of the Waldorf Astoria New York property as a business within our ownership segment; therefore, we reduced the carrying amount of our goodwill by the amount representing the fair value of the business disposed relative to the fair value of the portion of our ownership reporting unit goodwill that was retained. Additionally, we recognized a loss of $6 million in other gain (loss), net in our condensed consolidated statement of operations for the nine months ended September 30, 2015 related to the reduction of the Waldorf Astoria Loan's remaining carrying amount of debt issuance costs.

Sale of Other Property and Equipment

During the nine months ended September 30, 2014, we completed the sales of two hotels and a vacant parcel of land for approximately $15 million. As a result of these sales, we recognized a pre-tax gain of $13 million, including the reclassification of a currency translation adjustment of $3 million, from accumulated other comprehensive loss concurrent with the disposition. The gain was included in other gain (loss), net in our condensed consolidated statement of operations for the nine months ended September 30, 2014. Additionally, during the nine months ended September 30, 2014, we completed the sale of certain land and easement rights to an affiliate of Blackstone in connection with a timeshare project. As a result, the affiliate of Blackstone acquired the rights to the name, plans, designs, contracts and other documents related to the timeshare project. The total consideration received for this transaction was approximately $37 million. We recognized $13 million, net of tax, as a capital contribution within additional paid-in capital, representing the excess of the fair value of the consideration received over the carrying value of the assets sold.

Note 5: Property and Equipment

Property and equipment were as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Land | $3,484 | $3,009 |
| Buildings and leasehold improvements | 6,349 | 5,150 |
| Furniture and equipment | 1,258 | 1,140 |
| Construction-in-progress | 102 | 53 |
| | 11,193 | 9,352 |
| Accumulated depreciation and amortization | (2,061) | (1,869) |
| | $9,132 | $7,483 |

Depreciation and amortization expense on property and equipment, including amortization of assets recorded under capital leases, was $88 million and $79 million during the three months ended September 30, 2015 and 2014, respectively, and $260 million and $235 million during the nine months ended September 30, 2015 and 2014, respectively.

As of September 30, 2015 and December 31, 2014, property and equipment included approximately $143 million and $149 million, respectively, of capital lease assets primarily consisting of buildings and leasehold improvements, net of

$69 million and $64 million, respectively, of accumulated depreciation and amortization.

Note 6: Financing Receivables

Financing receivables were as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | Securitized Timeshare | Unsecuritized Timeshare(1) | Other | Total |
| | (in millions) | | | |
| Financing receivables | $337 | $582 | $36 | $955 |
| Less: allowance | (16) | (74) | — | (90) |
| | 321 | 508 | 36 | 865 |
| Current portion of financing receivables | 59 | 75 | 2 | 136 |
| Less: allowance | (3) | (9) | — | (12) |
| | 56 | 66 | 2 | 124 |
| Total financing receivables | $377 | $574 | $38 | $989 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Securitized Timeshare | Unsecuritized Timeshare(1) | Other | Total |
| | (in millions) | | | |
| Financing receivables | $430 | $454 | $22 | $906 |
| Less: allowance | (24) | (58) | (2) | (84) |
| | 406 | 396 | 20 | 822 |
| Current portion of financing receivables | 66 | 74 | 2 | 142 |
| Less: allowance | (4) | (10) | — | (14) |
| | 62 | 64 | 2 | 128 |
| Total financing receivables | $468 | $460 | $22 | $950 |

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(1) Included in this balance, we had $164 million of gross timeshare financing receivables secured under our revolving non-recourse timeshare financing receivables credit facility (the "Timeshare Facility"), as of September 30, 2015 and December 31, 2014, respectively.

Timeshare Financing Receivables

As of September 30, 2015, we had 52,840 timeshare financing receivables with interest rates ranging from zero percent to 20.50 percent, a weighted average interest rate of 11.92 percent, a weighted average remaining term of 7.6 years and maturities through 2026.

Our timeshare financing receivables as of September 30, 2015 mature as follows:

| Year | Securitized Timeshare (in millions) | Unsecuritized Timeshare |
|---|---|---|
| 2015 (remaining) | $15 | $29 |
| 2016 | 60 | 62 |
| 2017 | 62 | 66 |
| 2018 | 61 | 68 |

| | | |
|---|---|---|
| 2019 | 57 | 69 |
| Thereafter | 141 | 363 |
| | 396 | 657 |
| Less: allowance | (19 ) | (83 ) |
| | $377 | $574 |

11

As of September 30, 2015 and December 31, 2014, we had ceased accruing interest on timeshare financing receivables with an aggregate principal balance of $30 million and $31 million, respectively. The following table details an aged analysis of our gross timeshare financing receivables balance:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Current | $1,011 | $980 |
| 30 - 89 days past due | 12 | 13 |
| 90 - 119 days past due | 3 | 2 |
| 120 days and greater past due | 27 | 29 |
| | $1,053 | $1,024 |

The changes in our allowance for uncollectible timeshare financing receivables were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Beginning balance | $96 | $92 |
| Write-offs | (23) | (24) |
| Provision for uncollectibles on sales | 29 | 25 |
| Ending balance | $102 | $93 |

Note 7: Investments in Affiliates

Investments in affiliates were as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Equity investments | $145 | $153 |
| Other investments | 9 | 17 |
| | $154 | $170 |

We maintain investments in affiliates accounted for under the equity method, which are primarily investments in entities that owned or leased 16 hotels as of September 30, 2015 and December 31, 2014. These entities had total debt of approximately $949 million and $929 million as of September 30, 2015 and December 31, 2014, respectively. Substantially all of the debt is secured solely by the affiliates' assets or is guaranteed by other partners without recourse to us.

Note 8: Consolidated Variable Interest Entities

As of September 30, 2015 and December 31, 2014, we consolidated five variable interest entities ("VIEs"); two lease hotels from unconsolidated affiliates in Japan, two are associated with our timeshare financing receivables securitization transactions that both issued debt (collectively, "Securitized Timeshare Debt") and one owns a hotel in the U.S. We are the primary beneficiaries of these VIEs as we have the power to direct the activities that most significantly affect their economic performance. Additionally, we have the obligation to absorb their losses and the right to receive benefits that could be significant to them. The assets of our VIEs are only available to settle the obligations of these entities. Our condensed consolidated balance sheets included the assets and liabilities of these entities, which primarily comprised the following:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Cash and cash equivalents | $38 | $27 |
| Restricted cash and cash equivalents | 17 | 22 |
| Property and equipment, net | 73 | 77 |
| Securitized financing receivables, net | 377 | 468 |
| Other non-current assets | 53 | 56 |
| Non-recourse debt | 605 | 729 |

During the nine months ended September 30, 2015 and 2014, we did not provide any financial or other support to any VIEs that we were not previously contractually required to provide, nor do we intend to provide such support in the future.

In June 2015, one of our consolidated VIEs in Japan modified the terms of its capital lease, resulting in a reduction in non-recourse debt of $24 million. This amount was recognized as a gain in other gain (loss), net in our condensed consolidated statement of operations during the nine months ended September 30, 2015, as the leased asset had previously been fully impaired.

In September 2014, we acquired an additional ownership interest in one of our consolidated VIEs in Japan. The effect of this acquisition was recognized during the nine months ended September 30, 2014, resulting in a decrease in additional paid-in capital of $6 million, a decrease in accumulated other comprehensive loss of $1 million and an increase in noncontrolling interests of $5 million.

Note 9: Debt

Long-term Debt

Long-term debt balances, including obligations for capital leases, and associated interest rates as of September 30, 2015 were as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Senior secured term loan facility with a rate of 3.50%, due 2020 | $4,325 | $5,000 |
| Senior notes with a rate of 5.625%, due 2021 | 1,500 | 1,500 |
| Commercial mortgage-backed securities loan with an average rate of 4.07%, due 2018[1] | 3,487 | 3,487 |
| Mortgage loans with an average rate of 4.00%, due 2016 to 2020[2] | 648 | 721 |
| Other unsecured notes with a rate of 7.50%, due 2017 | 54 | 54 |

| | | |
|---|---|---|
| Capital lease obligations with an average rate of 6.12%, due 2015 to 2097 | 66 | 72 |
| | 10,080 | 10,834 |
| Less: current maturities of long-term debt | (116) | (10) |
| Less: unamortized discount on senior secured term loan facility | (19) | (21) |
| | $9,945 | $10,803 |

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(1) The initial maturity date of the variable-rate component of this borrowing is November 1, 2015. We assumed all extensions, which are solely at our option, were exercised.

(2) For mortgage loans with maturity date extensions that are solely at our option, we assumed they were exercised.

During the nine months ended September 30, 2015, we made prepayments of $675 million on our senior secured term loan facility (the "Term Loans"), including a contractually required prepayment using the net proceeds from the sale of the Hilton Sydney. See Note 4: "Disposals" for further information on the transaction.

As of September 30, 2015, we had $45 million of letters of credit outstanding under our $1.0 billion senior secured revolving credit facility (the "Revolving Credit Facility"), and a borrowing capacity of $955 million.

In February 2015, we repaid the $525 million Waldorf Astoria Loan concurrent with the sale of the Waldorf Astoria New York. See Note 4: "Disposals" for further information on the transaction.

In February 2015, we assumed a $450 million mortgage loan secured by the Bonnet Creek Resort (the "Bonnet Creek Loan") as a result of an acquisition. See Note 3: "Acquisitions" for further information on the transaction. Principal payments, commencing in April 2016, are payable monthly over a 25-year amortization period with the unamortized portion due in full upon maturity. The Bonnet Creek Loan, maturing on April 29, 2018, with an option to extend for one year, bears interest at a variable rate based on one-month LIBOR plus 350 basis points, which is payable monthly.

Our commercial mortgage-backed securities loan secured by 23 of our U.S. owned real estate assets (the "CMBS Loan") and the Bonnet Creek Loan require us to deposit with the lenders certain cash reserves for restricted uses. As of September 30, 2015 and December 31, 2014, our condensed consolidated balance sheets included $91 million and $19 million, respectively, of restricted cash and cash equivalents related to these loans.

Non-recourse Debt

Non-recourse debt, including obligations for capital leases, and associated interest rates as of September 30, 2015 were as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Capital lease obligations of consolidated VIEs with a rate of 6.34%, due 2018 to 2026 | $189 | $216 |
| Non-recourse debt of consolidated VIEs with an average rate of 3.74%, due 2015 to 2018[(1)] | 32 | 32 |
| Timeshare Facility with a rate of 1.20%, due 2017 | 150 | 150 |
| Securitized Timeshare Debt with an average rate of 1.97%, due 2026 | 384 | 481 |
| | 755 | 879 |
| Less: current maturities of non-recourse debt | (132) | (127) |
| | $623 | $752 |

(1) Excludes the non-recourse debt of our VIEs that issued the Securitized Timeshare Debt, as it is presented separately.

We are required to deposit payments received from customers on the pledged timeshare financing receivables and securitized timeshare financing receivables related to the Timeshare Facility and Securitized Timeshare Debt, respectively, into a depository account maintained by a third party. On a monthly basis, the depository account will be utilized to make any required principal, interest and other payments due with respect to the Timeshare Facility and Securitized Timeshare Debt. The balance in the depository account, totaling $19 million and $25 million as of September 30, 2015 and December 31, 2014, respectively, was included in restricted cash and cash equivalents in our condensed consolidated balance sheets.

Debt Maturities

The contractual maturities of our long-term debt and non-recourse debt as of September 30, 2015 were as follows:

| Year | (in millions) |
|---|---|
| 2015 (remaining) | $48 |
| 2016 | 229 |
| 2017 | 348 |
| 2018[1] | 3,562 |
| 2019[1] | 481 |
| Thereafter | 6,167 |
| | $10,835 |

____________
(1) We assumed all extensions that are solely at our option for purposes of calculating maturity dates.

Note 10: Derivative Instruments and Hedging Activities

During the nine months ended September 30, 2015 and 2014, derivatives were used to hedge the interest rate risk associated with variable-rate debt. Certain of our loan agreements require us to hedge interest rate risk using derivative instruments.

During the nine months ended September 30, 2015, derivatives were also used to hedge foreign exchange risk associated with certain foreign currency denominated cash balances.

Cash Flow Hedges

As of September 30, 2015, we held four interest rate swaps with an aggregate notional amount of $1.45 billion, which swap three-month LIBOR on the Term Loans to a fixed rate of 1.87 percent and expire in October 2018. We elected to designate these interest rate swaps as cash flow hedges for accounting purposes.

Non-designated Hedges

As of September 30, 2015, we held 29 short-term foreign exchange forward contracts with an aggregate notional amount of $92 million to offset exposure to fluctuations in our foreign currency denominated cash balances. We elected not to designate these foreign exchange forward contracts as hedging instruments.

As of September 30, 2015, we also held the following interest rate caps:

- one interest rate cap in the notional amount of $875 million, for the variable-rate component of the CMBS Loan, that expires in November 2015 and caps one-month LIBOR at 6.0 percent;
- one interest rate cap in the notional amount of $525 million that expires in November 2015 and caps one-month LIBOR at 4.0 percent; and
- one interest rate cap in the notional amount of $338 million that expires in May 2016 and caps one-month LIBOR at 3.0 percent on the Bonnet Creek Loan.

We did not elect to designate any of these interest rate caps as hedging instruments.

Fair Value of Derivative Instruments

The effects of our derivative instruments on our condensed consolidated balance sheets were as follows:

| | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| | | (in millions) | | (in millions) |
| Cash Flow Hedges: | | | | |
| Interest rate swaps | Other liabilities | $22 | Other liabilities | $4 |
| Non-designated Hedges: | | | | |
| Interest rate caps[1] | Other assets | — | Other assets | — |
| Forward contracts[2] | Other assets | 1 | Other assets | — |
| Forward contracts[1] | Accounts payable, accrued expenses and other | — | Accounts payable, accrued expenses and other | — |

(1) The fair values of our interest rate caps and forward contracts were less than $1 million as of September 30, 2015 and December 31, 2014.
(2) The fair values of our forward contracts were less than $1 million as of December 31, 2014.

Earnings Effect of Derivative Instruments

The effects of our derivative instruments on our condensed consolidated statements of operations and condensed consolidated statements of comprehensive income (loss), before any effect for income taxes, were as follows:

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | Classification of Gain (Loss) Recognized | 2015 | 2014 | 2015 | 2014 |
| | | (in millions) | | | |
| Cash Flow Hedges: | | | | | |
| Interest rate swaps[1] | Other comprehensive income (loss) | $(10) | $8 | $(18) | $(6) |
| Non-designated Hedges: | | | | | |
| Interest rate caps | Other gain (loss), net | — | — | — | — |
| Forward contracts | Gain (loss) on foreign currency transactions | 6 | N/A | 12 | N/A |

(1) There were no amounts recognized in earnings related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing during the three and nine months ended September 30, 2015 and 2014.

Note 11: Fair Value Measurements

The carrying amounts and estimated fair values of our financial assets and liabilities, which included related current portions, were as follows:

| | September 30, 2015 | | | |
|---|---|---|---|---|
| | | Hierarchy Level | | |
| | Carrying Amount (in millions) | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | $355 | $— | $355 | $— |
| Restricted cash equivalents | 25 | — | 25 | — |
| Timeshare financing receivables | 1,053 | — | — | 1,053 |
| Liabilities: | | | | |
| Long-term debt[(1)] | 9,995 | 1,616 | — | 8,525 |
| Non-recourse debt[(2)] | 534 | — | — | 534 |
| Interest rate swaps | 22 | — | 22 | — |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | | Hierarchy Level | | |
| | Carrying Amount (in millions) | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | $326 | $— | $326 | $— |
| Restricted cash equivalents | 38 | — | 38 | — |
| Timeshare financing receivables | 1,024 | — | — | 1,021 |
| Liabilities: | | | | |
| Long-term debt[(1)] | 10,741 | 1,630 | — | 9,207 |
| Non-recourse debt[(2)] | 631 | — | — | 626 |
| Interest rate swaps | 4 | — | 4 | — |

(1) Excludes capital lease obligations with a carrying value of $66 million and $72 million as of September 30, 2015 and December 31, 2014, respectively.

(2) Excludes capital lease obligations of consolidated VIEs with a carrying value of $189 million and $216 million as of September 30, 2015 and December 31, 2014, respectively, and non-recourse debt of consolidated VIEs with a carrying value of $32 million as of September 30, 2015 and December 31, 2014.

We believe the carrying amounts of our other financial assets and liabilities approximated fair value as of September 30, 2015 and December 31, 2014. Our estimates of the fair values were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop the estimated fair values.

Cash equivalents and restricted cash equivalents primarily consisted of short-term interest-bearing money market funds with maturities of less than 90 days, time deposits and commercial paper. The estimated fair values were based on available market pricing information of similar financial instruments.

The estimated fair values of our timeshare financing receivables were based on the expected future cash flows discounted at weighted-average interest rates of the current portfolio, which reflect the risk of the underlying notes, primarily determined by the credit worthiness of the borrowers.

The estimated fair values of our Level 1 long-term debt were based on prices in active debt markets. The estimated fair values of our Level 3 long-term debt were based on indicative quotes received for similar issuances, the expected future cash flows discounted at risk-adjusted rates or the carrying value as the interest rates under the loan agreements approximated current market rates.

The estimated fair values of our Level 3 non-recourse debt approximated carrying values as the interest rates under the loan agreements either approximated current market rates or there were not significant fluctuations in current market rates to change the fair values of the underlying instruments.

We measure our interest rate swaps at fair value, which were estimated using an income approach. The primary inputs into our fair value estimate include interest rates and yield curves based on observable market inputs of similar instruments.

As a result of our acquisition of certain properties during the nine months ended September 30, 2015, we measured financial and nonfinancial assets and liabilities at fair value on a nonrecurring basis (see Note 3: "Acquisitions") as follows:

| | (in millions) |
|---|---|
| Property and equipment | $1,868 |
| Long-term debt | 450 |

We estimated the fair values of these financial and nonfinancial assets and liabilities using discounted cash flow analyses with the following significant unobservable inputs (Level 3):

| | |
|---|---|
| Property and equipment: | |
| Estimated stabilized growth rate | 3 to 4 percent |
| Term | 10 to 11 years |
| Terminal capitalization rate[(1)] | 7 to 8 percent |
| Discount rate[(1)] | 9 to 10 percent |
| Long-term debt: | |
| Risk adjusted rate | One-month LIBOR plus 275 basis points |

(1) Reflects the risk profile of the individual markets where the assets are located and are not necessarily indicative of our hotel portfolio as a whole.

Note 12: Income Taxes

At the end of each quarter we estimate the effective tax rate expected to be applied for the full year. The effective income tax rate is determined by the level and composition of pre-tax income or loss, which is subject to federal, foreign, state and local income taxes. The annual effective tax rate expected to be applied for the full year is higher than our statutory tax rate primarily because no tax benefit was recognized for compensation costs incurred for the executive compensation plan that certain members of our senior management team participated in prior to December 2013 (the "Promote Plan") or for the reduction of goodwill in connection with the sales of the Waldorf Astoria New York and the Hilton Sydney (see Note 4: "Disposals" for further information). The higher effective tax rate, as compared to our statutory tax rate, for the three and nine months ended September 30, 2015, was largely attributable to the reduction of goodwill in connection with the sales of the Waldorf Astoria New York and the Hilton Sydney as well as compensation costs under the Promote Plan for which no tax benefits were recognized. In addition, a foreign jurisdiction where we had deferred tax assets reduced its statutory tax rate, resulting in a reduction to the deferred tax asset and a corresponding recognition of income tax expense of $6 million during the nine months ended September 30, 2015.

Our total unrecognized tax benefits as of September 30, 2015 and December 31, 2014 were $407 million and $401 million, respectively. We had accrued approximately $26 million and $22 million for the payment of interest and penalties as of September 30, 2015 and December 31, 2014, respectively. We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense.

As a result of the expected resolution of examination issues with federal, state and foreign tax authorities, we believe it is reasonably possible that during the next 12 months the amount of unrecognized tax benefits will decrease up to $21 million. Included in the balance of unrecognized tax benefits as of September 30, 2015 and December 31, 2014 were $377 million and $367 million, respectively, associated with positions that, if favorably resolved, would provide a benefit to our effective tax rate.

We file income tax returns, including returns for our subsidiaries, with federal, state and foreign jurisdictions. We are under regular and recurring audit by the Internal Revenue Service ("IRS") and other taxing authorities on open tax positions. The timing of the resolution of tax audits is highly uncertain, as are the amounts, if any, that may ultimately be paid upon such resolution. Changes may result from the conclusion of ongoing audits, appeals or litigation in state, local, federal and foreign tax jurisdictions or from the resolution of various proceedings between the U.S. and foreign tax authorities. We are no longer subject to U.S. federal income tax examination for years through 2004. As of September 30, 2015, we remain subject to federal examinations from 2005-2014, state examinations from 1999-2014 and foreign examinations of our income tax returns for the years 1996 through 2014.

In April 2014, we received 30-day Letters from the IRS and the Revenue Agents Report ("RAR") for the 2006 and October 2007 tax years. We disagreed with several of the proposed adjustments in the RAR, filed a formal appeals protest with the IRS and did not make any tax payments related to this audit. The issues being protested in appeals relate to assertions by the IRS that: (1) certain foreign currency-denominated, intercompany loans from our foreign subsidiaries to certain U.S. subsidiaries should be recharacterized as equity for U.S. federal income tax purposes and constitute deemed dividends from such foreign subsidiaries to our U.S. subsidiaries; (2) in calculating the amount of U.S. taxable income resulting from our Hilton HHonors guest loyalty program, we should not reduce gross income by the estimated costs of future redemptions, but rather such costs would be deductible at the time the points are redeemed; and (3) certain foreign-currency denominated loans issued by one of our Luxembourg subsidiaries whose functional currency is U.S. Dollar ("USD"), should instead be treated as issued by one of our Belgian subsidiaries whose functional currency is the Euro, and thus foreign currency gains and losses with respect to such loans should have been measured in Euros, instead of USD. In total, the proposed adjustments sought by the IRS would result in additional U.S. federal tax owed of approximately $696 million, excluding interest and penalties and potential state income taxes. The portion of this amount related to our Hilton HHonors guest loyalty program would result in a decrease to our future tax liability when the points are redeemed. We disagree with the IRS's position on each of these assertions and intend to vigorously contest them. We plan to pursue all available administrative remedies, and if we are not able to resolve these matters administratively, we plan to pursue judicial remedies. Accordingly, as of September 30, 2015, no accrual has been made for these amounts.

State income tax returns are generally subject to examination for a period of three to five years after filing the respective return; however, the state effect of any federal tax return changes remains subject to examination by various states for a period generally of up to one year after formal notification to the states. The statute of limitations for the foreign jurisdictions generally ranges from three to ten years after filing the respective tax return.

Note 13: Employee Benefit Plans

We sponsor multiple domestic and international employee benefit plans. Benefits are based upon years of service and compensation.

We have a noncontributory retirement plan in the U.S. (the "Domestic Plan"), which covers certain employees not earning union benefits. This plan was frozen for participant benefit accruals in 1996. We also have multiple employee benefit plans that cover many of our international employees. These include a plan that covers workers in the United Kingdom (the "U.K. Plan"), which was frozen to further accruals in November 2013, and a number of smaller plans that cover workers in various other countries around the world (the "International Plans").

The components of net periodic pension cost (credit) for the Domestic Plan, U.K. Plan and International Plans were as follows:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Domestic Plan | U.K. Plan | International Plans | Domestic Plan | U.K. Plan | International Plans |
| | (in millions) | | | | | |
| Service cost | $2 | $1 | $1 | $1 | $1 | $— |
| Interest cost | 4 | 3 | 1 | 5 | 4 | 1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expected return on plan assets | (4) | (7) | (1) | (5) | (7) | (1) |
| Amortization of prior service cost | 1 | — | — | 1 | — | — |
| Amortization of net loss | — | — | — | — | 1 | — |
| Settlement losses | — | — | 1 | 1 | — | — |
| Net periodic pension cost (credit) | $3 | $(3) | $2 | $3 | $(1) | $— |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Domestic Plan | U.K. Plan | International Plans | Domestic Plan | U.K. Plan | International Plans |
| | (in millions) | | | | | |
| Service cost | $5 | $1 | $2 | $5 | $1 | $2 |
| Interest cost | 12 | 11 | 3 | 13 | 13 | 3 |
| Expected return on plan assets | (14) | (19) | (3) | (14) | (19) | (3) |
| Amortization of prior service cost | 3 | — | — | 3 | — | — |
| Amortization of net loss | 2 | 1 | 1 | 1 | 1 | — |
| Settlement losses | — | — | 3 | 2 | — | — |
| Net periodic pension cost (credit) | $8 | $(6) | $6 | $10 | $(4) | $2 |

Note 14: Share-Based Compensation

Stock Plan

Under the Hilton Worldwide Holdings Inc. 2013 Omnibus Incentive Plan (the "Stock Plan"), we issue time-vesting restricted stock units ("RSUs"), nonqualified stock options ("options"), performance-vesting restricted stock units and restricted stock (collectively, "performance shares") and deferred share units ("DSUs").

We recognized share-based compensation expense for awards granted under the Stock Plan of $22 million and $25 million during the three months ended September 30, 2015 and 2014, respectively, and $77 million and $60 million during the nine months ended September 30, 2015 and 2014, respectively, which included amounts reimbursed by hotel owners. As of September 30, 2015, unrecognized compensation costs for unvested awards was approximately $119 million, which is expected to be recognized over a weighted-average period of 1.8 years on a straight-line basis.

As of September 30, 2015, there were 68,524,469 shares of common stock available for future issuance under the Stock Plan.

Restricted Stock Units

During the nine months ended September 30, 2015, we issued 2,052,145 RSUs with a weighted average grant date fair value of $27.47, which generally vest in annual installments over two or three years from the date of grant. Vested RSUs generally are settled for our common stock, with the exception of certain awards that are settled in cash.

Stock Options

During the nine months ended September 30, 2015, we issued 928,585 options with an exercise price of $27.46, which vest over three years from the date of grant, and terminate 10 years from the date of grant or earlier if the individual's service terminates.

The grant date fair value of these options was $8.39, which was determined using the Black-Scholes-Merton option-pricing model with the following assumptions:

| | | |
|---|---|---|
| Expected volatility[1] | 28.00 | % |
| Dividend yield[2] | — | % |
| Risk-free rate[3] | 1.67 | % |
| Expected term (in years)[4] | 6.0 | |

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(1) Due to limited trading history of our common stock, we did not have sufficient information available on which to base a reasonable and supportable estimate of the expected volatility of our share price. As a result, we used an average historical volatility of our peer group over a time period consistent with our expected term assumption in addition to our historical volatility. Our peer group was determined based upon companies in our industry with similar business models and is consistent with those used to benchmark our executive compensation.
(2) At the date of grant we had no plans to pay dividends during the expected term of these options.
(3) Based on the yields of U.S. Department of Treasury instruments with similar expected lives.
(4) Estimated using the average of the vesting periods and the contractual term of the options.

As of September 30, 2015, 299,615 options were exercisable.

Performance Shares

During the nine months ended September 30, 2015, we issued 1,227,140 performance shares. The performance shares are settled at the end of the three-year performance period with 50 percent of the shares subject to achievement based on a measure of the Company’s total shareholder return relative to the total shareholder returns of members of a peer company group ("relative shareholder return") and the other 50 percent of the shares subject to achievement based on the Company’s earnings before interest expense, taxes and depreciation and amortization ("EBITDA") compound annual growth rate ("EBITDA CAGR").

The grant date fair value of these performance shares based on relative shareholder return was $32.98, which was determined using a Monte Carlo simulation valuation model with the following assumptions:

| | | |
|---|---|---|
| Expected volatility(1) | 24.00 | % |
| Dividend yield(2) | — | % |
| Risk-free rate(3) | 1.04 | % |
| Expected term (in years)(4) | 2.8 | |

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(1) Due to limited trading history of our common stock, we did not have sufficient information available on which to base a reasonable and supportable estimate of the expected volatility of our share price. As a result, we used an average historical volatility of our peer group over a time period consistent with our expected term assumption in addition to our historical volatility. Our peer group was determined based upon companies in our industry with similar business models and is consistent with those used to benchmark our executive compensation.

(2) At the date of grant we had no plans to pay dividends during the expected term of these performance shares.

(3) Based on the yields of U.S. Department of Treasury instruments with similar expected lives.

(4) Midpoint of the 30-calendar day period preceding the end of the performance period.

The grant date fair value of these performance shares based on our EBITDA CAGR was $27.46. For performance shares based on our EBITDA CAGR, we determined that the performance condition is probable of achievement and as of September 30, 2015, we recognized compensation expense based on the anticipated achievement percentage as follows:

| | Achievement Percentage |
|---|---|
| Performance shares granted in 2014 | 150% |
| Performance shares granted in 2015 | 125% |

Deferred Share Units

During the nine months ended September 30, 2015, we issued to our independent directors 18,538 DSUs with a weighted average grant date fair value of $28.32, which are fully vested and non-forfeitable on the grant date. DSUs are settled for shares of our common stock and deliverable upon the earlier of termination of the individual's service on our Board of Directors or a change in control.

Promote Plan

Equity awards under the Promote Plan were exchanged for restricted shares of common stock in connection with our initial public offering and 80 percent vested as of December 11, 2014. In May 2015, our Sponsor ceased to own 50 percent or more of the shares of the Company, at which point the remaining 20 percent of restricted shares of common stock vested, resulting in the recognition of compensation expense of $64 million upon occurrence of that event.

Total compensation expense recognized for the Promote Plan was $6 million during the three months ended September 30, 2014, and was $66 million and $25 million during the nine months ended September 30, 2015 and 2014, respectively.

Note 15: Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share ("EPS"):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions, except per share amounts) | | | |
| Basic EPS: | | | | |
| Numerator: | | | | |
| Net income attributable to Hilton stockholders | $279 | $183 | $590 | $515 |
| Denominator: | | | | |
| Weighted average shares outstanding | 987 | 985 | 986 | 985 |
| Basic EPS | $0.28 | $0.19 | $0.60 | $0.52 |
| | | | | |
| Diluted EPS: | | | | |
| Numerator: | | | | |
| Net income attributable to Hilton stockholders | $279 | $183 | $590 | $515 |
| Denominator: | | | | |
| Weighted average shares outstanding | 989 | 987 | 989 | 986 |
| Diluted EPS | $0.28 | $0.19 | $0.60 | $0.52 |

Approximately 1 million share-based compensation awards were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2015 and 2014 because their effect would have been anti-dilutive under the treasury stock method.

Note 16: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of taxes, were as follows:

| | Currency Translation Adjustment[1] | Pension Liability Adjustment | Cash Flow Hedge Adjustment | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| Balance as of December 31, 2014 | $(446) | $(179) | $(3) | $(628) |
| Other comprehensive loss before reclassifications | (173) | (1) | (11) | (185) |
| Amounts reclassified from accumulated other comprehensive loss | 16 | 4 | — | 20 |
| Net current period other comprehensive income (loss) | (157) | 3 | (11) | (165) |
| Balance as of September 30, 2015 | $(603) | $(176) | $(14) | $(793) |

| | Currency Translation Adjustment[1] | Pension Liability Adjustment | Cash Flow Hedge Adjustment | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| Balance as of December 31, 2013 | $(136) | $(134) | $6 | $(264) |
| Other comprehensive loss before reclassifications | (129) | — | (4) | (133) |
| Amounts reclassified from accumulated other comprehensive loss | (4) | 3 | — | (1) |
| Net current period other comprehensive income (loss) | (133) | 3 | (4) | (134) |
| Equity contribution to consolidated variable interest entities | (6) | — | — | (6) |
| Balance as of September 30, 2014 | $(275) | $(131) | $2 | $(404) |

____________

(1) Includes net investment hedges and intra-entity foreign currency transactions that are of a long-term investment nature.

The following table presents additional information about reclassifications out of accumulated other comprehensive loss; amounts in parentheses indicate a loss in our condensed consolidated statements of operations:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Currency translation adjustment: | | |
| Sale and liquidation of foreign assets[1] | $(25) | $3 |
| Gains on net investment hedges[2] | — | 1 |
| Tax benefit[3][4] | 9 | — |
| Total currency translation adjustment reclassifications for the period, net of taxes | (16) | 4 |
| Pension liability adjustment: | | |
| Amortization of prior service cost[5] | $(3) | $(3) |
| Amortization of net loss[5] | (4) | (2) |
| Tax benefit[3] | 3 | 2 |

| | | |
|---|---|---|
| Total pension liability adjustment reclassifications for the period, net of taxes | (4 ) | (3 ) |
| Total reclassifications for the period, net of tax | $(20 ) | $1 |

(1) Reclassified out of accumulated other comprehensive loss to gain on sales of assets, net for the nine months ended September 30, 2015 and other gain (loss), net for the nine months ended September 30, 2014 in our condensed consolidated statements of operations. See Note 4: "Disposals" for additional information.

(2) Reclassified out of accumulated other comprehensive loss to gain (loss) on foreign currency transactions in our condensed consolidated statements of operations.

(3) Reclassified out of accumulated other comprehensive loss to income tax expense in our condensed consolidated statements of operations.

(4) The tax benefit was less than $1 million for the nine months ended September 30, 2014.

(5) Reclassified out of accumulated other comprehensive loss to general, administrative and other in our condensed consolidated statements of operations. These amounts were included in the computation of net periodic pension cost (credit). See Note 13: "Employee Benefit Plans" for additional information.

Note 17: Business Segments

We are a diversified hospitality company with operations organized in three distinct operating segments: ownership, management and franchise and timeshare. Each segment is managed separately because of its distinct economic characteristics.

The ownership segment included 147 properties totaling 59,962 rooms, comprising 124 hotels that we wholly owned or leased, three consolidated non-wholly owned entities, three consolidated VIEs and unconsolidated investments in affiliates that owned or operated 17 hotels, as of September 30, 2015. While we do not include equity in earnings (losses) from unconsolidated affiliates in our measures of segment revenues, we manage these investments in our ownership segment.

The management and franchise segment includes all of the hotels we manage for third-party owners, as well as all franchised hotels operated or managed by someone other than us under one of our proprietary brand names in our brand portfolio. As of September 30, 2015, this segment included 522 managed hotels and 3,811 franchised hotels totaling 4,333 hotels consisting of 677,960 rooms. This segment also earns fees for managing properties in our ownership and timeshare segments.

The timeshare segment includes the development of vacation ownership clubs and resorts, marketing and selling of timeshare intervals, providing timeshare customer financing and resort operations. This segment also provides assistance to third-party developers in selling their timeshare inventory. As of September 30, 2015, this segment included 45 timeshare properties totaling 7,152 units.

Corporate and other represents revenues and related operating expenses generated by the incidental support of hotel operations for owned, leased, managed and franchised hotels and other rental income, as well as corporate assets and related expenditures.

The performance of our operating segments is evaluated primarily based on Adjusted EBITDA. We define Adjusted EBITDA as EBITDA, further adjusted to exclude certain items, including, but not limited to, gains, losses and expenses in connection with: (i) asset dispositions for both consolidated and unconsolidated investments; (ii) foreign currency transactions; (iii) debt restructurings/retirements; (iv) non-cash impairment losses; (v) furniture, fixtures and equipment ("FF&E") replacement reserves required under certain lease agreements; (vi) reorganization costs; (vii) share-based and certain other compensation expenses; (viii) severance, relocation and other expenses; and (ix) other items. To align with management's view of allocating resources and assessing the performance of our segments and to facilitate comparisons with our competitors, beginning in the first quarter of 2015, Adjusted EBITDA excluded all share-based compensation expense, not just share-based compensation recognized in connection with equity issued prior to and in connection with our initial public offering. We have applied this change in the definition to 2014 historical results presented to allow for comparability.

The following table presents revenues and Adjusted EBITDA for our reportable segments, reconciled to consolidated amounts:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Revenues | | | | |
| Ownership[1][2] | $1,089 | $1,087 | $3,194 | $3,165 |
| Management and franchise[3] | 438 | 383 | 1,263 | 1,085 |
| Timeshare | 334 | 295 | 974 | 850 |
| Segment revenues | 1,861 | 1,765 | 5,431 | 5,100 |
| Other revenues from managed and franchised properties | 1,063 | 906 | 3,074 | 2,653 |
| Other revenues[4] | 25 | 24 | 67 | 70 |
| Intersegment fees elimination[1][2][3][4] | (54) | (51) | (156) | (149) |
| Total revenues | $2,895 | $2,644 | $8,416 | $7,674 |
| | | | | |
| Adjusted EBITDA | | | | |
| Ownership[1][2][3][4][5] | $281 | $262 | $789 | $729 |
| Management and franchise[3] | 438 | 383 | 1,263 | 1,085 |
| Timeshare[1][3] | 99 | 80 | 259 | 233 |
| Corporate and other[2][4] | (60) | (56) | (177) | (196) |
| Adjusted EBITDA | $758 | $669 | $2,134 | $1,851 |

(1) Includes charges to timeshare operations for rental fees and fees for other amenities, which were eliminated in our condensed consolidated financial statements. These charges totaled $6 million and $7 million for the three months ended September 30, 2015 and 2014, respectively, and $17 million and $21 million for the nine months ended September 30, 2015 and 2014, respectively. While the net effect is zero, our measures of segment revenues and Adjusted EBITDA include these fees as a benefit to the ownership segment and an expense to timeshare Adjusted EBITDA.

(2) Includes other intercompany charges of $1 million for the three months ended September 30, 2015 and 2014, and $3 million for the nine months ended September 30, 2015 and 2014, which were eliminated in our condensed consolidated financial statements.

(3) Includes management, royalty and intellectual property fees of $33 million and $30 million for the three months ended September 30, 2015 and 2014, respectively, and $99 million and $86 million for the nine months ended September 30, 2015 and 2014, respectively. These fees are charged to consolidated owned and leased properties and were eliminated in our condensed consolidated financial statements. Also includes a licensing fee of $11 million for the three months ended September 30, 2015 and 2014, and $31 million and $33 million for the nine months ended September 30, 2015 and 2014, respectively, which is charged to our timeshare segment by our management and franchise segment and was eliminated in our condensed consolidated financial statements. While the net effect is zero, our measures of segment revenues and Adjusted EBITDA include these fees as a benefit to the management and franchise segment and an expense to ownership Adjusted EBITDA and timeshare Adjusted EBITDA.

(4) Includes charges to consolidated owned and leased properties for services provided by our wholly owned laundry business of $3 million and $2 million for the three months ended September 30, 2015 and 2014, respectively, and $6 million for the nine months ended September 30, 2015 and 2014. These charges were eliminated in our condensed consolidated financial statements.

(5) Includes unconsolidated affiliate Adjusted EBITDA.

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The following table provides a reconciliation of Adjusted EBITDA to EBITDA and EBITDA to net income attributable to Hilton stockholders:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in millions) | | | |
| Adjusted EBITDA | $758 | $669 | $2,134 | $1,851 |
| Net income attributable to noncontrolling interests | (4) | (4) | (10) | (8) |
| Gain on sales of assets, net | 164 | — | 306 | — |
| Gain (loss) on foreign currency transactions | (8) | (5) | (21) | 41 |
| FF&E replacement reserve | (9) | (9) | (36) | (32) |
| Share-based and other compensation expense | (21) | (30) | (143) | (36) |
| Other gain (loss), net | 1 | 24 | (6) | 38 |
| Other adjustment items | (40) | (11) | (109) | (41) |
| EBITDA | 841 | 634 | 2,115 | 1,813 |
| Interest expense | (138) | (156) | (431) | (467) |
| Interest expense included in equity in earnings from unconsolidated affiliates | (1) | (2) | (5) | (8) |
| Income tax expense | (247) | (127) | (555) | (331) |
| Depreciation and amortization | (171) | (159) | (519) | (470) |
| Depreciation and amortization included in equity in earnings from unconsolidated affiliates | (5) | (7) | (15) | (22) |
| Net income attributable to Hilton stockholders | $279 | $183 | $590 | $515 |

The following table presents assets for our reportable segments, reconciled to consolidated amounts:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (in millions) | |
| Assets: | | |
| Ownership | $11,506 | $11,595 |
| Management and franchise | 10,463 | 10,530 |
| Timeshare | 1,922 | 1,840 |
| Corporate and other | 2,041 | 2,160 |
| | $25,932 | $26,125 |

The following table presents capital expenditures for property and equipment for our reportable segments, reconciled to consolidated amounts:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (in millions) | |
| Capital expenditures for property and equipment: | | |
| Ownership | $200 | $173 |
| Timeshare | 7 | 5 |
| Corporate and other | 7 | 6 |
| | $214 | $184 |

Note 18: Commitments and Contingencies

As of September 30, 2015, we had outstanding guarantees of $25 million, with remaining terms ranging from five years to eight years, for debt and other obligations of third parties. We have one letter of credit for $25 million that has been pledged as collateral for one of these guarantees. Although we believe it is unlikely that material payments will be required under these guarantees or letters of credit, there can be no assurance that this will be the case.

We have also provided performance guarantees to certain owners of hotels that we operate under management contracts. Most of these guarantees allow us to terminate the contract, rather than fund shortfalls, if specified performance levels are not achieved. However, in limited cases, we are obligated to fund performance shortfalls. As of September 30, 2015, we had six contracts containing performance guarantees, with expirations ranging from 2019 to 2030, and possible cash outlays totaling approximately $102 million. Our obligations under these guarantees in future periods are dependent on the operating performance levels of these hotels over the remaining terms of the performance guarantees. We do not have any letters of credit pledged as collateral against these guarantees. As of September 30, 2015 and December 31, 2014, we recorded current liabilities of approximately $8 million and non-current liabilities of approximately $28 million and $37 million, respectively, in our condensed consolidated balance sheets for obligations under our outstanding performance guarantees that are related to certain VIEs for which we are not the primary beneficiary.

As of September 30, 2015, we had outstanding commitments under third-party contracts of approximately $88 million for capital expenditures at certain owned and leased properties. Our contracts contain clauses that allow us to cancel all or some portion of the work. If cancellation of a contract occurred, our commitment would be any costs incurred up to the cancellation date, in addition to any costs associated with the discharge of the contract.

We have entered into an agreement with an affiliate of the owner of a hotel whereby we have agreed to provide a $60 million junior mezzanine loan to finance the construction of a new hotel. The junior mezzanine loan will be subordinated to a senior mortgage loan and senior mezzanine loan provided by third parties unaffiliated with us and will be funded on a pro rata basis with these loans as the construction costs are incurred. During the nine months ended September 30, 2015, we funded $11 million of this commitment, and we currently expect to fund the remainder of our commitment as follows: $6 million in the remainder of 2015, $39 million in 2016 and $4 million in 2017.

We have entered into an agreement with a developer in Las Vegas, Nevada, whereby we have agreed to purchase residential units from the developer that we will convert to timeshare units to be marketed and sold under our Hilton Grand Vacations brand. Subject to certain conditions, we are required to purchase approximately $92 million of inventory ratably over a maximum period of four years. During the nine months ended September 30, 2015 and 2014, we purchased $17 million and $23 million, respectively, of inventory under this agreement. As of September 30, 2015, our remaining contractual obligations pursuant to this agreement were $11 million, all of which we expect to incur in 2016.

During 2010, an affiliate of our Sponsor settled a $75 million liability on our behalf in conjunction with a lawsuit settlement by entering into service contracts with the plaintiff. We recorded the portion settled by this affiliate as a capital contribution. Additionally, as part of the settlement, we entered into a guarantee with the plaintiff to pay any shortfall that this affiliate does not fund related to those service contracts up to the value of the settlement amount made by the affiliate. The remaining potential exposure under this guarantee as of September 30, 2015 was approximately $25 million. We have not accrued a liability for this guarantee as we believe the likelihood of any material funding to be remote.

We are involved in other litigation arising from the normal course of business, some of which includes claims for substantial sums. While the ultimate results of claims and litigation cannot be predicted with certainty, we expect that the ultimate resolution of all pending or threatened claims and litigation as of September 30, 2015 will not have a material effect on our condensed consolidated results of operations, financial position or cash flows.

Note 19: Condensed Consolidating Guarantor Financial Information

In October 2013, Hilton Worldwide Finance LLC and Hilton Worldwide Finance Corp. (the "Subsidiary Issuers"), entities formed in August 2013 which are 100 percent owned by the Parent, issued $1.5 billion of 5.625% senior notes due in 2021 (the "Senior Notes"). The obligations of the Subsidiary Issuers are guaranteed jointly and severally on a senior unsecured basis by the Parent and certain of the Parent's 100 percent owned domestic restricted subsidiaries (the "Guarantors"). The indenture that governs the Senior Notes provides that any subsidiary of the Company that provides a guarantee of a senior secured credit facility consisting of the Revolving Credit Facility and the Term Loans (the "Senior Secured Credit Facility") will guarantee the Senior Notes. None of our foreign subsidiaries or U.S. subsidiaries owned by foreign subsidiaries or conducting foreign operations; our non-wholly owned subsidiaries; our subsidiaries that secure the CMBS Loan and $544 million in mortgage loans; or certain of our special purpose subsidiaries formed in connection with our Timeshare Facility and Securitized Timeshare Debt guarantee the Senior Notes (collectively, the "Non-Guarantors").

The guarantees are full and unconditional, subject to certain customary release provisions. The indenture that governs the Senior Notes provides that any Guarantor may be released from its guarantee so long as: (a) the subsidiary is sold or sells all of its assets; (b) the subsidiary is released from its guaranty under the Senior Secured Credit Facility; (c) the subsidiary is declared "unrestricted" for covenant purposes; or (d) the requirements for legal defeasance or covenant defeasance or to discharge the indenture have been satisfied.

The following schedules present the condensed consolidating financial information as of September 30, 2015 and December 31, 2014, and for the three and nine months ended September 30, 2015 and 2014, for the Parent, Subsidiary Issuers, Guarantors and Non-Guarantors.

| | September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Subsidiary Issuers | Guarantors | Non-Guarantors | Eliminations | Total |
| | (in millions) | | | | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $— | $— | $270 | $ 358 | $— | $628 |
| Restricted cash and cash equivalents | — | — | 145 | 131 | — | 276 |
| Accounts receivable, net | — | — | 523 | 406 | — | 929 |
| Intercompany receivables | — | — | 27 | — | (27) | — |
| Inventories | — | — | 407 | 23 | — | 430 |
| Deferred income tax assets | — | — | 9 | 11 | — | 20 |
| Current portion of financing receivables, net | — | — | 48 | 20 | — | 68 |
| Current portion of securitized financing receivables, net | — | — | — | 56 | — | 56 |
| Prepaid expenses | — | — | 68 | 117 | (3) | 182 |
| Income taxes receivable | — | — | 21 | — | (2) | 19 |
| Other | — | — | 7 | 31 | — | 38 |
| Total current assets | — | — | 1,525 | 1,153 | (32) | 2,646 |
| Property, Intangibles and Other Assets: | | | | | | |
| Property and equipment, net | — | — | 292 | 8,840 | — | 9,132 |
| Financing receivables, net | — | — | 399 | 145 | — | 544 |
| Securitized financing receivables, net | — | — | — | 321 | — | 321 |
| Investments in affiliates | — | — | 113 | 41 | — | 154 |
| Investments in subsidiaries | 5,394 | 11,202 | 4,849 | — | (21,445) | — |
| Goodwill | — | — | 3,851 | 2,051 | — | 5,902 |
| Brands | — | — | 4,405 | 524 | — | 4,929 |
| Management and franchise contracts, net | — | — | 904 | 272 | — | 1,176 |
| Other intangible assets, net | — | — | 410 | 193 | — | 603 |
| Deferred income tax assets | 24 | 7 | — | 157 | (31) | 157 |
| Other | — | 74 | 151 | 143 | — | 368 |
| Total property, intangibles and other assets | 5,418 | 11,283 | 15,374 | 12,687 | (21,476) | 23,286 |
| TOTAL ASSETS | $5,418 | $11,283 | $16,899 | $ 13,840 | $(21,508) | $25,932 |
| LIABILITIES AND EQUITY | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable, accrued expenses and other | $— | $60 | $1,484 | $ 720 | $(3) | $2,261 |
| Intercompany payables | — | — | — | 27 | (27) | — |
| Current maturities of long-term debt | — | — | — | 116 | — | 116 |
| Current maturities of non-recourse debt | — | — | — | 132 | — | 132 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income taxes payable | — | — | — | 51 | (2) | 49 |
| Total current liabilities | — | 60 | 1,484 | 1,046 | (32) | 2,558 |
| Long-term debt | — | 5,807 | 54 | 4,084 | — | 9,945 |
| Non-recourse debt | — | — | — | 623 | — | 623 |
| Deferred revenues | — | — | 340 | 1 | — | 341 |
| Deferred income tax liabilities | — | — | 2,301 | 3,023 | (31) | 5,293 |
| Liability for guest loyalty program | — | — | 754 | — | — | 754 |
| Other | 204 | 22 | 764 | 248 | — | 1,238 |
| Total liabilities | 204 | 5,889 | 5,697 | 9,025 | (63) | 20,752 |
| Equity: | | | | | | |
| Total Hilton stockholders' equity | 5,214 | 5,394 | 11,202 | 4,849 | (21,445) | 5,214 |
| Noncontrolling interests | — | — | — | (34) | — | (34) |
| Total equity | 5,214 | 5,394 | 11,202 | 4,815 | (21,445) | 5,180 |
| TOTAL LIABILITIES AND EQUITY | $5,418 | $11,283 | $16,899 | $ 13,840 | $ (21,508) | $25,932 |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Subsidiary Issuers | Guarantors | Non-Guarantors | Eliminations | Total |
| | (in millions) | | | | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $— | $— | $270 | $ 296 | $— | $566 |
| Restricted cash and cash equivalents | — | — | 135 | 67 | — | 202 |
| Accounts receivable, net | — | — | 478 | 366 | — | 844 |
| Intercompany receivables | — | — | 46 | — | (46) | — |
| Inventories | — | — | 380 | 24 | — | 404 |
| Deferred income tax assets | — | — | 10 | 10 | — | 20 |
| Current portion of financing receivables, net | — | — | 47 | 19 | — | 66 |
| Current portion of securitized financing receivables, net | — | — | — | 62 | — | 62 |
| Prepaid expenses | — | — | 29 | 124 | (20) | 133 |
| Income taxes receivable | — | — | 154 | — | (22) | 132 |
| Other | — | — | 5 | 65 | — | 70 |
| Total current assets | — | — | 1,554 | 1,033 | (88) | 2,499 |
| Property, Intangibles and Other Assets: | | | | | | |
| Property and equipment, net | — | — | 305 | 7,178 | — | 7,483 |
| Property and equipment, net held for sale | — | — | — | 1,543 | — | 1,543 |
| Financing receivables, net | — | — | 272 | 144 | — | 416 |
| Securitized financing receivables, net | — | — | — | 406 | — | 406 |
| Investments in affiliates | — | — | 123 | 47 | — | 170 |
| Investments in subsidiaries | 4,924 | 11,361 | 4,935 | — | (21,220) | — |
| Goodwill | — | — | 3,847 | 2,307 | — | 6,154 |
| Brands | — | — | 4,405 | 558 | — | 4,963 |
| Management and franchise contracts, net | — | — | 1,007 | 299 | — | 1,306 |
| Other intangible assets, net | — | — | 466 | 208 | — | 674 |
| Deferred income tax assets | 22 | 1 | — | 155 | (23) | 155 |
| Other | — | 85 | 119 | 152 | — | 356 |
| Total property, intangibles and other assets | 4,946 | 11,447 | 15,479 | 12,997 | (21,243) | 23,626 |
| TOTAL ASSETS | $4,946 | $11,447 | $17,033 | $ 14,030 | $(21,331) | $26,125 |
| LIABILITIES AND EQUITY | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable, accrued expenses and other | $— | $40 | $1,384 | $ 695 | $(20) | $2,099 |
| Intercompany payables | — | — | — | 46 | (46) | — |
| Current maturities of long-term debt | — | — | — | 10 | — | 10 |
| Current maturities of non-recourse debt | — | — | — | 127 | — | 127 |
| Income taxes payable | — | — | 5 | 38 | (22) | 21 |
| Total current liabilities | — | 40 | 1,389 | 916 | (88) | 2,257 |
| Long-term debt | — | 6,479 | 54 | 4,270 | — | 10,803 |
| Non-recourse debt | — | — | — | 752 | — | 752 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Deferred revenues | — | — | 493 | 2 | — | 495 |
| Deferred income tax liabilities | — | — | 2,306 | 2,933 | (23) | 5,216 |
| Liability for guest loyalty program | — | — | 720 | — | — | 720 |
| Other | 194 | 4 | 710 | 260 | — | 1,168 |
| Total liabilities | 194 | 6,523 | 5,672 | 9,133 | (111) | 21,411 |
| Equity: | | | | | | |
| Total Hilton stockholders' equity | 4,752 | 4,924 | 11,361 | 4,935 | (21,220) | 4,752 |
| Noncontrolling interests | — | — | — | (38) | — | (38) |
| Total equity | 4,752 | 4,924 | 11,361 | 4,897 | (21,220) | 4,714 |
| TOTAL LIABILITIES AND EQUITY | $4,946 | $11,447 | $17,033 | $ 14,030 | $ (21,331) | $26,125 |

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| | Three Months Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Subsidiary Issuers | Guarantors | Non-Guarantors | Eliminations | Total |
| | (in millions) | | | | | |
| Revenues | | | | | | |
| Owned and leased hotels | $— | $— | $64 | $ 1,025 | $(7) | $1,082 |
| Management and franchise fees and other | — | — | 355 | 86 | (25) | 416 |
| Timeshare | — | — | 314 | 20 | — | 334 |
| | — | — | 733 | 1,131 | (32) | 1,832 |
| Other revenues from managed and franchised properties | — | — | 1,199 | 116 | (252) | 1,063 |
| Total revenues | — | — | 1,932 | 1,247 | (284) | 2,895 |
| Expenses | | | | | | |
| Owned and leased hotels | — | — | 46 | 773 | (21) | 798 |
| Timeshare | — | — | 221 | 4 | (6) | 219 |
| Depreciation and amortization | — | — | 82 | 89 | — | 171 |
| General, administrative and other | — | — | 117 | 33 | (5) | 145 |
| | — | — | 466 | 899 | (32) | 1,333 |
| Other expenses from managed and franchised properties | — | — | 1,199 | 116 | (252) | 1,063 |
| Total expenses | — | — | 1,665 | 1,015 | (284) | 2,396 |
| Gain on sales of assets, net | — | — | — | 164 | — | 164 |
| Operating income | — | — | 267 | 396 | — | 663 |
| Interest income | — | — | 2 | 1 | — | 3 |
| Interest expense | — | (69) | (9) | (60) | — | (138) |
| Equity in earnings from unconsolidated affiliates | — | — | 7 | 2 | — | 9 |
| Gain (loss) on foreign currency transactions | — | — | 213 | (221) | — | (8) |
| Other gain, net | — | — | — | 1 | — | 1 |
| Income (loss) before income taxes and equity in earnings from subsidiaries | — | (69) | 480 | 119 | — | 530 |
| Income tax benefit (expense) | (1) | 27 | (200) | (73) | — | (247) |
| Income (loss) before equity in earnings from subsidiaries | (1) | (42) | 280 | 46 | — | 283 |
| Equity in earnings from subsidiaries | 280 | 322 | 42 | — | (644) | — |
| Net income | 279 | 280 | 322 | 46 | (644) | 283 |
| Net income attributable to noncontrolling interests | — | — | — | (4) | — | (4) |
| Net income attributable to Hilton stockholders | $279 | $280 | $322 | $ 42 | $(644) | $279 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Comprehensive income | $ 159 | $ 274 | $ 301 | $ (47 ) | $ (524 ) | $ 163 |
| Comprehensive income attributable to noncontrolling interests | — | — | — | (4 ) | — | (4 ) |
| Comprehensive income attributable to Hilton stockholders | $ 159 | $ 274 | $ 301 | $ (51 ) | $ (524 | |