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Hilton Worldwide Holdings Inc.

Form 10-Q

August 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

or

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

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  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  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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of July 28, 2014 was 984,617,365.



HILTON WORLDWIDE HOLDINGS INC.  
FORM 10-Q TABLE OF CONTENTS

|                | Page No.  |
|----------------|---|
| <b>PART I</b>  | <b>FINANCIAL INFORMATION</b>  |
| Item 1.        | Financial Statements <u>2</u>   |
| Item 2.        | Management's Discussion and Analysis of Financial Condition and Results of Operations <u>23</u> |
| Item 3.        | Quantitative and Qualitative Disclosures About Market Risk <u>36</u>                            |
| Item 4.        | Controls and Procedures <u>36</u>   |
| <b>PART II</b> | <b>OTHER INFORMATION</b>  |
| Item 1.        | Legal Proceedings <u>37</u>   |
| Item 1A.       | Risk Factors <u>37</u>  |
| Item 2.        | Unregistered Sales of Equity Securities and Use of Proceeds <u>37</u>                           |
| Item 3.        | Defaults Upon Senior Securities <u>37</u>   |
| Item 4.        | Mine Safety Disclosures <u>37</u>   |
| Item 5.        | Other Information <u>37</u>   |
| Item 6.        | Exhibits <u>37</u>  |
|                | Signatures <u>39</u>  |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | June 30,<br>2014<br>(unaudited) | December 31,<br>2013 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current Assets:   |                                 |                      |
| Cash and cash equivalents   | \$545                           | \$594                |
| Restricted cash and cash equivalents  | 284                             | 266                  |
| Accounts receivable, net of allowance for doubtful accounts of \$30 and \$32                | 858                             | 731                  |
| Inventories   | 359                             | 396                  |
| Deferred income tax assets  | 23                              | 23                   |
| Current portion of financing receivables, net   | 52                              | 94                   |
| Current portion of securitized financing receivables, net                                   | 65                              | 27                   |
| Prepaid expenses  | 166                             | 148                  |
| Other   | 65                              | 104                  |
| Total current assets (variable interest entities - \$216 and \$97)                          | 2,417                           | 2,383                |
| Property, Investments and Other Assets:   |                                 |                      |
| Property and equipment, net   | 9,036                           | 9,058                |
| Financing receivables, net  | 359                             | 635                  |
| Securitized financing receivables, net  | 462                             | 194                  |
| Investments in affiliates   | 257                             | 260                  |
| Goodwill  | 6,227                           | 6,220                |
| Brands  | 5,016                           | 5,013                |
| Management and franchise contracts, net   | 1,390                           | 1,452                |
| Other intangible assets, net  | 727                             | 751                  |
| Deferred income tax assets  | 196                             | 193                  |
| Other   | 410                             | 403                  |
| Total property, investments and other assets (variable interest entities - \$694 and \$408) | 24,080                          | 24,179               |
| <b>TOTAL ASSETS</b>   | <b>\$26,497</b>                 | <b>\$26,562</b>      |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                      |
| Current Liabilities:  |                                 |                      |
| Accounts payable, accrued expenses and other  | \$1,999                         | \$2,079              |
| Current maturities of long-term debt  | 3                               | 4                    |
| Current maturities of non-recourse debt   | 107                             | 48                   |
| Income taxes payable  | 11                              | 11                   |
| Total current liabilities (variable interest entities - \$219 and \$86)                     | 2,120                           | 2,142                |
| Long-term debt  | 11,314                          | 11,751               |
| Non-recourse debt   | 890                             | 920                  |

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|  |        |        |
|--|--------|--------|
| Deferred revenues  | 593    | 674    |
| Deferred income tax liabilities                                  | 5,058  | 5,053  |
| Liability for guest loyalty program                              | 630    | 597    |
| Other  | 1,145  | 1,149  |
| Total liabilities (variable interest entities - \$987 and \$583) | 21,750 | 22,286 |

Commitments and contingencies - see Note 16

Equity:

|   |                 |                 |
|---|-----------------|-----------------|
| Preferred stock, \$0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of June 30, 2014 and December 31, 2013  | —               | —               |
| Common stock, \$0.01 par value; 30,000,000,000 authorized shares, 984,617,365 issued and outstanding as of June 30, 2014 and 984,615,364 issued and outstanding as of December 31, 2013 |                 | 10              |
| Additional paid-in capital  | 10,009          | 9,948           |
| Accumulated deficit   | (4,999)         | ) (5,331)       |
| Accumulated other comprehensive loss  | (186)           | ) (264)         |
| Total Hilton stockholders' equity   | 4,834           | 4,363           |
| Noncontrolling interests  | (87)            | ) (87)          |
| Total equity  | 4,747           | 4,276           |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$26,497</b> | <b>\$26,562</b> |

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 |         | Six Months Ended |         |
|---|--------------------|---------|------------------|---------|
|   | June 30,           |         | June 30,         |         |
|   | 2014               | 2013    | 2014             | 2013    |
| Revenues  |                    |         |                  |         |
| Owned and leased hotels                               | \$1,117            | \$1,070 | \$2,062          | \$1,984 |
| Management and franchise fees and other               | 354                | 299     | 666              | 561     |
| Timeshare   | 276                | 261     | 555              | 507     |
|   | 1,747              | 1,630   | 3,283            | 3,052   |
| Other revenues from managed and franchised properties | 920                | 750     | 1,747            | 1,591   |
| Total revenues  | 2,667              | 2,380   | 5,030            | 4,643   |
| Expenses  |                    |         |                  |         |
| Owned and leased hotels                               | 833                | 804     | 1,604            | 1,547   |
| Timeshare   | 188                | 181     | 365              | 351     |
| Depreciation and amortization                         | 158                | 149     | 311              | 309     |
| General, administrative and other                     | 133                | 92      | 230              | 189     |
|   | 1,312              | 1,226   | 2,510            | 2,396   |
| Other expenses from managed and franchised properties | 920                | 750     | 1,747            | 1,591   |
| Total expenses  | 2,232              | 1,976   | 4,257            | 3,987   |
| Operating income                                      | 435                | 404     | 773              | 656     |
| Interest income                                       | 5                  | 1       | 6                | 3       |
| Interest expense                                      | (158)              | (131)   | (311)            | (274)   |
| Equity in earnings from unconsolidated affiliates     | 8                  | 7       | 12               | 8       |
| Gain (loss) on foreign currency transactions          | 32                 | (39)    | 46               | (82)    |
| Other gain (loss), net                                | 11                 | (1)     | 14               | 6       |
| Income before income taxes                            | 333                | 241     | 540              | 317     |
| Income tax expense                                    | (121)              | (84)    | (204)            | (122)   |
| Net income  | 212                | 157     | 336              | 195     |
| Net income attributable to noncontrolling interests   | (3)                | (2)     | (4)              | (6)     |
| Net income attributable to Hilton stockholders        | \$209              | \$155   | \$332            | \$189   |
| Earnings per share                                    |                    |         |                  |         |
| Basic and diluted                                     | \$0.21             | \$0.17  | \$0.34           | \$0.20  |

See notes to condensed consolidated financial statements.



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

|  | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|--|--------------------------------|-------|------------------------------|--------|
|  | 2014                           | 2013  | 2014                         | 2013   |
| Net income   | \$212                          | \$157 | \$336                        | \$195  |
| Other comprehensive income (loss), net of tax benefit (expense):               |                                |       |                              |        |
| Currency translation adjustment, net of tax of \$66, \$(31), \$102 and \$(155) | 53                             | (18)  | ) 81                         | (181)  |
| Pension liability adjustment, net of tax of \$(1), \$(5), \$(1) and \$(7)      | 3                              | 8     | 4                            | 12     |
| Cash flow hedge adjustment, net of tax of \$3, \$—, \$5 and \$—                | (6)                            | ) —   | (9)                          | ) —    |
| Total other comprehensive income (loss)  | 50                             | (10)  | ) 76                         | (169)  |
| Comprehensive income   | 262                            | 147   | 412                          | 26     |
| Comprehensive income attributable to noncontrolling interests                  | (3)                            | ) (8) | ) (2)                        | ) (22) |
| Comprehensive income attributable to Hilton stockholders                       | \$259                          | \$139 | \$410                        | \$4    |

See notes to condensed consolidated financial statements.



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

|   | Six Months Ended |       |
|---|------------------|-------|
|   | June 30,         |       |
|   | 2014             | 2013  |
| <b>Operating Activities</b>   |                  |       |
| Net income  | \$336            | \$195 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |       |
| Depreciation and amortization   | 311              | 309   |
| Equity in earnings from unconsolidated affiliates                                 | (12)             | (8)   |
| Loss (gain) on foreign currency transactions                                      | (46)             | 82    |
| Other gain, net   | (14)             | (6)   |
| Share-based compensation  | 41               | 3     |
| Distributions from unconsolidated affiliates                                      | 11               | 10    |
| Deferred income taxes   | (42)             | 25    |
| Change in restricted cash and cash equivalents                                    | (1)              | (46)  |
| Working capital changes and other   | (72)             | 74    |
| Net cash provided by operating activities   | 512              | 638   |
| <b>Investing Activities</b>   |                  |       |
| Capital expenditures for property and equipment                                   | (110)            | (121) |
| Acquisitions  | —                | (30)  |
| Payments received on other financing receivables                                  | 2                | 1     |
| Issuance of other financing receivables   | (1)              | (7)   |
| Investments in affiliates   | (5)              | (3)   |
| Distributions from unconsolidated affiliates                                      | 11               | 13    |
| Proceeds from asset dispositions  | 35               | —     |
| Contract acquisition costs  | (21)             | (10)  |
| Software capitalization costs   | (32)             | (26)  |
| Net cash used in investing activities   | (121)            | (183) |
| <b>Financing Activities</b>   |                  |       |
| Borrowings  | 350              | 451   |
| Repayment of debt   | (783)            | (952) |
| Debt issuance costs   | (2)              | —     |
| Change in restricted cash and cash equivalents                                    | (17)             | (30)  |
| Capital contribution  | 13               | —     |
| Distributions to noncontrolling interests   | (2)              | (3)   |
| Net cash used in financing activities   | (441)            | (534) |
| Effect of exchange rate changes on cash and cash equivalents                      | 1                | (15)  |
| Net decrease in cash and cash equivalents   | (49)             | (94)  |
| Cash and cash equivalents, beginning of period                                    | 594              | 755   |
| Cash and cash equivalents, end of period  | \$545            | \$661 |

Supplemental Disclosures

Cash paid during the year:

|                              |       |       |
|------------------------------|-------|-------|
| Interest                     | \$257 | \$288 |
| Income taxes, net of refunds | \$141 | \$40  |

Non-cash investing activity:

|                             |      |        |   |
|-----------------------------|------|--------|---|
| Capital lease restructuring | \$11 | \$(44) | ) |
|-----------------------------|------|--------|---|

Non-cash financing activity:

|                             |      |        |   |
|-----------------------------|------|--------|---|
| Capital lease restructuring | \$11 | \$(48) | ) |
|-----------------------------|------|--------|---|

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<br>Shares                     | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total   |
| Balance as of December 31, 2013                | 985  | \$ 10                  | \$9,948                          | \$(5,331)              | \$(264)                                       | \$(87)                      | \$4,276 |
| Net income                                     | —  | —                      | —                                | 332                    | —   | 4                           | 336     |
| Other comprehensive income (loss), net of tax: |  |                        |                                  |                        |   |                             |         |
| Currency translation adjustment                | —  | —                      | —                                | —                      | 83  | (2)                         | 81      |
| Pension liability adjustment                   | —  | —                      | —                                | —                      | 4   | —                           | 4       |
| Cash flow hedge adjustment                     | —  | —                      | —                                | —                      | (9)   | —                           | (9)     |
| Other comprehensive income (loss)              | —  | —                      | —                                | —                      | 78  | (2)                         | 76      |
| Share-based compensation                       | —  | —                      | 48                               | —                      | —   | —                           | 48      |
| Capital contribution                           | —  | —                      | 13                               | —                      | —   | —                           | 13      |
| Distributions                                  | —  | —                      | —                                | —                      | —   | (2)                         | (2)     |
| Balance as of June 30, 2014                    | 985  | \$ 10                  | \$10,009                         | \$(4,999)              | \$(186)                                       | \$(87)                      | \$4,747 |

|  | Equity Attributable to Hilton Stockholders |                        |                                  |                        |   |                             |         |
|--|--|------------------------|----------------------------------|------------------------|---|-----------------------------|---------|
|  | Common Stock<br>Shares <sup>(1)</sup>      | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total   |
| Balance as of December 31, 2012                | 921  | \$ 1                   | \$8,452                          | \$(5,746)              | \$(406)                                       | \$(146)                     | \$2,155 |
| Net income                                     | —  | —                      | —                                | 189                    | —   | 6                           | 195     |
| Other comprehensive income (loss), net of tax: |  |                        |                                  |                        |   |                             |         |
| Currency translation adjustment                | —  | —                      | —                                | —                      | (197)   | 16                          | (181)   |
| Pension liability adjustment                   | —  | —                      | —                                | —                      | 12  | —                           | 12      |
| Other comprehensive income (loss)              | —  | —                      | —                                | —                      | (185)   | 16                          | (169)   |
| Distributions                                  | —  | —                      | —                                | —                      | —   | (3)                         | (3)     |
| Balance as of June 30, 2013                    | 921  | \$ 1                   | \$8,452                          | \$(5,557)              | \$(591)                                       | \$(127)                     | \$2,178 |

<sup>(1)</sup> Shares of common stock outstanding have been adjusted for a stock split which occurred in December 2013.

See notes to condensed consolidated financial statements.



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

Note 1: Organization and Basis of Presentation

Organization

Hilton Worldwide Holdings Inc. ("Hilton" together with its subsidiaries, "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 11 distinct brands. We are engaged in owning, leasing, managing, developing and franchising hotels, resorts and timeshare properties. As of June 30, 2014, we owned, leased, managed or franchised 4,158 hotel and resort properties, totaling 687,222 rooms in 93 countries and territories, as well as 44 timeshare properties comprising 6,758 units.

In December 2013, we completed a 9,205,128-for-1 stock split on issued and outstanding shares, which is reflected in all share and per share data presented in our condensed consolidated financial statements and accompanying notes.

Basis of Presentation and Use of Estimates

The accompanying condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013 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, 2013.

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

Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 ("ASU 2013-11"), Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists in the applicable jurisdiction to settle any additional income taxes that would result from disallowance of the tax position. The provisions of ASU 2013-11 were effective, prospectively, for reporting periods beginning after December 15, 2013. As a result of our adoption of this ASU on January 1, 2014, \$108 million of unrecognized tax benefits were reclassified against deferred income tax assets.

In March 2013, the FASB issued ASU No. 2013-05 ("ASU 2013-05"), Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This ASU clarifies when a cumulative translation adjustment should be released to net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate) within a foreign entity. The provisions of ASU 2013-05 were effective, prospectively, for reporting periods beginning after December 15, 2013. The adoption did not have a material effect on our condensed consolidated financial statements.

## Accounting Standards Not Yet Adopted

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 to in exchange for those goods or services. The provisions of ASU 2014-09 are effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period and are to be applied retrospectively; early application is not permitted. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08 ("ASU 2014-08"), Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU amends guidance on reporting discontinued operations only if the disposal of a component of an entity or group of components of an entity represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The provisions of ASU 2014-08 should be applied prospectively for all disposals of components of an entity and for all businesses that, on acquisition, are classified as held for sale that occurred within annual periods beginning on or after December 15, 2014, and interim periods within. The adoption of ASU 2014-08 is not expected to materially affect our consolidated financial statements.

## Note 3: Property and Equipment

Property and equipment were as follows:

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
|   | (in millions)    |                      |
| Land                                      | \$4,097          | \$4,098              |
| Buildings and leasehold improvements      | 5,609            | 5,511                |
| Furniture and equipment                   | 1,193            | 1,172                |
| Construction-in-progress                  | 81               | 67                   |
|   | 10,980           | 10,848               |
| Accumulated depreciation and amortization | (1,944           | ) (1,790             |
|   | \$9,036          | \$9,058              |

Depreciation and amortization expense on property and equipment, including amortization of assets recorded under capital leases, was \$79 million and \$77 million during the three months ended June 30, 2014 and 2013, respectively, and \$156 million and \$166 million during the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and December 31, 2013, property and equipment included approximately \$150 million and \$130 million, respectively, of capital lease assets primarily consisting of buildings and leasehold improvements, net of \$65 million and \$59 million, respectively, of accumulated depreciation and amortization.

In April 2014, we completed the sale of certain land and easement rights to a related party in connection with a timeshare project. In addition, the related party 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.

During the six months ended June 30, 2014, we completed the sale of one hotel for approximately \$4 million and a vacant parcel of land for approximately \$6 million. As a result of these sales, we recognized a pre-tax gain of \$12

million, including the reclassification of a currency translation adjustment of \$4 million, which was previously recognized in accumulated other comprehensive loss. The gain was included in other gain (loss), net in our condensed consolidated statement of operations.

During the six months ended June 30, 2013, we acquired a parcel of land for \$28 million, which we previously leased under a long-term ground lease.



## Note 4: Financing Receivables

Financing receivables were as follows:

|  | June 30, 2014                             |                            |       |       |
|--|---|----------------------------|-------|-------|
|  | Securitized<br>Timeshare<br>(in millions) | Unsecuritized<br>Timeshare | Other | Total |
| Financing receivables                    | \$491                                     | \$370                      | \$40  | \$901 |
| Less: allowance                          | (29                                       | ) (50                      | ) (1  | ) (80 |
|  | 462                                       | 320                        | 39    | 821   |
| Current portion of financing receivables | 69  | 58                         | 2     | 129   |
| Less: allowance                          | (4  | ) (8                       | ) —   | (12   |
|  | 65  | 50                         | 2     | 117   |
| Total financing receivables              | \$527                                     | \$370                      | \$41  | \$938 |
|  | December 31, 2013                         |                            |       |       |
|  | Securitized<br>Timeshare<br>(in millions) | Unsecuritized<br>Timeshare | Other | Total |
| Financing receivables                    | \$205                                     | \$654                      | \$49  | \$908 |
| Less: allowance                          | (11                                       | ) (67                      | ) (1  | ) (79 |
|  | 194                                       | 587                        | 48    | 829   |
| Current portion of financing receivables | 29  | 106                        | —     | 135   |
| Less: allowance                          | (2  | ) (12                      | ) —   | (14   |
|  | 27  | 94                         | —     | 121   |
| Total financing receivables              | \$221                                     | \$681                      | \$48  | \$950 |

## Timeshare Financing Receivables

As of June 30, 2014, we had 51,840 timeshare financing receivables with interest rates ranging from zero to 20.50 percent, a weighted average interest rate of 12.16 percent, a weighted average remaining term of 7.4 years and maturities through 2025. As of June 30, 2014 and December 31, 2013, we had ceased accruing interest on timeshare financing receivables with aggregate principal balances of \$31 million and \$32 million, respectively.

In June 2014, we completed a securitization of approximately \$357 million of gross timeshare financing receivables and issued approximately \$304 million of 1.77 percent notes and approximately \$46 million of 2.07 percent notes, which have a stated maturity date in November 2026. The securitization transaction did not qualify as a sale for accounting purposes and, accordingly, no gain or loss was recognized. In August 2013, we completed a securitization of approximately \$255 million of gross timeshare financing receivables and issued \$250 million of 2.28 percent notes that have a stated maturity date in January 2026. The proceeds from both transactions are presented as debt (collectively, the "Securitized Timeshare Debt"). See Note 7: "Debt" for additional details.

In May 2013, we entered into a revolving non-recourse timeshare financing receivables credit facility ("Timeshare Facility") that is secured by certain of our timeshare financing receivables. As of June 30, 2014 and December 31, 2013, we had \$169 million and \$492 million, respectively, of gross timeshare financing receivables secured under our

Timeshare Facility.

9

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

|                                       | Six Months Ended June 30, |       |
|---------------------------------------|---------------------------|-------|
|                                       | 2014                      | 2013  |
|                                       | (in millions)             |       |
| Beginning balance                     | \$92                      | \$93  |
| Write-offs                            | (16                       | ) (11 |
| Provision for uncollectibles on sales | 15                        | 13    |
| Ending balance                        | \$91                      | \$95  |

Our timeshare financing receivables as of June 30, 2014 mature as follows:

|                  | Securitized<br>Timeshare | Unsecuritized<br>Timeshare |
|------------------|--------------------------|----------------------------|
| Year             | (in millions)            |                            |
| 2014 (remaining) | \$34                     | \$35                       |
| 2015             | 70                       | 45                         |
| 2016             | 73                       | 48                         |
| 2017             | 75                       | 49                         |
| 2018             | 75                       | 48                         |
| Thereafter       | 233                      | 203                        |
|                  | 560                      | 428                        |
| Less: allowance  | (33                      | ) (58                      |
|                  | \$527                    | \$370                      |

The following table details an aged analysis of our gross timeshare financing receivables balance:

|                               | June 30,<br>2014 | December 31,<br>2013 |
|-------------------------------|------------------|----------------------|
|                               | (in millions)    |                      |
| Current                       | \$947            | \$948                |
| 30 - 89 days past due         | 10               | 14                   |
| 90 - 119 days past due        | 3                | 4                    |
| 120 days and greater past due | 28               | 28                   |
|                               | \$988            | \$994                |

#### Note 5: Investments in Affiliates

Investments in affiliates were as follows:

|                    | June 30,<br>2014 | December 31,<br>2013 |
|--------------------|------------------|----------------------|
|                    | (in millions)    |                      |
| Equity investments | \$240            | \$245                |
| Other investments  | 17               | 15                   |
|                    | \$257            | \$260                |

We maintain investments in affiliates accounted for under the equity method, which are primarily investments in entities that owned or leased 27 and 30 hotels as of June 30, 2014 and December 31, 2013, respectively. These entities had total debt of approximately \$1.0 billion and \$1.1 billion as of June 30, 2014 and December 31, 2013, respectively. Substantially all of the debt is secured solely by the affiliates' assets or is guaranteed by other partners without recourse to us. We were the creditor on \$17 million of debt from unconsolidated affiliates as of June 30, 2014 and December 31, 2013, which was included in financing receivables, net in our condensed consolidated balance sheets.



## Note 6: Consolidated Variable Interest Entities

As of June 30, 2014 and December 31, 2013, we consolidated five and four variable interest entities ("VIEs"), respectively. During the six months ended June 30, 2014 and 2013, 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.

Two of these VIEs lease hotels from unconsolidated affiliates in Japan. We hold a significant ownership interest in these VIEs and have the power to direct the activities that most significantly affect their economic performance. Our condensed consolidated balance sheets included the assets and liabilities of these entities, which primarily comprised \$34 million and \$42 million of cash and cash equivalents, \$38 million and \$26 million of property and equipment, net, and \$287 million and \$284 million of non-recourse debt as of June 30, 2014 and December 31, 2013, respectively. The assets of these entities are only available to settle the obligations of these entities. Interest expense related to the non-recourse debt of these two consolidated VIEs was \$5 million and \$7 million during the three months ended June 30, 2014 and 2013, respectively, and \$10 million and \$15 million during the six months ended June 30, 2014 and 2013, respectively, and was included in interest expense in our condensed consolidated statements of operations.

In February 2013, one of our consolidated VIEs in Japan signed a Memorandum of Understanding to restructure the terms of its capital lease. The effect of the capital lease restructuring was recognized during the three months ended March 31, 2013, resulting in a reduction in property and equipment, net of \$44 million and a reduction in non-recourse debt of \$48 million.

In August 2013 and June 2014, we formed VIEs associated with each of our securitization transactions to issue our Securitized Timeshare Debt. We are the primary beneficiaries of these VIEs as we have the power to direct the activities that most significantly affect their economic performance, the obligation to absorb their losses and the right to receive benefits that are significant to them. As of June 30, 2014 and December 31, 2013, our condensed consolidated balance sheets included the assets and liabilities of these entities, which primarily comprised \$22 million and \$8 million of restricted cash and cash equivalents, \$527 million and \$221 million of securitized financing receivables, net and \$548 million and \$222 million of non-recourse debt, respectively. Our condensed consolidated statements of operations for the three and six months ended June 30, 2014 included interest income related to these VIEs of \$12 million and \$19 million, respectively, included in timeshare revenue, and interest expense related to these VIEs of \$2 million and \$3 million, respectively, included in interest expense. See Note 4: "Financing Receivables" and Note 7: "Debt" for additional details.

We have an additional consolidated VIE that owns one hotel that was immaterial to our condensed consolidated financial statements.

## Note 7: Debt

## Long-term Debt

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

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
|   | (in millions)    |                      |
| Senior secured term loan facility with a rate of 3.50%, due 2020                                  | \$5,550          | \$6,000              |
| Senior notes with a rate of 5.625%, due 2021  | 1,500            | 1,500                |
| Commercial mortgage-backed securities loan with an average rate of 4.05%, due 2018 <sup>(1)</sup> | 3,500            | 3,500                |

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|   |          |          |   |
|---|----------|----------|---|
| Mortgage loan with a rate of 2.30%, due 2018                              | 525      | 525      |   |
| Mortgage notes with an average rate of 6.15%, due 2016                    | 132      | 133      |   |
| Other unsecured notes with a rate of 7.50%, due 2017                      | 54       | 53       |   |
| Capital lease obligations with an average rate of 6.04%, due 2015 to 2097 | 82       | 73       |   |
|   | 11,343   | 11,784   |   |
| Less: current maturities of long-term debt                                | (3       | ) (4     | ) |
| Less: unamortized discount on senior secured term loan facility           | (26      | ) (29    | ) |
|   | \$11,314 | \$11,751 |   |

(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.

During the six months ended June 30, 2014, we made voluntary prepayments of \$450 million on our senior secured term loan facility (the "Term Loans").

As of June 30, 2014, we had \$48 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 \$952 million.

Under our commercial mortgage-backed securities loan secured by 23 of our U.S. owned real estate assets (the "CMBS Loan"), we are required to deposit with the lender certain cash reserves for restricted uses. As of June 30, 2014 and December 31, 2013, our condensed consolidated balance sheets included \$33 million and \$29 million, respectively, of restricted cash and cash equivalents related to the CMBS Loan.

#### Non-recourse Debt

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

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
|   | (in millions)    |                      |
| Capital lease obligations of consolidated VIEs with a rate of 6.34%, due 2018 to 2026                 | \$259            | \$255                |
| Non-recourse debt of consolidated VIEs with an average rate of 3.38%, due 2015 to 2018 <sup>(1)</sup> | 40               | 41                   |
| Timeshare Facility with a rate of 1.48%, due 2016   | 150              | 450                  |
| Securitized Timeshare Debt with an average rate of 1.98%, due 2026                                    | 548              | 222                  |
|   | 997              | 968                  |
| Less: current maturities of non-recourse debt   | (107             | ) (48                |
|   | \$890            | \$920                |

<sup>(1)</sup> Excludes the non-recourse debt of our VIEs that issued the Securitized Timeshare Debt, as this is presented separately.

In June 2014, we issued approximately \$304 million of 1.77 percent notes and \$46 million of 2.07 percent notes due November 2026, which are secured by a pledge of certain assets, consisting primarily of a pool of our timeshare financing receivables that are secured by a first mortgage or first deed of trust on a timeshare interest. We are required to make monthly payments of principal and interest under the notes. A majority of the proceeds from the asset-backed notes were used to reduce the outstanding balance on our Timeshare Facility.

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 first be utilized to make any required principal, interest and other payments due with respect to the Timeshare Facility and Securitized Timeshare Debt. After payment of all amounts due under the respective agreements, any remaining amounts will be remitted to us for use in our operations. The balance in the depository account, totaling \$27 million and \$20 million as of June 30, 2014 and December 31, 2013, 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 June 30, 2014 were as follows:

| Year             | (in millions) |
|------------------|---------------|
| 2014 (remaining) | \$61          |

|                     |          |
|---------------------|----------|
| 2015                | 109      |
| 2016                | 363      |
| 2017                | 139      |
| 2018 <sup>(1)</sup> | 4,110    |
| Thereafter          | 7,558    |
|                     | \$12,340 |

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<sup>(1)</sup> The CMBS Loan has three one-year extensions, solely at our option, that effectively extend maturity to November 1, 2018. We assumed all extensions for purposes of calculating maturity dates.



## Note 8: Derivative Instruments and Hedging Activities

During the six months ended June 30, 2014 and 2013, 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.

## Cash Flow Hedges

As of June 30, 2014, 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 June 30, 2014, we held 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. We also held one interest rate cap in the notional amount of \$525 million that expires in November 2015 and caps one-month LIBOR on a mortgage loan secured by one property at 4.0 percent. We did not elect to designate either of these interest rate caps as hedging instruments.

As of June 30, 2013, we held ten interest rate caps with an aggregate notional amount of \$15.2 billion, which matured in November 2013. We did not elect to designate any of these ten interest rate caps as effective hedging instruments.

## Fair Value of Derivative Instruments

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

|                        | June 30, 2014     |               | December 31, 2013 |               |
|------------------------|-------------------|---------------|-------------------|---------------|
|                        | Balance Sheet     | Fair Value    | Balance Sheet     | Fair Value    |
|                        | Classification    | (in millions) | Classification    | (in millions) |
| Cash Flow Hedges:      |                   |               |                   |               |
| Interest rate swaps    | Other liabilities | \$5           | Other assets      | \$10          |
| Non-designated Hedges: |                   |               |                   |               |
| Interest rate caps     | Other assets      | —             | Other assets      | —             |

## 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 |        | Six Months Ended |        |
|------------------------------------|--------------------------|--------------------|--------|------------------|--------|
|                                    | Classification of Loss   | June 30,           | 2013   | June 30,         | 2013   |
|                                    | Recognized               | 2014               |        | 2014             |        |
| (in millions)                      |                          |                    |        |                  |        |
| Cash Flow Hedges:                  |                          |                    |        |                  |        |
| Interest rate swaps <sup>(1)</sup> | Other comprehensive loss | \$ (9              | ) \$ — | \$ (14           | ) \$ — |

Non-designated

Hedges:

|                    |                        |   |   |   |   |
|--------------------|------------------------|---|---|---|---|
| Interest rate caps | Other gain (loss), net | — | — | — | — |
|--------------------|------------------------|---|---|---|---|

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

## Note 9: Fair Value Measurements

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

|                                  | June 30, 2014                       |                 |         |         |
|----------------------------------|-------------------------------------|-----------------|---------|---------|
|                                  | Carrying<br>Amount<br>(in millions) | Hierarchy Level |         |         |
|                                  |                                     | Level 1         | Level 2 | Level 3 |
| Assets:                          |                                     |                 |         |         |
| Cash equivalents                 | \$291                               | \$—             | \$291   | \$—     |
| Restricted cash equivalents      | 94                                  | —               | 94      | —       |
| Timeshare financing receivables  | 988                                 | —               | —       | 990     |
| Liabilities:                     |                                     |                 |         |         |
| Long-term debt <sup>(1)</sup>    | 11,235                              | 59              | 1,598   | 9,862   |
| Non-recourse debt <sup>(2)</sup> | 698                                 | —               | —       | 701     |
| Interest rate swaps              | 5                                   | —               | 5       | —       |
| December 31, 2013                |                                     |                 |         |         |
|                                  | Carrying<br>Amount<br>(in millions) | Hierarchy Level |         |         |
|                                  |                                     | Level 1         | Level 2 | Level 3 |
| Assets:                          |                                     |                 |         |         |
| Cash equivalents                 | \$309                               | \$—             | \$309   | \$—     |
| Restricted cash equivalents      | 107                                 | —               | 107     | —       |
| Timeshare financing receivables  | 994                                 | —               | —       | 996     |
| Interest rate swaps              | 10                                  | —               | 10      | —       |
| Liabilities:                     |                                     |                 |         |         |
| Long-term debt <sup>(1)</sup>    | 11,682                              | 57              | 1,560   | 10,358  |
| Non-recourse debt <sup>(2)</sup> | 672                                 | —               | —       | 670     |

<sup>(1)</sup> Excludes capital lease obligations with a carrying value of \$82 million and \$73 million as of June 30, 2014 and December 31, 2013, respectively.

<sup>(2)</sup> Represents the Securitized Timeshare Debt and the Timeshare Facility.

We believe the carrying amounts of our current financial assets and liabilities and other financing receivables approximated fair value as of June 30, 2014 and December 31, 2013. 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. Proper classification of fair value measurements within the valuation hierarchy is considered each reporting period. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

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 risk-adjusted rates. The primary sensitivity in these calculations is based on the selection of appropriate discount rates. Fluctuations in these assumptions will result in different estimates of fair value. An increase in the discount rates would result in a decrease in the fair values.

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.

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 2 long-term debt were based on bid prices in a non-active debt market. The estimated fair values of our Level 3 fixed-rate long-term debt were estimated based on the expected future cash flows discounted at risk-adjusted rates. The

primary sensitivity in these estimates is based on the selection of appropriate discount rates. Fluctuations in these assumptions will result in different estimates of fair value. An increase in the discount rates would result in a decrease in the fair values. The carrying amounts of our Level 3 variable-rate long-term debt and non-recourse debt approximated fair value as the interest rates under the loan agreements approximated current market rates. The estimated fair values of our Level 3 fixed-rate non-recourse debt were primarily based on indicative quotes received for similar issuances.

No financial or nonfinancial assets were measured at fair value on a nonrecurring basis as of June 30, 2014.

#### Note 10: 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 and reflects income tax expense or benefit resulting from our significant operations outside of the U.S.

Our total unrecognized tax benefits as of June 30, 2014 and December 31, 2013 were \$379 million and \$435 million, respectively. We had accrued balances of approximately \$17 million and \$45 million for the payment of interest and penalties as of June 30, 2014 and December 31, 2013, respectively. We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. The net decrease to unrecognized tax benefits of \$56 million and accrued interest and penalties of \$28 million relates to a reduction to uncertain tax positions for calendar years 2006 and 2007 that were effectively settled during the second quarter in connection with the receipt of a Revenue Agent Report from the Internal Revenue Service ("IRS").

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 \$1 million. Included in the balance of unrecognized tax benefits as of June 30, 2014 and December 31, 2013 were \$342 million and \$340 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 IRS 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 June 30, 2014, we remain subject to federal examinations from 2005-2012, state examinations from 1999-2012 and foreign examinations of our income tax returns for the years 1996 through 2013. 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 11: 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 June 30, |           |                        | 2013             |           |                        |
|------------------------------------|-----------------------------|-----------|------------------------|------------------|-----------|------------------------|
|                                    | 2014<br>Domestic<br>Plan    | U.K. Plan | International<br>Plans | Domestic<br>Plan | U.K. Plan | International<br>Plans |
|                                    | (in millions)               |           |                        |                  |           |                        |
| Service cost                       | \$2                         | \$—       | \$1                    | \$1              | \$1       | \$—                    |
| Interest cost                      | 4                           | 4         | 1                      | 5                | 4         | 1                      |
| Expected return on plan assets     | (5 )                        | (6 )      | (1 )                   | (6 )             | (6 )      | (1 )                   |
| Amortization of prior service cost | 1                           | —         | —                      | 1                | —         | —                      |
| Amortization of net loss           | 1                           | —         | —                      | 1                | 1         | 1                      |
| Settlement losses                  | 1                           | —         | —                      | —                | —         | —                      |
| Net periodic pension cost (credit) | \$4                         | \$(2 )    | \$1                    | \$2              | \$—       | \$1                    |

|   | Six Months Ended June 30, |           |                        | 2013             |           |                        |
|---|---------------------------|-----------|------------------------|------------------|-----------|------------------------|
|   | 2014<br>Domestic<br>Plan  | U.K. Plan | International<br>Plans | Domestic<br>Plan | U.K. Plan | International<br>Plans |
|   | (in millions)             |           |                        |                  |           |                        |
| Service cost                                | \$4                       | \$—       | \$2                    | \$2              | \$2       | \$1                    |
| Interest cost                               | 8                         | 9         | 2                      | 9                | 8         | 2                      |
| Expected return on plan assets              | (9 )                      | (12 )     | (2 )                   | (10 )            | (11 )     | (2 )                   |
| Amortization of prior service cost (credit) | 2                         | —         | —                      | 2                | (1 )      | —                      |
| Amortization of net loss                    | 1                         | —         | —                      | 2                | 2         | 1                      |
| Settlement losses                           | 1                         | —         | —                      | —                | —         | 1                      |
| Net periodic pension cost (credit)          | \$7                       | \$(3 )    | \$2                    | \$5              | \$—       | \$3                    |

We have an outstanding bond of \$76 million under a class action lawsuit against Hilton and the Domestic Plan to support potential future plan contributions from us. We funded an account, which is classified as restricted cash and cash equivalents in our condensed consolidated balance sheets, to support this requirement. If the U.S. District Court for the District of Columbia approves of our compliance with the requirements of the ruling from the class action lawsuit, then the bond may be released in 2014.

#### Note 12: Share-Based Compensation

##### 2013 Omnibus Incentive Plan

In February 2014, we issued time-vesting restricted stock units ("RSUs"), nonqualified stock options ("options") and performance-vesting restricted stock units ("performance shares") under the 2013 Omnibus Incentive Plan.

We recorded share-based compensation expense for awards granted under the 2013 Omnibus Incentive Plan of \$24 million and \$35 million during the three and six months ended June 30, 2014, respectively, which includes amounts reimbursed by hotel owners. As of June 30, 2014, unrecognized compensation costs for unvested awards was approximately \$146 million, which is expected to be recognized over a weighted-average period of 2.2 years on a straight-line basis.

As of June 30, 2014, there were 72,404,038 shares of common stock available for future issuance under the 2013 Omnibus Incentive Plan.

#### Restricted Stock Units

During the six months ended June 30, 2014, we issued 7,066,153 RSUs with a grant-date fair value of \$21.53. The RSUs vest in annual installments over two or three years from the date of grant, subject to the individual's continued employment through the applicable vesting date. Vested RSUs generally will be settled for our common stock, with the exception of certain awards that will be settled in cash.



## Stock Options

During the six months ended June 30, 2014, we issued 1,003,591 options with an exercise price of \$21.53. As of June 30, 2014, no options were exercisable. The options vest over three years in equal installments from the date of grant, subject to the individual's continued employment through the applicable vesting date, and will terminate 10 years from the date of grant or earlier if the individual's service terminates. The exercise price is equal to the closing price of the Company's common stock on the date of grant. The grant date fair value of each of these option grants was \$7.58, which was determined using the Black-Scholes-Merton option-pricing model.

## Performance Shares

During the six months ended June 30, 2014, we issued 1,078,908 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 (1) 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 (2) the Company's earnings before interest expense, taxes and depreciation and amortization ("EBITDA") compound annual growth rate ("EBITDA CAGR"). The total number of performance shares that vest based on each performance measure (relative shareholder return and EBITDA CAGR) is based on an achievement factor that in each case, ranges from a zero to 200 percent payout.

The grant date fair value of each of the performance shares based on relative shareholder return was \$23.56, which was determined using a Monte Carlo simulation valuation model. The grant-date fair value of each of the performance shares based on our EBITDA CAGR was \$21.53. For these shares, we determined that the performance condition is probable of achievement and during the three and six months ended June 30, 2014, we recognized compensation expense over the vesting period at the target amount of 100 percent. As of June 30, 2014, 1,078,908 performance shares were outstanding with a remaining life of 2.5 years.

## Promote Plan

Prior to December 2013, certain members of our senior management team participated in an executive compensation plan (the "Promote plan"). Equity awards under the Promote plan were exchanged for restricted shares of common stock in connection with our initial public offering and vest as follows: (1) 40 percent vested immediately; (2) 40 percent of each award will vest on December 11, 2014, contingent upon employment through that date; and (3) 20 percent of each award will vest on the date that The Blackstone Group L.P. and its affiliates ("Blackstone" or "our Sponsor") cease to own 50 percent or more of the shares of the Company, contingent on employment through that date.

In March 2014, the vesting conditions of these restricted shares of common stock for certain participants were modified such that the remaining 60 percent of each participant's award vested in June 2014. As a result of this modification, we recorded incremental compensation expense of \$7 million during the six months ended June 30, 2014. During the three and six months ended June 30, 2014, total compensation expense under the Promote plan was \$6 million and \$19 million, respectively, and unrecognized compensation expense as of June 30, 2014 was \$78 million, including \$10 million that is expected to be recognized through December 2014 and \$68 million that is subject to the achievement of a performance condition. No expense was recognized for the portion of the awards that are subject to the achievement of a performance condition in the form of a liquidity event, since such an event was not probable as of June 30, 2014.

We recorded compensation expense related to the Promote plan of \$1 million and \$3 million during the three and six months ended June 30, 2013, respectively.

Cash-based Long-term Incentive Plan

In February 2014, we terminated a cash-based, long-term incentive plan and reversed the associated accruals resulting in a reduction of compensation expense of approximately \$25 million for the six months ended June 30, 2014.

17

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Note 13: Earnings Per Share

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

|  | Three Months Ended<br>June 30,          |        | Six Months Ended<br>June 30, |        |
|--|---|--------|------------------------------|--------|
|  | 2014                                    | 2013   | 2014                         | 2013   |
|  | (in millions, except per share amounts) |        |                              |        |
| Basic EPS:                                     |   |        |                              |        |
| Numerator:                                     |   |        |                              |        |
| Net income attributable to Hilton stockholders | \$209                                   | \$155  | \$332                        | \$189  |
| Denominator:                                   |   |        |                              |        |
| Weighted average shares outstanding            | 985                                     | 921    | 985                          | 921    |
| Basic EPS                                      | \$0.21                                  | \$0.17 | \$0.34                       | \$0.20 |
| Diluted EPS:                                   |   |        |                              |        |
| Numerator:                                     |   |        |                              |        |
| Net income attributable to Hilton stockholders | \$209                                   | \$155  | \$332                        | \$189  |
| Denominator:                                   |   |        |                              |        |
| Weighted average shares outstanding            | 985                                     | 921    | 985                          | 921    |
| Diluted EPS                                    | \$0.21                                  | \$0.17 | \$0.34                       | \$0.20 |

Approximately 1 million options were excluded from the computation of diluted EPS for the three and six months ended June 30, 2014 because their effect would have been anti-dilutive under the treasury stock method.

Note 14: Accumulated Other Comprehensive Loss

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

|  | Currency<br>Translation<br>Adjustment <sup>(1)</sup><br>(in millions) | Pension<br>Liability<br>Adjustment                                    | Cash Flow<br>Hedge<br>Adjustment   | Total    |
|--|---|---|------------------------------------|----------|
| Balance as of December 31, 2013                                | \$(136 )  | \$(134 )  | \$6                                | \$(264 ) |
| Other comprehensive income (loss) before reclassifications     | 87  | 2   | (9 )                               | 80       |
| Amounts reclassified from accumulated other comprehensive loss | (4 )  | 2   | —                                  | (2 )     |
| Net current period other comprehensive income (loss)           | 83  | 4   | (9 )                               | 78       |
| Balance as of June 30, 2014                                    | \$(53 )   | \$(130 )  | \$(3 )                             | \$(186 ) |
|  |   | Currency<br>Translation<br>Adjustment <sup>(1)</sup><br>(in millions) | Pension<br>Liability<br>Adjustment | Total    |
| Balance as of December 31, 2012                                |   | \$(212 )  | \$(194 )                           | \$(406 ) |
| Other comprehensive income (loss) before reclassifications     |   | (197 )  | 8                                  | (189 )   |
| Amounts reclassified from accumulated other comprehensive loss |   | —   | 4                                  | 4        |
| Net current period other comprehensive income (loss)           |   | (197 )  | 12                                 | (185 )   |



The following table presents additional information about reclassifications out of accumulated other comprehensive loss:

|  | Six Months Ended June 30, |        |
|--|---------------------------|--------|
|  | 2014                      | 2013   |
|  | (in millions)             |        |
| Currency translation adjustment:   |                           |        |
| Sale and liquidation of foreign assets <sup>(1)</sup>                                | \$4                       | \$(1 ) |
| Gains on net investment hedges <sup>(2)</sup>  | —                         | 1      |
| Tax benefit <sup>(3)(4)</sup>  | —                         | —      |
| Total currency translation adjustment reclassifications for the period, net of taxes | 4                         | —      |
| Pension liability adjustment:  |                           |        |
| Amortization of prior service cost <sup>(5)</sup>                                    | (2 )                      | (1 )   |
| Amortization of net loss <sup>(5)</sup>  | (1 )                      | (5 )   |
| Tax benefit <sup>(3)</sup>   | 1                         | 2      |
| Total pension liability adjustment reclassifications for the period, net of taxes    | (2 )                      | (4 )   |
| Total reclassifications for the period, net of tax                                   | \$2                       | \$(4 ) |

<sup>(1)</sup> Reclassified out of accumulated other comprehensive loss to other gain (loss), net in our condensed consolidated statements of operations. Amounts in parentheses indicate a loss in our condensed consolidated statements of operations.

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

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

<sup>(4)</sup> The respective tax benefit was less than \$1 million for the six months ended June 30, 2013.

<sup>(5)</sup> Reclassified out of accumulated other comprehensive loss to general, administrative and other in the condensed consolidated statements of operations. These amounts were included in the computation of net periodic pension cost. See Note 11: "Employee Benefit Plans" for additional information. Amounts in parentheses indicate a loss in our condensed consolidated statements of operations.

#### Note 15: 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 includes all hotels that we wholly own or lease, as well as consolidated non-wholly owned entities and consolidated VIEs. As of June 30, 2014, this segment included 118 wholly owned and leased hotels and resorts, three non-wholly owned hotel properties and three hotels of consolidated VIEs. 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. Our unconsolidated affiliates are primarily investments in entities that owned or leased 27 hotels and one condominium management company as of June 30, 2014.

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 of our brand portfolio. As of June 30, 2014, this segment included 517 managed hotels and 3,489 franchised hotels. 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 June 30, 2014, this segment included 44 timeshare properties.

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, which should not be considered an alternative to net income (loss) or other measures of financial performance or liquidity derived in accordance with U.S. GAAP. EBITDA, presented herein, is a non-GAAP financial measure that reflects net income attributable to Hilton stockholders, excluding interest expense, a provision for income taxes and depreciation and amortization. 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 prior to and in connection with our initial public offering; (viii) severance, relocation and other expenses; and (ix) other items.

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

|   | Three Months Ended |                | Six Months Ended |                |
|---|--------------------|----------------|------------------|----------------|
|   | June 30,<br>2014   | 2013           | June 30,<br>2014 | 2013           |
|   | (in millions)      |                |                  |                |
| <b>Revenues</b>                                       |                    |                |                  |                |
| Ownership <sup>(1)(2)</sup>                           | \$1,126            | \$1,078        | \$2,078          | \$1,998        |
| Management and franchise <sup>(3)</sup>               | 371                | 326            | 702              | 608            |
| Timeshare   | 276                | 261            | 555              | 507            |
| Segment revenues                                      | 1,773              | 1,665          | 3,335            | 3,113          |
| Other revenues from managed and franchised properties | 920                | 750            | 1,747            | 1,591          |
| Other revenues <sup>(4)</sup>                         | 25                 | 15             | 46               | 30             |
| Intersegment fees elimination <sup>(1)(2)(3)(4)</sup> | (51                | ) (50          | ) (98            | ) (91          |
| <b>Total revenues</b>                                 | <b>\$2,667</b>     | <b>\$2,380</b> | <b>\$5,030</b>   | <b>\$4,643</b> |
| <b>Adjusted EBITDA</b>                                |                    |                |                  |                |
| Ownership <sup>(1)(2)(3)(4)(5)</sup>                  | \$291              | \$271          | \$470            | \$445          |
| Management and franchise <sup>(3)</sup>               | 371                | 326            | 702              | 608            |
| Timeshare <sup>(1)(3)</sup>                           | 69                 | 60             | 154              | 119            |
| Corporate and other <sup>(2)(4)</sup>                 | (80                | ) (67          | ) (131           | ) (135         |
| <b>Adjusted EBITDA</b>                                | <b>\$651</b>       | <b>\$590</b>   | <b>\$1,195</b>   | <b>\$1,037</b> |

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 \$8 million and \$7 million for the three months ended June 30, 2014 and 2013, respectively, and \$14 million and \$12 million for the six months ended June 30, 2014 and 2013, 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 a cost to timeshare Adjusted EBITDA.

Includes other intercompany charges of \$1 million for the three months ended June 30, 2014 and 2013 and \$2 million for the six months ended June 30, 2014 and 2013.

Includes management, royalty and intellectual property fees of \$29 million and \$26 million for the three months ended June 30, 2014 and 2013, respectively, and \$56 million and \$47 million for the six months ended June 30, 2014 and 2013, 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 and \$13 million for the three months ended June 30, 2014 and 2013, respectively, and \$22 million and \$25 million for the six months ended June 30, 2014 and 2013, 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 a cost to ownership Adjusted EBITDA and timeshare Adjusted EBITDA.

Includes charges to consolidated owned and leased properties for services provided by our wholly owned laundry business of \$2 million and \$3 million for the three months ended June 30, 2014 and 2013, respectively, and \$4 million and \$5 million for the six months ended June 30, 2014 and 2013, respectively. 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<br>June 30, |        | Six Months Ended<br>June 30, |         |
|--|--------------------------------|--------|------------------------------|---------|
|  | 2014                           | 2013   | 2014                         | 2013    |
|  | (in millions)                  |        |                              |         |
| Adjusted EBITDA  | \$651                          | \$590  | \$1,195                      | \$1,037 |
| Net income attributable to noncontrolling interests  | (3                             | ) (2   | ) (4                         | ) (6    |
| Gain (loss) on foreign currency transactions   | 32                             | (39    | ) 46                         | (82     |
| FF&E replacement reserve   | (12                            | ) (10  | ) (23                        | ) (17   |
| Share-based compensation expense   | (6                             | ) (1   | ) (19                        | ) (3    |
| Other gain (loss), net   | 11                             | (1     | ) 14                         | 6       |
| Other adjustment items   | (17                            | ) (9   | ) (30                        | ) (20   |
| EBITDA   | 656                            | 528    | 1,179                        | 915     |
| Interest expense   | (158                           | ) (131 | ) (311                       | ) (274  |
| Interest expense included in equity in earnings from<br>unconsolidated affiliates              | (3                             | ) (2   | ) (6                         | ) (6    |
| Income tax expense   | (121                           | ) (84  | ) (204                       | ) (122  |
| Depreciation and amortization  | (158                           | ) (149 | ) (311                       | ) (309  |
| Depreciation and amortization included in equity in<br>earnings from unconsolidated affiliates | (7                             | ) (7   | ) (15                        | ) (15   |
| Net income attributable to Hilton stockholders   | \$209                          | \$155  | \$332                        | \$189   |

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

|                          | June 30,<br>2014 | December 31,<br>2013 |
|--------------------------|------------------|----------------------|
|                          | (in millions)    |                      |
| Assets:                  |                  |                      |
| Ownership                | \$11,851         | \$11,936             |
| Management and franchise | 10,726           | 11,016               |
| Timeshare                | 1,836            | 1,871                |
| Corporate and other      | 2,084            | 1,739                |
|                          | \$26,497         | \$26,562             |

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

|  | Six Months Ended<br>June 30, |       |
|--|------------------------------|-------|
|  | 2014                         | 2013  |
|  | (in millions)                |       |
| Capital expenditures for property and equipment: |                              |       |
| Ownership  | \$106                        | \$116 |
| Timeshare  | 1                            | 2     |
| Corporate and other                              | 3                            | 3     |
|  | \$110                        | \$121 |

Note 16: Commitments and Contingencies

As of June 30, 2014, we had outstanding guarantees of \$27 million, with remaining terms ranging from four months to nine years, for debt and other obligations of third parties. We have two letters of credit for a total of \$27 million that have been pledged as collateral for two 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 June 30, 2014, we had six contracts

containing performance guarantees, with expirations ranging from 2018 to 2030, and possible cash outlays totaling approximately \$150 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 June 30, 2014 and December 31, 2013, we recorded current liabilities of approximately \$9 million and non-current liabilities of approximately \$46 million and \$51 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 June 30, 2014, we had outstanding commitments under third-party contracts of approximately \$144 million for capital expenditures at certain owned and leased properties, including our consolidated VIEs. 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 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, which is equivalent to purchases of approximately \$6 million per quarter. We began purchasing inventory during the quarter ended March 31, 2013, and as of June 30, 2014, we had purchased \$46 million of inventory under this agreement. As of June 30, 2014, our contractual obligations pursuant to this agreement for the remainder of 2014 and the years ended December 31, 2015 and 2016 were \$12 million, \$24 million and \$10 million, respectively.

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 June 30, 2014 was approximately \$37 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. Accruals are recorded when the outcome is probable and can be reasonably estimated in accordance with applicable accounting requirements regarding accounting for contingencies. 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 June 30, 2014 will not have a material effect on our condensed consolidated results of operations, financial position or cash flows.

#### Note 17: Subsequent Events

##### Equity Method Investments Exchange

We have a portfolio of 11 hotels that we own through noncontrolling interests in equity method investments with one other partner. In July 2014, we entered into an agreement to exchange our ownership interest in six of these hotels for the remaining interest in the other five hotels. After the exchange, we will have a 100 percent ownership interest in five of the 11 hotels and will no longer hold a noncontrolling interest in the remaining six hotels. The transaction will be accounted for as a business combination achieved in stages, which will require us to remeasure our investments in these unconsolidated equity method investments at fair value and recognize a gain or loss if the fair value is in excess of or below our carrying value, respectively. Additionally, we will recognize the identifiable assets acquired, primarily

property and equipment, and mortgage debt assumed at fair value upon consolidation of the five hotels in which we will hold a 100 percent ownership interest. We are unable to estimate the fair value at this time.

#### Debt Repayment

In July 2014, we made a voluntary prepayment of \$150 million on our Term Loans.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

### Overview

#### Our Business

Hilton is one of the largest and fastest growing hospitality companies in the world, with 4,202 hotels, resorts and timeshare properties comprising 693,980 rooms in 93 countries and territories. Our premier brand portfolio includes our luxury hotel brands, Waldorf Astoria Hotels & Resorts and Conrad Hotels & Resorts, our full-service hotel brands, Hilton Hotels & Resorts, DoubleTree by Hilton, Embassy Suites Hotels and our newest brand, Curio - A Collection by Hilton, our focused-service hotel brands, Hilton Garden Inn, Hampton Hotels, Homewood Suites by Hilton and Home2 Suites by Hilton, and our timeshare brand, Hilton Grand Vacations. We have approximately 42 million members in our award-winning customer loyalty program, Hilton HHonors.

#### Segments and Regions

Management analyzes our operations and business by both operating segments and geographic regions. Our operations consist of three reportable segments that are based on similar products or services: management and franchise; ownership; and timeshare. The management and franchise segment provides services, which include hotel management and licensing of our brands to franchisees, as well as property management at timeshare properties. This segment generates its revenue from management and franchise fees charged to hotel owners, including our owned and leased hotels, and to homeowners' associations at timeshare properties. As a manager of hotels and timeshare resorts, we typically are responsible for supervising or operating the property in exchange for management fees. As a franchisor of hotels, we charge franchise fees in exchange for the use of one of our brand names and related commercial services, such as our reservation system, marketing and information technology services. The ownership segment derives earnings from providing hotel room rentals, food and beverage sales and other services at our owned and leased hotels. The timeshare segment consists of multi-unit vacation ownership properties. This segment generates revenue by marketing and selling timeshare interests owned by Hilton and third parties, providing consumer financing for the timeshare interests and resort operations.

Geographically, management conducts business through three distinct geographic regions: the Americas; Europe, Middle East and Africa ("EMEA"); and Asia Pacific. The Americas region includes North America, South America and Central America, including all Caribbean nations. Although the U.S. is included in the Americas, it is often analyzed separately and apart from the Americas geographic region and, as such, it is presented separately within the analysis herein. The EMEA region includes Europe, which represents the western-most peninsula of Eurasia stretching from Ireland in the west to Russia in the east, and the Middle East and Africa ("MEA"), which represents the Middle East region and all African nations, including the Indian Ocean island nations. Europe and MEA are often analyzed separately by management. The Asia Pacific region includes the eastern and southeastern nations of Asia, as well as India, Australia, New Zealand and the Pacific island nations.

## System Growth and Pipeline

As of June 30, 2014, approximately 76 percent of our system-wide hotel rooms were located in the U.S. We expect that the percentage of our hotel rooms outside the U.S. will continue to increase in future years as hotels in our pipeline open. To support our growth strategy, we continue to expand our development pipeline. As of June 30, 2014, we had a total of 1,230 hotels in our development pipeline, representing approximately 210,000 rooms under construction or approved for development throughout 75 countries and territories. As of June 30, 2014, over 106,000 rooms, representing over half of our development pipeline, were under construction. Of the approximately 210,000 rooms in the pipeline, 117,000 rooms, or more than half of the pipeline, were located outside the U.S. All of the rooms in the pipeline and under construction are within our management and franchise segment. We do not consider any development project relating to properties under our management and franchise segment to be material to us.

Our management and franchise contracts are designed to expand our business with limited or no capital investment. The capital required to build and maintain hotels that we manage or franchise is typically provided by the owner of the respective hotel with minimal or no capital required by us as the manager or franchisor. Additionally, prior to approving the addition of new hotels to our management and franchise development pipeline, we evaluate the economic viability of the hotel based on the geographic location, the credit quality of the third-party owner and other factors. As a result, by increasing the number of management and franchise agreements with third-party owners, we expect to achieve a higher overall return on invested capital.

Additionally, in recent years we have entered into sales and marketing agreements to sell timeshare units on behalf of third-party developers. Our supply of third-party developed timeshare intervals was approximately 88,000, or 82 percent of our total supply, as of June 30, 2014.

## Recent Events

On June 2, 2014 we introduced our newest brand: Curio - A Collection by Hilton. Created for travelers who seek local discovery and experiences, Curio will consist of a carefully selected collection of hotels that will retain their unique identity but are expected to deliver the many benefits of our system, including Hilton HHonors. As of June 30, 2014, three properties comprising 2,005 rooms, including the SLS Las Vegas Hotel & Casino, were in the pipeline and letters of intent were signed for an additional six properties comprising more than 2,100 rooms to be included in the collection.

On June 27, 2014, certain selling stockholders affiliated with Blackstone closed a secondary offering of 103,500,000 shares of our common stock (including 13,500,000 shares of common stock that were subject to the underwriters' option to purchase additional shares) at a price to the public of \$22.50 per share. The shares offered and sold in the offering were registered under the Securities Act of 1933, as amended, pursuant to our Registration Statement on Form S-1, which was declared effective by the Securities and Exchange Commission ("SEC") on June 24, 2014. We did not offer any shares of common stock or receive any proceeds from the sale of shares in this offering. In addition, none of our officers or directors sold any shares of common stock beneficially owned by them in this offering.

## Key Business and Financial Metrics Used by Management

### Comparable Hotels

We define our comparable hotels as those that: (i) were active and operating in our system for at least one full calendar year as of the end of the current period, and open January 1st of the previous year; (ii) have not undergone a change in brand or ownership during the current or comparable periods reported; and (iii) have not sustained substantial property damage, business interruption, undergone large-scale capital projects or for which comparable

results are not available. Of the 4,158 hotels in our system as of June 30, 2014, 3,598 were classified as comparable hotels. Our 560 non-comparable hotels included 37 properties, or less than one percent of the total hotels in our system, that were removed from the comparable group during the last twelve months because they sustained substantial property damage, business interruption, undergone large-scale capital projects or comparable results were not available.

### Occupancy

Occupancy represents the total number of room nights sold divided by the total number of room nights available at a hotel or group of hotels. Occupancy measures the utilization of our hotels' available capacity. Management uses occupancy to gauge demand at a specific hotel or group of hotels in a given period. Occupancy levels also help us determine achievable Average Daily Rate ("ADR") levels as demand for hotel rooms increases or decreases.



### Average Daily Rate

ADR represents hotel room revenue divided by total number of room nights sold in a given period. ADR measures average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. ADR is a commonly used performance measure in the industry, and we use ADR to assess pricing levels that we are able to generate by type of customer, as changes in rates have a different effect on overall revenues and incremental profitability than changes in occupancy, as described above.

### Revenue per Available Room ("RevPAR")

We calculate RevPAR by dividing hotel room revenue by room nights available to guests for a given period. We consider RevPAR to be a meaningful indicator of our performance as it provides a metric correlated to two primary and key drivers of operations at our hotels: occupancy and ADR. RevPAR is also a useful indicator in measuring performance over comparable periods for comparable hotels.

References to RevPAR, ADR and occupancy are presented on a comparable basis and references to RevPAR and ADR are presented on a currency neutral basis (all periods use the same exchange rates), unless otherwise noted.

### EBITDA and Adjusted EBITDA

For a discussion of our definition of EBITDA and Adjusted EBITDA, see Note 15: "Business Segments" in our unaudited condensed consolidated financial statements.

EBITDA and Adjusted EBITDA are not recognized terms under U.S. GAAP and should not be considered as alternatives to net income (loss) or other measures of financial performance or liquidity derived in accordance with U.S. GAAP. In addition, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

We believe that EBITDA and Adjusted EBITDA provide useful information to investors about us and our financial condition and results of operations for the following reasons: (i) EBITDA and Adjusted EBITDA are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions; and (ii) EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties as a common performance measure to compare results or estimate valuations across companies in our industry.

EBITDA and Adjusted EBITDA have limitations as analytical tools and should not be considered either in isolation or as a substitute for net income (loss), cash flow or other methods of analyzing our results as reported under U.S. GAAP. Some of these limitations are:

• EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

• EBITDA and Adjusted EBITDA do not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;

• EBITDA and Adjusted EBITDA do not reflect our tax expense or the cash requirements to pay our taxes;

•

EBITDA and Adjusted EBITDA do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;

EBITDA and Adjusted EBITDA do not reflect the effect on earnings or changes resulting from matters that we consider not to be indicative of our future operations;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered as discretionary cash available to us to reinvest in the growth of our business or as measures of cash that will be available to us to meet our obligations.

Results of Operations

Three and Six Months Ended June 30, 2014 Compared with Three and Six Months Ended June 30, 2013

The hotel operating statistics by segment for our system-wide comparable hotels were as follows:

|                                      | Three Months Ended<br>June 30, 2014 | Variance<br>2014 vs. 2013 |        | Six Months Ended<br>June 30, 2014 | Variance<br>2014 vs. 2013 |        |
|--------------------------------------|-------------------------------------|---------------------------|--------|-----------------------------------|---------------------------|--------|
| <b>Owned and leased hotels</b>       |                                     |                           |        |                                   |                           |        |
| Occupancy                            | 81.1                                | % 1.3                     | % pts. | 76.9                              | % 1.0                     | % pts. |
| ADR                                  | \$204.69                            | 2.8                       | %      | \$198.14                          | 3.1                       | %      |
| RevPAR                               | \$166.07                            | 4.6                       | %      | \$152.39                          | 4.5                       | %      |
| <b>Managed and franchised hotels</b> |                                     |                           |        |                                   |                           |        |
| Occupancy                            | 78.1                                | % 2.0                     | % pts. | 73.9                              | % 2.1                     | % pts. |
| ADR                                  | \$136.74                            | 4.2                       | %      | \$135.30                          | 3.9                       | %      |
| RevPAR                               | \$106.80                            | 7.0                       | %      | \$100.00                          | 6.9                       | %      |
| <b>System-wide</b>                   |                                     |                           |        |                                   |                           |        |
| Occupancy                            | 78.4                                | % 2.0                     | % pts. | 74.2                              | % 2.0                     | % pts. |
| ADR                                  | \$143.19                            | 4.0                       | %      | \$141.31                          | 3.8                       | %      |
| RevPAR                               | \$112.20                            | 6.7                       | %      | \$104.79                          | 6.6                       | %      |

The hotel operating statistics by region for our system-wide comparable hotels were as follows:

|                     | Three Months Ended<br>June 30, 2014 | Variance<br>2014 vs. 2013 |         | Six Months Ended<br>June 30, 2014 | Variance<br>2014 vs. 2013 |         |
|---------------------|-------------------------------------|---------------------------|---------|-----------------------------------|---------------------------|---------|
| <b>Americas</b>     |                                     |                           |         |                                   |                           |         |
| Occupancy           | 79.5                                | % 2.2                     | % pts.  | 75.2                              | % 2.1                     | % pts.  |
| ADR                 | \$138.61                            | 4.4                       | %       | \$136.91                          | 4.1                       | %       |
| RevPAR              | \$110.20                            | 7.4                       | %       | \$102.92                          | 7.1                       | %       |
| <b>Europe</b>       |                                     |                           |         |                                   |                           |         |
| Occupancy           | 78.7                                | % 2.2                     | % pts.  | 72.1                              | % 2.3                     | % pts.  |
| ADR                 | \$179.87                            | 1.5                       | %       | \$171.59                          | 1.9                       | %       |
| RevPAR              | \$141.59                            | 4.4                       | %       | \$123.74                          | 5.2                       | %       |
| <b>MEA</b>          |                                     |                           |         |                                   |                           |         |
| Occupancy           | 62.3                                | % (3.7)                   | )% pts. | 61.7                              | % (2.8)                   | )% pts. |
| ADR                 | \$155.17                            | 2.3                       | %       | \$162.58                          | 2.4                       | %       |
| RevPAR              | \$96.67                             | (3.4)                     | )%      | \$100.38                          | (2.0)                     | )%      |
| <b>Asia Pacific</b> |                                     |                           |         |                                   |                           |         |
| Occupancy           | 66.1                                | % 1.7                     | % pts.  | 66.6                              | % 2.1                     | % pts.  |
| ADR                 | \$159.19                            | 2.1                       | %       | \$161.81                          | 3.3                       | %       |
| RevPAR              | \$105.17                            | 4.8                       | %       | \$107.69                          | 6.7                       | %       |

During the three and six months ended June 30, 2014, we experienced RevPAR increases in all segments of our business as a result of increased occupancy and increased rates in market segments where demand outpaced supply. We experienced increased RevPAR in all regions during the three and six months ended June 30, 2014, except for MEA, which despite favorable variances in ADR, experienced a decrease in occupancy due to continued political unrest in certain portions of the region that has limited travel and reduced demand.

## Revenues

|   | Three Months Ended                |         | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |         | Percent<br>Change<br>2014 vs. 2013 |
|---|-----------------------------------|---------|------------------------------------|-----------------------------------|---------|------------------------------------|
|   | June 30,<br>2014<br>(in millions) | 2013    |                                    | June 30,<br>2014<br>(in millions) | 2013    |                                    |
| Owned and leased hotels                 | \$1,117                           | \$1,070 | 4.4                                | \$2,062                           | \$1,984 | 3.9                                |
| Management and franchise fees and other | 354                               | 299     | 18.4                               | 666                               | 561     | 18.7                               |
| Timeshare                               | 276                               | 261     | 5.7                                | 555                               | 507     | 9.5                                |
|   | \$1,747                           | \$1,630 | 7.2                                | \$3,283                           | \$3,052 | 7.6                                |

Revenues as presented in this section excludes other revenues from managed and franchised properties of \$920 million and \$750 million during the three months ended June 30, 2014 and 2013, respectively, and \$1,747 million and \$1,591 million during the six months ended June 30, 2014 and 2013, respectively.

## Owned and leased hotels

During the three and six months ended June 30, 2014, the overall improved performance at our owned and leased hotels primarily was a result of improvement in RevPAR of 4.6 percent and 4.5 percent, respectively, at our comparable owned and leased hotels.

As of June 30, 2014, we had 35 consolidated owned and leased hotels located in the U.S., comprising 24,061 rooms. Revenues at our U.S. owned and leased hotels totaled \$576 million and \$543 million for the three months ended June 30, 2014 and 2013, respectively, and \$1,076 million and \$1,014 million for the six months ended June 30, 2014 and 2013, respectively. The increases were primarily the result of increases in RevPAR at our U.S. comparable owned and leased hotels of 6.4 percent and 5.7 percent, respectively, which were due to increases in ADR of 5.0 percent and 4.5 percent and occupancy of 1.1 percentage points and 1.0 percentage point, respectively. The increases in RevPAR at our U.S. comparable owned and leased hotels were attributable to both transient guests and group business. In addition, food and beverage revenues increased 5.5 percent and 7.4 percent for the three and six months ended June 30, 2014, respectively, primarily due to increased spending by group customers.

As of June 30, 2014, we had 89 consolidated owned and leased hotels located outside of the U.S., comprising 25,775 rooms. Revenues from our international (non-U.S.) owned and leased hotels totaled \$541 million and \$527 million for the three months ended June 30, 2014 and 2013, respectively, and \$986 million and \$970 million for the six months ended June 30, 2014 and 2013, respectively. The increases included favorable movements in foreign currency rates for the three and six months ended June 30, 2014 of \$13 million and \$8 million, respectively. On a currency neutral basis, revenues from our international owned and leased hotels increased \$1 million and \$8 million, respectively, primarily due to increases in RevPAR at our international comparable owned and leased hotels of 2.3 percent and 3.0 percent during the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013.

## Management and franchise fees and other

Management and franchise fee revenue for the three months ended June 30, 2014 and 2013 totaled \$331 million and \$287 million, respectively, and for the six months ended June 30, 2014 and 2013 totaled \$624 million and \$536 million, respectively. The increases in our management and franchise fee business reflected increases in RevPAR of 6.0 percent and 7.3 percent at our comparable managed and franchised properties, respectively, for the three months ended June 30, 2014, compared to the same period in 2013, and increases in RevPAR of 6.5 percent and 7.1 percent, respectively, for the six months ended June 30, 2014, compared to the same period in 2013. The increases in RevPAR for managed and franchised hotels were the result of both increased occupancy and ADR.

The addition of new hotels to our managed and franchised system also contributed to the growth in revenue. From June 30, 2013 to June 30, 2014 we added 38 managed properties on a net basis, contributing an additional 12,627 rooms to our system, as well as 125 franchised properties on a net basis, providing an additional 17,000 rooms to our system. As new hotels are established in our system, we expect the fees received from such hotels to increase as they are part of our system for full periods.

Other revenues for the three months ended June 30, 2014 and 2013 were \$23 million and \$12 million, respectively, and for the six months ended June 30, 2014 and 2013 were \$42 million and \$25 million, respectively. The increases were primarily driven by increases in revenues earned by our purchasing operations.

## Timeshare

Timeshare revenue for the three and six months ended June 30, 2014, compared to the same periods in 2013, increased \$15 million and \$48 million, respectively. The increases were due to increases in real estate sales, including sales of third-party developed intervals, of \$4 million and \$27 million, for the three and six months ended June 30, 2014, respectively. The increase for the six months ended June 30, 2014 was also generated from the recognition of previously deferred revenues resulting from the completed construction and opening of one of our developed properties in 2014. Additionally, there were increases of \$8 million and \$19 million in revenue from our resort operations for the three and six months ended June 30, 2014, respectively, due to increased transient rentals.

## Operating Expenses

|                         | Three Months Ended                |       | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |         | Percent<br>Change<br>2014 vs. 2013 |
|-------------------------|-----------------------------------|-------|------------------------------------|-----------------------------------|---------|------------------------------------|
|                         | June 30,<br>2014<br>(in millions) | 2013  |                                    | June 30,<br>2014<br>(in millions) | 2013    |                                    |
| Owned and leased hotels | \$833                             | \$804 | 3.6                                | \$1,604                           | \$1,547 | 3.7                                |
| Timeshare               | 188                               | 181   | 3.9                                | 365                               | 351     | 4.0                                |

Fluctuations in operating expenses at our owned and leased hotels can be attributed to various factors, including changes in occupancy levels, labor costs, utilities, taxes and insurance costs. The change in the number of occupied room nights directly affects certain variable expenses, which include payroll, supplies and other operating expenses.

U.S. owned and leased hotel expenses totaled \$369 million and \$355 million for the three months ended June 30, 2014 and 2013, respectively, and \$726 million and \$698 million for the six months ended June 30, 2014 and 2013, respectively. The increases were primarily due to increases in payroll costs and other variable costs resulting from increased revenues.

International owned and leased hotel expenses totaled \$464 million and \$449 million for the three months ended June 30, 2014 and 2013, respectively, and \$878 million and \$849 million for the six months ended June 30, 2014 and 2013, respectively. The increases included unfavorable movements in foreign currency rates of \$13 million and \$11 million, for the three and six months ended June 30, 2014, respectively. On a currency neutral basis, international owned and leased hotel expenses increased \$2 million and \$18 million for the three and six months ended June 30, 2014, respectively. The increase in currency neutral expenses for the six months ended June 30, 2014 was primarily due to a benefit of \$11 million recognized as a reduction in rent expense during the six months ended June 30, 2013 relating to a termination payment received for one of our properties with a ground lease.

Timeshare expense increased \$7 million and \$14 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013, primarily due to increases in sales and marketing expenses, resulting from the increase in sales volume from both our owned properties and third-party developed properties.

|                               | Three Months Ended                |       | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |       | Percent<br>Change<br>2014 vs. 2013 |
|-------------------------------|-----------------------------------|-------|------------------------------------|-----------------------------------|-------|------------------------------------|
|                               | June 30,<br>2014<br>(in millions) | 2013  |                                    | June 30,<br>2014<br>(in millions) | 2013  |                                    |
| Depreciation and amortization | \$158                             | \$149 | 6.0                                | \$311                             | \$309 | 0.6                                |

Depreciation expense increased \$2 million during the three months ended June 30, 2014 and decreased \$10 million during the six months ended June 30, 2014, compared to the same periods in 2013. The decrease for the six months

ended June 30, 2014 was primarily due to \$10 million in accelerated depreciation as a result of a lease termination at one of our properties recognized during the six months ended June 30, 2013. Amortization expense increased \$7 million and \$12 million, respectively, primarily due to increases in capitalized software costs placed in service during and after the three and six months ended June 30, 2013.



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|                                   | Three Months Ended<br>June 30, |      | Percent<br>Change | Six Months Ended<br>June 30, |       | Percent<br>Change |
|-----------------------------------|--------------------------------|------|-------------------|------------------------------|-------|-------------------|
|                                   | 2014                           | 2013 | 2014 vs. 2013     | 2014                         | 2013  | 2014 vs. 2013     |
|                                   | (in millions)                  |      |                   | (in millions)                |       |                   |
| General, administrative and other | \$133                          | \$92 | 44.6              | \$230                        | \$189 | 21.7              |

General and administrative expenses consist of our corporate operations, compensation and related expenses, including share-based compensation, and other operating costs.

General and administrative expenses were \$113 million and \$81 million for the three months ended June 30, 2014 and 2013, respectively, and \$193 million and \$165 million for the six months ended June 30, 2014 and 2013, respectively. The increases were primarily due to share-based compensation expense of \$12 million and \$17 million for awards under the 2013 Omnibus Incentive Plan and increases of \$5 million and \$16 million of compensation expense related to the Promote plan. Additionally, we incurred \$6 million of costs in connection with the sale of shares of our common stock by selling stockholders in connection with a secondary equity offering in June 2014. The increases for the six months ended June 30, 2014 were partially offset by the reversal of accruals related to the termination of a cash-based, long-term incentive plan that was replaced with a share-based compensation plan in the first quarter of 2014 resulting in an \$18 million reduction in general and administrative expense.

Other expenses for the three months ended June 30, 2014 and 2013 were \$20 million and \$11 million, respectively, and for the six months ended June 30, 2014 and 2013 were \$37 million and \$24 million, respectively. The increases were primarily due to our purchasing operations, which is in line with the increase in other revenues.

Non-operating Income and Expenses

|                  | Three Months Ended<br>June 30, |       | Percent<br>Change | Six Months Ended<br>June 30, |       | Percent<br>Change |
|------------------|--------------------------------|-------|-------------------|------------------------------|-------|-------------------|
|                  | 2014                           | 2013  | 2014 vs. 2013     | 2014                         | 2013  | 2014 vs. 2013     |
|                  | (in millions)                  |       |                   | (in millions)                |       |                   |
| Interest expense | \$158                          | \$131 | 20.6              | \$311                        | \$274 | 13.5              |

Interest expense increased \$27 million and \$37 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013, primarily due to the amortization of debt issuance costs and interest rate swaps on debt entered into in October 2013, as well as the interest on our Securitized Timeshare Debt entered into in the second half of 2013.

|   | Three Months Ended<br>June 30, |      | Percent<br>Change | Six Months Ended<br>June 30, |      | Percent<br>Change |
|---|--------------------------------|------|-------------------|------------------------------|------|-------------------|
|   | 2014                           | 2013 | 2014 vs. 2013     | 2014                         | 2013 | 2014 vs. 2013     |
|   | (in millions)                  |      |                   | (in millions)                |      |                   |
| Equity in earnings from unconsolidated affiliates | \$8                            | \$7  | 14.3              | \$12                         | \$8  | 50.0              |

The increases in equity in earnings from unconsolidated affiliates were primarily due to improved performance of our unconsolidated affiliates.

|  | Three Months Ended<br>June 30, |      | Percent<br>Change | Six Months Ended<br>June 30, |      | Percent<br>Change |
|--|--------------------------------|------|-------------------|------------------------------|------|-------------------|
|  | 2014                           | 2013 | 2014 vs. 2013     | 2014                         | 2013 | 2014 vs. 2013     |
|  | (in millions)                  |      |                   | (in millions)                |      |                   |

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|  |      |       |                     |      |       |                     |
|--|------|-------|---------------------|------|-------|---------------------|
| Gain (loss) on foreign currency transactions | \$32 | \$(39 | ) NM <sup>(1)</sup> | \$46 | \$(82 | ) NM <sup>(1)</sup> |
|--|------|-------|---------------------|------|-------|---------------------|

<sup>(1)</sup> Fluctuation in terms of percentage change is not meaningful.

The net gain (loss) on foreign currency transactions primarily relates to changes in foreign currency rates relating to short-term cross-currency intercompany loans.

29

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|                        | Three Months Ended                |       | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |      | Percent<br>Change<br>2014 vs. 2013 |
|------------------------|-----------------------------------|-------|------------------------------------|-----------------------------------|------|------------------------------------|
|                        | June 30,<br>2014<br>(in millions) | 2013  |                                    | June 30,<br>2014<br>(in millions) | 2013 |                                    |
| Other gain (loss), net | \$11                              | \$(1) | NM <sup>(1)</sup>                  | \$14                              | \$6  | NM <sup>(1)</sup>                  |

<sup>(1)</sup> Fluctuation in terms of percentage change is not meaningful.

The other gain, net for the three and six months ended June 30, 2014 was primarily related to pre-tax gains of \$12 million resulting from the sale of an owned hotel and a vacant parcel of land that occurred in the second quarter of 2014.

The other gain (loss), net for the six months ended June 30, 2013 was primarily related to a capital lease restructuring by one of our consolidated VIEs during the first quarter of 2013. The revised terms reduced the future minimum lease payments, resulting in a reduction of the capital lease obligation and a residual amount, which was recorded in other gain, net.

|                    | Three Months Ended                |      | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |       | Percent<br>Change<br>2014 vs. 2013 |
|--------------------|-----------------------------------|------|------------------------------------|-----------------------------------|-------|------------------------------------|
|                    | June 30,<br>2014<br>(in millions) | 2013 |                                    | June 30,<br>2014<br>(in millions) | 2013  |                                    |
| Income tax expense | \$121                             | \$84 | 44.0                               | \$204                             | \$122 | 67.2                               |

The increases in income tax expense were primarily the result of an increase in U.S. federal taxes as a result of higher taxable income.

### Segment Results

We evaluate our business segment operating performance using segment Adjusted EBITDA, as described in Note 15: "Business Segments" in our unaudited condensed consolidated financial statements. Refer to those financial statements for a reconciliation of Adjusted EBITDA to net income attributable to Hilton stockholders. For a discussion of how management uses EBITDA and Adjusted EBITDA to manage our business and material limitations on its usefulness, refer to "—Key Business and Financial Metrics Used by Management."

The following table sets forth revenues and Adjusted EBITDA by segment, reconciled to consolidated amounts:

|   | Three Months Ended                |         | Percent<br>Change<br>2014 vs. 2013 | Six Months Ended                  |         | Percent<br>Change<br>2014 vs. 2013 |
|---|-----------------------------------|---------|------------------------------------|-----------------------------------|---------|------------------------------------|
|   | June 30,<br>2014<br>(in millions) | 2013    |                                    | June 30,<br>2014<br>(in millions) | 2013    |                                    |
| Revenues  |                                   |         |                                    |                                   |         |                                    |
| Ownership   | \$1,126                           | \$1,078 | 4.5                                | \$2,078                           | \$1,998 | 4.0                                |
| Management and franchise                              | 371                               | 326     | 13.8                               | 702                               | 608     | 15.5                               |
| Timeshare   | 276                               | 261     | 5.7                                | 555                               | 507     | 9.5                                |
| Segment revenues                                      | 1,773                             | 1,665   | 6.5                                | 3,335                             | 3,113   | 7.1                                |
| Other revenues from managed and franchised properties | 920                               | 750     | 22.7                               | 1,747                             | 1,591   | 9.8                                |
| Other revenues  | 25                                | 15      | 66.7                               | 46                                | 30      | 53.3                               |
| Intersegment fees elimination                         | (51)                              | (50)    | 2.0                                | (98)                              | (91)    | 7.7                                |
| Total revenues  | \$2,667                           | \$2,380 | 12.1                               | \$5,030                           | \$4,643 | 8.3                                |

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|                          |       |       |        |         |         |         |
|--------------------------|-------|-------|--------|---------|---------|---------|
| Adjusted EBITDA          |       |       |        |         |         |         |
| Ownership                | \$291 | \$271 | 7.4    | \$470   | \$445   | 5.6     |
| Management and franchise | 371   | 326   | 13.8   | 702     | 608     | 15.5    |
| Timeshare                | 69    | 60    | 15.0   | 154     | 119     | 29.4    |
| Corporate and other      | (80   | ) (67 | ) 19.4 | (131    | ) (135  | ) (3.0) |
| Adjusted EBITDA          | \$651 | \$590 | 10.3   | \$1,195 | \$1,037 | 15.2    |

30

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## Ownership

Ownership segment revenues increased \$48 million and \$80 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013, primarily due to an improvement in RevPAR of 4.6 percent and 4.5 percent, respectively, at our comparable owned and leased hotels. Our ownership segment's Adjusted EBITDA increased \$20 million and \$25 million, respectively, primarily as a result of the increases in ownership segment revenues, offset by the increases in owned and leased operating expenses of \$29 million and \$57 million, respectively. Refer to "—Revenues—Owned and leased hotels" and "—Operating Expenses—Owned and leased hotels" for further discussion on the increases in revenues and operating expenses at our owned and leased hotels.

## Management and franchise

Management and franchise segment revenues increased \$45 million and \$94 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013, primarily as a result of increases in RevPAR at our comparable managed and franchised properties of 7.0 percent and 6.9 percent, for the three and six months ended June 30, 2014, compared to the same periods in 2013, as well as the net addition of hotels to our managed and franchised system. Refer to "—Revenues—Management and franchise and other" for further discussion on the increase in revenues from our managed and franchised properties. Our management and franchise segment's Adjusted EBITDA increased as a result of the increase in management and franchise segment revenues.

## Timeshare

Our timeshare segment's Adjusted EBITDA increased \$9 million and \$35 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013, as a result of the increases in timeshare revenues of \$15 million and \$48 million, respectively, offset by the increases in timeshare operating expenses of \$7 million and \$14 million, respectively. Refer to "—Revenues—Timeshare" and "—Operating Expenses—Timeshare" for a discussion of the increases in revenues and operating expenses from our timeshare segment.

## Supplemental Financial Data for Unrestricted U.S. Real Estate Subsidiaries

As of June 30, 2014, we owned a majority or controlling financial interest in 48 hotels, representing 27,060 rooms. Of these owned hotels, 24 hotels, representing an aggregate of 20,046 rooms as of June 30, 2014, are owned by subsidiaries that we collectively refer to as our "Unrestricted U.S. Real Estate Subsidiaries." The properties held by our Unrestricted U.S. Real Estate Subsidiaries secure our \$3.5 billion CMBS Loan and a \$525 million mortgage loan and are not included in the collateral securing our senior secured credit facility. In addition, the Unrestricted U.S. Real Estate Subsidiaries are not subject to any of the restrictive covenants in the indenture that governs our \$1.5 billion of 5.625% senior notes due in 2021 (the "Senior Notes"), which are unsecured.

We have included this supplemental financial data to comply with certain financial information requirements regarding our Unrestricted U.S. Real Estate Subsidiaries set forth in the indenture that governs our Senior Notes. For the six months ended June 30, 2014, the Unrestricted U.S. Real Estate Subsidiaries represented 19.6 percent of our total revenues, 19.3 percent of net income attributable to Hilton stockholders and 24.6 percent of our Adjusted EBITDA, and as of June 30, 2014, represented 32.6 percent of our total assets and 29.9 percent of our total liabilities.

The following table presents supplemental unaudited financial data, as required by the indenture that governs our Senior Notes, for our Unrestricted U.S. Real Estate Subsidiaries:

|   | Six Months Ended<br>June 30, |       |
|---|------------------------------|-------|
|   | 2014                         | 2013  |
|   | (in millions)                |       |
| Revenues  | \$984                        | \$934 |
| Net income attributable to Hilton stockholders  | 64                           | 101   |
| Capital expenditures for property and equipment | 62                           | 64    |
| Adjusted EBITDA <sup>(1)</sup>                  | 294                          | 277   |
| Cash provided by (used in):                     |                              |       |
| Operating activities                            | 125                          | 192   |
| Investing activities                            | (62                          | ) (92 |
| Financing activities                            | (50                          | ) (81 |

The following table provides a reconciliation of our Unrestricted U.S. Real Estate Subsidiaries' EBITDA and

<sup>(1)</sup> Adjusted EBITDA to net income attributable to Hilton stockholders, which we believe is the most closely comparable U.S. GAAP financial measure:

|  | Six Months Ended<br>June 30, |        |
|--|------------------------------|--------|
|  | 2014                         | 2013   |
|  | (in millions)                |        |
| Adjusted EBITDA                                | \$294                        | \$277  |
| Other adjustment items                         | —                            | (3     |
| EBITDA   | 294                          | 274    |
| Interest expense <sup>(1)</sup>                | (83                          | ) —    |
| Income tax expense                             | (46                          | ) (72  |
| Depreciation and amortization                  | (101                         | ) (101 |
| Net income attributable to Hilton stockholders | \$64                         | \$101  |

Interest expense on the Unrestricted U.S. Real Estate Subsidiaries reflects \$4,025 million of long-term debt

<sup>(1)</sup> securing these properties which was entered into in October 2013. Prior to October 2013, the Unrestricted U.S. Real Estate Subsidiaries did not have outstanding long-term debt for the period presented.

The following table presents supplemental unaudited financial data, as required by the indenture that governs our Senior Notes, for our Unrestricted U.S. Real Estate Subsidiaries:

|             | June 30,<br>2014 | December 31,<br>2013 |
|-------------|------------------|----------------------|
|             | (in millions)    |                      |
| Assets      | \$8,640          | \$8,649              |
| Liabilities | 6,499            | 6,496                |

## Liquidity and Capital Resources

### Overview

As of June 30, 2014, we had total cash and cash equivalents of \$829 million, including \$284 million of restricted cash and cash equivalents. The majority of our restricted cash and cash equivalents balances related to cash collateral on our self-insurance programs and escrowed cash from our timeshare operations.

Our known short-term liquidity requirements primarily consist of funds necessary to pay for operating expenses and other expenditures, including corporate expenses, payroll and related benefits, legal costs, operating costs associated with the management of hotels, interest and scheduled principal payments on our outstanding indebtedness, contract acquisition costs and capital expenditures for renovations and maintenance at our owned hotels. Our long-term liquidity requirements primarily consist of funds necessary to pay for scheduled debt maturities, capital improvements at our owned and leased hotels, purchase commitments, costs associated with potential acquisitions and corporate capital expenditures.

During the six months ended June 30, 2014, we made voluntary prepayments of \$450 million on our Term Loans.

We finance our business activities primarily with existing cash and cash generated from our operations. We believe that this cash will be adequate to meet anticipated requirements for operating expenses and other expenditures, including corporate expenses, payroll and related benefits, legal costs and purchase commitments for the foreseeable future. The objectives of our cash management policy are to maintain the availability of liquidity and minimize operational costs. Further, we have an investment policy that is focused on the preservation of capital and maximizing the return on new and existing investments across all three of our business segments.

#### Sources and Uses Of Our Cash and Cash Equivalents

The following table summarizes our net cash flows and key metrics related to our liquidity:

|   | As of and for the six months<br>ended June 30, |       | Percent<br>Change<br>2014 vs. 2013 |
|---|--|-------|------------------------------------|
|   | 2014   | 2013  |                                    |
|   | (in millions)                                  |       |                                    |
| Net cash provided by operating activities | \$512  | \$638 | (19.7)                             |
| Net cash used in investing activities     | (121)  | (183) | (33.9)                             |
| Net cash used in financing activities     | (441)  | (534) | (17.4)                             |
| Working capital surplus <sup>(1)</sup>    | 297  | 503   | (41.0)                             |

<sup>(1)</sup> Total current assets less total current liabilities.

Our ratio of current assets to current liabilities was 1.14 and 1.11 as of June 30, 2014 and December 31, 2013, respectively.

#### Operating Activities

Cash flow from operating activities is primarily generated from management and franchise fee revenue, operating income from our owned and leased hotels and resorts and sales of timeshare units.

The \$126 million decrease in net cash provided by operating activities was primarily due to an increase in cash paid for taxes of \$101 million during the six months ended June 30, 2014, compared to the same period in 2013 due to larger estimated payments for 2014 as a result of an increase in our estimated taxable income for 2014.

#### Investing Activities

The \$62 million decrease in net cash used in investing activities was primarily attributable to \$30 million in cash used for acquisitions during the six months ended June 30, 2013, as compared to no cash used for acquisitions during the six months ended June 30, 2014. Additionally, we received proceeds of \$35 million from asset dispositions during the six months ended June 30, 2014, as compared to no proceeds received during the six months ended June 30, 2013. We also had a decrease in capital expenditures of \$11 million during the six months ended June 30, 2014, compared to the same period in 2013. These were offset by increases in contract acquisition costs and software capitalization costs of \$11 million and \$6 million, respectively, during the six months ended June 30, 2014, compared to the same period in 2013.

For the three months ended June 30, 2014 and 2013, we capitalized labor costs relating to capital expenditures and software development, of \$2 million and \$5 million, respectively, and for the six months ended June 30, 2014 and 2013 we capitalized \$3 million and \$7 million, respectively.



Financing Activities

The \$93 million decrease in net cash used in financing activities was primarily attributable to the decrease in debt repayments of \$169 million during the six months ended June 30, 2014, compared to the same period in 2013, offset by a decrease in borrowings of \$101 million during the six months ended June 30, 2014, compared to the same period in 2013. Additionally, there was a capital contribution of \$13 million related to the sale of certain land and easement rights, as well as the rights to the name, plans, designs, contracts and other documents in connection with a timeshare project to a related party during the second quarter of 2014.

### Capital Expenditures

Our capital expenditures for property and equipment of \$110 million and \$121 million during the six months ended June 30, 2014 and 2013, respectively, primarily consisted of expenditures related to the renovation of existing owned and leased properties and our corporate facilities. Our software capitalization costs of \$32 million and \$26 million, respectively, related to various systems initiatives for the benefit of our hotel owners and our overall corporate operations. As of June 30, 2014, we had outstanding commitments under construction contracts of approximately \$144 million for capital expenditures at certain owned and leased properties, including our consolidated VIEs. 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.

### Senior Secured Credit Facility

Our Revolving Credit Facility provides for \$1.0 billion in borrowings, including the ability to draw up to \$150 million in the form of letters of credit. As of June 30, 2014, we had \$48 million of letters of credit outstanding under our Revolving Credit Facility, and a borrowing capacity of \$952 million. We are currently required to pay a commitment fee of 0.125 percent per annum under the Revolving Credit Facility in respect of the unused commitments thereunder.

### Debt

As of June 30, 2014, our total indebtedness, excluding \$264 million of our share of debt of our investments in affiliates, was approximately \$12.3 billion, including \$997 million of non-recourse debt. For further information on our total indebtedness and debt repayments, refer to Note 7: "Debt" in our unaudited condensed consolidated financial statements.

The obligations of our senior secured credit facility are unconditionally and irrevocably guaranteed by us and all of our direct or indirect wholly owned material domestic subsidiaries, excluding our subsidiaries that are prohibited from providing guarantees as a result of the agreements governing our Timeshare Facility and/or our Securitized Timeshare Debt and our subsidiaries that secure our CMBS Loan and other mortgage loans. Additionally, none of our foreign subsidiaries or our non-wholly owned domestic subsidiaries guarantee our senior secured credit facility.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to reduce capital expenditures, issue additional equity securities or draw on our Revolving Credit Facility. Our ability to make scheduled principal payments and to pay interest on our debt depends on the future performance of our operations, which is subject to general conditions in or affecting the hotel and timeshare industries that are beyond our control.

### Letters of Credit

We had a total of \$48 million in letters of credit outstanding as of June 30, 2014, the majority of which were outstanding under our Revolving Credit Facility and related to our guarantees on debt and other obligations of third parties and self-insurance programs. The maturities of the letters of credit were within one year as of June 30, 2014.

### Off-Balance Sheet Arrangements

See Note 16: "Commitments and Contingencies" in our unaudited condensed consolidated financial statements for discussion of our off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. We have discussed those policies and estimates that we believe are critical and require the use of complex judgment in their application in our Annual Report on Form 10-K for the year ended December 31, 2013. Since the date of our Annual Report on Form 10-K, there have been no material changes to our critical accounting policies or the methods or assumptions we apply under them, with the exception of certain critical accounting estimates related to share-based compensation granted during the six months ended June 30, 2014 as discussed below.

### Share-based Compensation

During the six months ended June 30, 2014, we granted RSUs, stock options and performance shares (based on (1) relative shareholder return and (2) Hilton's EBITDA CAGR). The process of estimating the fair value of stock-based compensation awards and recognizing the associated expense over the requisite service period involves significant management estimates and assumptions. Refer to Note 12: "Share-Based Compensation" in our unaudited condensed consolidated financial statements for additional discussion. Any changes to these estimates will affect the amount of compensation expense we recognize with respect to future grants.

We currently have issued awards with service conditions, as well as certain awards that have market or performance conditions. For awards with only service conditions, we have elected to use the straight-line method of expense recognition.

Vesting of shares with market conditions is based on our total shareholder return relative to the total shareholder returns of a specified group of peer companies at the end of a three-calendar-year performance period. The number of performance shares earned is determined based on our percentile ranking among these companies. Compensation expense is recognized on a straight-line basis over the performance period.

The performance-based awards vest based on satisfaction of certain performance targets. We use the best available estimate of the future achievement of the performance targets and currently expense the performance shares based on Hilton's EBITDA CAGR at 100 percent over the performance period. We will continue to assess the achievement of the performance targets and may adjust the amount of share-based compensation expense we recognize related to the performance-based awards.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk primarily from changes in interest rates and foreign currency exchange rates, which may affect future income, cash flows and the fair value of the Company, depending on changes to interest rates and/or foreign exchange rates. In certain situations, we may seek to reduce cash flow volatility associated with changes in interest rates and foreign currency exchange rates by entering into financial arrangements intended to provide a hedge against a portion of the risks associated with such volatility. We continue to have exposure to such risks to the extent they are not hedged. We enter into derivative financial arrangements to the extent they meet the objective described above, and we do not use derivatives for trading or speculative purposes. See Note 8: "Derivative Instruments and Hedging Activities" in our unaudited condensed consolidated financial statements for additional discussion. Our exposure to market risk has not materially changed from what we previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and lawsuits arising in the normal course of business, some of which include claims for substantial sums, including proceedings involving tort and other general liability claims, employee claims, consumer protection claims and claims related to our management of certain hotel properties. The ultimate results of claims and litigation cannot be predicted with certainty. We currently believe that the ultimate outcome of such lawsuits and proceedings will not, individually or in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations in a particular period.

Item 1A. Risk Factors

As of June 30, 2014, there have been no material changes from the risk factors previously disclosed in response to "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit Number | Exhibit Description   |
|----------------|---|
| 3.1            | Certificate of Incorporation of Hilton Worldwide Holdings Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated December 17, 2013).  |
| 3.2            | Bylaws of Hilton Worldwide Holdings Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated December 17, 2013).  |
| 31.1           | Certificate of Christopher J. Nassetta, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2           | Certificate of Kevin J. Jacobs, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1           | Certificate of Christopher J. Nassetta, President and Chief Executive Officer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 32.2           | Certificate of Kevin J. Jacobs, Executive Vice President and Chief Financial Officer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of                     |

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|         |   |
|---------|---|
|         | 2002 (furnished herewith).                              |
| 101.INS | XBRL Instance Document.                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on

37

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them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

38

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HILTON WORLDWIDE HOLDINGS INC.

By: /s/ Christopher J. Nassetta  
Name: Christopher J. Nassetta  
President and Chief Executive Officer

By: /s/ Kevin J. Jacobs  
Name: Kevin J. Jacobs  
Executive Vice President and Chief Financial Officer

Date: August 1, 2014