

Hilton Worldwide Holdings Inc.

Form S-1/A

December 02, 2013

**Table of Contents**

**As filed with the Securities and Exchange Commission on December 2, 2013.**

**Registration No. 333-191110**

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Amendment No. 4**  
**to**  
**FORM S-1**  
**REGISTRATION STATEMENT**  
***UNDER***  
***THE SECURITIES ACT OF 1933***

**Hilton Worldwide Holdings Inc.**  
**(Exact Name of Registrant as Specified in its Charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**7011**  
**(Primary Standard Industrial**  
**Classification Code Number)**

**27-4384691**  
**(I.R.S. Employer**  
**Identification No.)**

**7930 Jones Branch Drive, Suite 1100**

**McLean, VA 22102**

**Telephone: (703) 883-1000**

**(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)**

**Christopher J. Nassetta**

**President and Chief Executive Officer**

**Hilton Worldwide Holdings Inc.**

**7930 Jones Branch Drive, Suite 1100**

**McLean, VA 22102**

**Telephone: (703) 883-1000**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

*Copies to:*

**Joshua Ford Bonnie**

**Kristin A. Campbell**

**Kevin J. Jacobs**

**Michael P. Kaplan**

**Edgar J. Lewandowski**

**Executive Vice President and**

**Executive Vice President and**

**John B. Meade**

**Rampson Thacher & Bartlett LLP**

**General Counsel**

**Chief Financial Officer**

**Davis Polk & Wardwell LLP**

**425 Lexington Avenue**

**Hilton Worldwide Holdings Inc.**

**Hilton Worldwide Holdings Inc.**

**450 Lexington Avenue**

**New York, NY 10017**

**7930 Jones Branch Drive,**

**7930 Jones Branch Drive,**

**New York, NY 10017**

**Telephone: (212) 455-2000**

**Suite 1100**

**Suite 1100**

**Telephone: (212) 450-4111**

Facsimile: (212) 455-2502

McLean, VA 22102

McLean, VA 22102

Facsimile: (212) 701-5111

Telephone: (703) 883-1000

Telephone: (703) 883-1000

Approximate date of commencement of the proposed sale of the securities to the public: **As soon as practicable after the Registration Statement is declared effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Large accelerated filer "

Accelerated filer "

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

Smaller reporting company "

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, par value \$0.01 per share	129,743,588	\$21.00(2)	\$2,724,615,348	\$360,431(3)

(1) Includes 16,923,076 shares subject to the underwriters' option to purchase additional shares.

(2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(a) of the Securities Act of 1933.

(3) The Registrant paid \$170,500 of the registration fee, with respect to \$1,250,000,000 of the proposed maximum aggregate offering price, in connection with the initial filing of this registration statement.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion. Dated December 2, 2013.**

**112,820,512 Shares**

**Hilton Worldwide Holdings Inc.**

**Common Stock**

This is an initial public offering of shares of common stock of Hilton Worldwide Holdings Inc.

Hilton Worldwide Holdings Inc. is offering 64,102,564 of the shares to be sold in the offering. The selling stockholder identified in this prospectus is offering an additional 48,717,948 shares.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between \$18.00 and \$21.00. We intend to apply to list our shares of common stock on the New York Stock Exchange, or NYSE, under the symbol HLT.

No private equity or real estate opportunity fund or co-investment vehicle sponsored or managed by The Blackstone Group L.P. is selling shares in this offering or receiving cash in lieu of selling shares. After the completion of this offering, affiliates of The Blackstone Group L.P. will continue to own a majority of the voting power of shares eligible to vote in the election of our directors. As a result, we will be a controlled company. See Management Controlled Company Exception.

*See **Risk Factors** beginning on page 16 to read about factors you should consider before buying shares of our common stock.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

	<b>Per Share</b>	<b>Total</b>
Initial public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us <sup>(1)</sup>	\$	\$
Proceeds, before expenses, to the selling stockholder	\$	\$

<sup>(1)</sup> The underwriters will receive compensation in addition to the underwriting discount. See Underwriting (Conflicts of Interest).

To the extent that the underwriters sell more than 112,820,512 shares of our common stock, the underwriters have the option to purchase up to an additional 16,923,076 shares of our common stock from the selling stockholder at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2013.

**Deutsche Bank Securities  
J.P. Morgan**

**Goldman, Sachs & Co.**

**BofA Merrill Lynch**

**Morgan Stanley  
Wells Fargo Securities**

**Blackstone Capital Markets  
Citigroup  
Nomura  
CastleOak Securities, L.P.**

**Credit Suisse**

**Macquarie Capital**

**HSBC**

**Raymond James**

**Drexel Hamilton**

**Prospectus dated**

**RBS**

**RBC Capital Markets**

**Telsey Advisory Group**

**, 2013.**

**Barclays**

**Baird**

**Mitsubishi UFJ Securities**

**Credit Agricole CIB**

**UBS Investment Bank**

**Ramirez and Co., Inc.**

**Table of Contents**

**Table of Contents**



**Table of Contents**

Table of Contents

## TABLE OF CONTENTS

	<b>Page</b>
<u>Summary</u>	1
<u>Risk Factors</u>	16
<u>Forward-Looking Statements</u>	44
<u>Trademarks and Service Marks</u>	44
<u>Industry and Market Data</u>	44
<u>Use of Proceeds</u>	45
<u>Dividend Policy</u>	46
<u>Capitalization</u>	47
<u>Dilution</u>	48
<u>Unaudited Pro Forma Condensed Consolidated Financial Information</u>	50
<u>Selected Financial Data</u>	60
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	62
<u>Industry</u>	106
	<b>Page</b>
<u>Business</u>	108
<u>Management</u>	133
<u>Certain Relationships and Related Party Transactions</u>	173
<u>Principal and Selling Stockholders</u>	176
<u>Description of Certain Indebtedness</u>	179
<u>Description of Capital Stock</u>	187
<u>Shares Eligible for Future Sale</u>	193
<u>Material U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders of Our Common Stock</u>	195
<u>Underwriting (Conflicts of Interest)</u>	198
<u>Legal Matters</u>	208
<u>Experts</u>	208
<u>Where You Can Find More Information</u>	208
<u>Index to Consolidated Financial Statements</u>	F-1

Neither we, the selling stockholder nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus, any amendment or supplement to this prospectus or any free writing prospectus prepared by us or on our behalf. Neither we, the selling stockholder nor the underwriters take any responsibility for, or can provide any assurance as to the reliability of, any information other than the information in this prospectus, any amendment or supplement to this prospectus or any free writing prospectus prepared by us or on our behalf. We, the selling stockholder and the underwriters are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

Unless indicated otherwise, the information included in this prospectus assumes that the shares of common stock to be sold in this offering are sold at \$19.50 per share of common stock, which is the midpoint of the price range indicated

on the front cover of this prospectus.

Except where the context requires otherwise, references in this prospectus to Hilton, Hilton Worldwide, the Company, we, us, and our refer to Hilton Worldwide Holdings Inc., together with its consolidated subsidiaries. We refer to the estimated over 311,000 individuals working at our owned, leased, managed, franchised, timeshare and corporate locations worldwide as of September 30, 2013 as our team members. Of these team members, approximately 151,000 were directly employed or supervised by us and the remaining team members were employed or supervised by third-parties. Except where the context requires otherwise, references to our properties, hotels and rooms refer to the hotels, resorts and timeshare properties managed, franchised, owned or leased by us. Of these hotels or resorts and rooms, a portion are directly owned or leased by us or joint ventures in which we have an interest and the remaining hotels or resorts and rooms were owned by our third-party owners.

Investment funds associated with or designated by The Blackstone Group L.P., our current majority owners, are referred to herein as Blackstone or our Sponsor and Blackstone, together with the other owners of Hilton Worldwide Holdings Inc. prior to this offering, are collectively referred to as our existing owners.

**Table of Contents**

Reference to **ADR** or **Average Daily Rate** means hotel room revenue divided by total number of rooms sold in a given period and **RevPAR** or **Revenue per Available Room** represents hotel room revenue divided by room nights available to guests for a given period. References to **RevPAR index** measure a hotel's relative share of its segment's Revenue per Available Room. For example, if a subject hotel's RevPAR is \$50 and the RevPAR of its competitive set is \$50, the subject hotel would have no RevPAR index premium. If the subject hotel's RevPAR totaled \$60, its RevPAR index premium would be 20%, which indicates that the subject hotel has outperformed other hotels in its competitive set. References to **global RevPAR index premium** means the average RevPAR index premium of our comparable hotels (as defined in **Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business and Financial Metrics used by Management Comparable Hotels** on page 67, but excluding hotels that do not receive competitive set information from Smith Travel Research, or STR, or do not participate with STR). The owner or manager of each Hilton comparable hotel exercises its discretion in identifying the competitive set of properties for such hotel, considering factors such as physical proximity, competition for similar customers, product features, services and amenities, quality and average daily rate, as well as STR rules regarding competitive set makeup. Accordingly, while the hotel brands included in the competitive set for any given Hilton comparable hotel depend heavily on market-specific conditions, the competitive sets for Hilton comparable hotels frequently include properties branded with the competing brands identified for the relevant Hilton comparable hotel listed under **Selected Competitors** on page 116. STR provides us with the relevant data for competitive sets that we submit for each of our comparable hotels, which we utilize to compute the RevPAR index for our comparable hotels.

**Table of Contents**

**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in shares of our common stock. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the related notes included elsewhere in this prospectus, before you decide to invest in shares of our common stock.*

**Hilton Worldwide**

Hilton Worldwide is one of the largest and fastest growing hospitality companies in the world, with 4,080 hotels, resorts and timeshare properties comprising 671,926 rooms in 90 countries and territories. In the nearly 100 years since our founding, we have defined the hospitality industry and established a portfolio of 10 world-class brands. Our flagship full-service Hilton Hotels & Resorts brand is the most recognized hotel brand in the world. Our premier brand portfolio also includes our luxury hotel brands, Waldorf Astoria Hotels & Resorts and Conrad Hotels & Resorts, our full-service hotel brands, DoubleTree by Hilton and Embassy Suites Hotels, our focused-service hotel brands, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton and Home2 Suites by Hilton and our timeshare brand, Hilton Grand Vacations. We own or lease interests in 156 hotels, many of which are located in global gateway cities, including iconic properties such as The Waldorf Astoria New York, the Hilton Hawaiian Village and the London Hilton on Park Lane. More than 311,000 team members proudly serve in our properties and corporate offices around the world, and we have approximately 39 million members in our award-winning customer loyalty program, Hilton HHonors.

We operate our business through three segments: (1) management and franchise; (2) ownership; and (3) timeshare. These complementary business segments enable us to capitalize on our strong brands, global market presence and significant operational scale. Through our management and franchise segment, which consists of 3,883 hotels with 603,271 rooms, we manage hotels, resorts and timeshare properties owned by third parties and we license our brands to franchisees. Our management and franchise segment generates high margins and long-term recurring cash flow, and has grown by 40% in terms of number of rooms since June 30, 2007, representing 98% of our overall room growth, with virtually no capital investment by us. Our ownership segment consists of 156 hotels with 62,251 rooms that we own or lease. Through our timeshare segment, which consists of 41 properties comprising 6,404 units, we market and sell timeshare intervals, operate timeshare resorts and a timeshare membership club and provide consumer financing.

In October 2007, we were acquired by affiliates of The Blackstone Group L.P. and assembled a new management team led by Christopher J. Nassetta, our President and Chief Executive Officer. Under our new leadership, we have transformed our business, creating a globally aligned organization and establishing a performance-driven culture. As part of our transformation, we focused on both top- and bottom-line operating performance, strengthening and expanding our brands and commercial services platform, and enhancing our growth rate, particularly in markets outside the U.S. where our brands historically had been underrepresented.

As a result of the transformation of our business, despite the sharp downturn in our industry, between June 30, 2007 and September 30, 2013, we have:

increased the number of open rooms in our system by 36%, or 176,248 rooms, which represents the highest growth rate of any major lodging company;

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

grown the number of rooms in our development pipeline by 60% to an industry-leading 185,699 rooms, over 99% of which are within our higher-margin, capital light management and franchise segment;

increased our total number of rooms under construction by 133%, to an industry-leading 97,520 rooms, over 99% of which are within our management and franchise segment;

**Table of Contents**

increased the geographic diversity of our pipeline, with rooms in the development pipeline outside the U.S. increasing from less than 20% to more than 60%, and rooms under construction outside the U.S. increasing from less than 15% to nearly 80%;

significantly enhanced our presence in key segments, brands and geographies, including significant growth in the luxury segment, in our DoubleTree by Hilton and Home2 Suites by Hilton brands and in the number of hotels in Europe and Greater China;

increased our management and franchise segment's Adjusted EBITDA by 25% from the year ended December 31, 2007 to the year ended December 31, 2012 and grown the proportion of our aggregate segment Adjusted EBITDA contributed by our management and franchise segment from 47% to 53%;

increased the average global revenue per available room, or RevPAR, premium for all brands globally by approximately two percentage points to 15% on a trailing twelve month basis;

expanded membership in our Hilton HHonors program by 88% since December 31, 2007;

significantly outperformed our competitors in the timeshare segment, with annual interval sales increasing over 40% since the year ended December 31, 2007 and segment Adjusted EBITDA as a percentage of timeshare revenue increasing 435 basis points since the year ended December 31, 2010, while beginning a transformation of the business to a more capital-efficient model; for the twelve months ended September 30, 2013, 50% of our sales of timeshare intervals were developed by third parties versus 0% for the year ended December 31, 2009; and

significantly improved profitability, increasing our Adjusted EBITDA by an annual average of 12% from the year ended December 31, 2010 through the year ended December 31, 2012, and for the nine months ended September 30, 2013, increasing our Adjusted EBITDA by 12% compared to the nine months ended September 30, 2012. Net income attributable to Hilton stockholder increased by 68% on average from the year ended December 31, 2010 through the year ended December 31, 2012, and for the nine months ended September 30, 2013, net income attributable to Hilton stockholder increased 34% as compared to the nine months ended September 30, 2012.

See Summary Historical Financial Data for the definition of Adjusted EBITDA and a reconciliation of net income attributable to Hilton stockholder to Adjusted EBITDA.

We believe this transformation positions us to continue to increase our share of the expanding global lodging industry, which continues to exhibit strong fundamentals and significant long-term growth prospects supported by increasing global travel and tourism. Our business has grown during times of economic expansion, as well as during global economic downturns. For example, during the period between January 1, 2000 and September 30, 2013, we increased the total number of hotel rooms in our system every year, achieving total growth of 122% and a compound annual growth rate, or CAGR, of 6%. Our industry leading percentage of global rooms under construction of 18.5% significantly exceeds our industry leading percentage of the existing global hotel supply of 4.6%, according to data provided by Smith Travel Research, Inc., or STR. We expect that our #1 share of worldwide rooms under construction

will allow us to continue to expand our share of worldwide rooms supply and build on our leading market position.



## **Table of Contents**

The transformation of our business since 2007 has enabled us to increase the number of hotels and timeshare units in our system at a more rapid rate than any other major lodging company. The following table illustrates our global room supply by business segment.

### **Our Competitive Strengths**

We believe the following competitive strengths provide the foundation for our position as a leading global hospitality company.

***World-Class Hospitality Brands.*** Our globally recognized, world-class brands have defined the hospitality industry. Our flagship Hilton Hotels & Resorts brand often serves as an introduction to our wider range of brands that are designed to accommodate any customer's needs anywhere in the world. Our brands have achieved an average global RevPAR index premium of 15% for the twelve months ended September 30, 2013, based on STR data. This means that our brands achieve on average 15% more revenue per room than competitive properties in similar markets. The demonstrated strength of our brands makes us a preferred partner for hotel owners, who have invested tens of billions of dollars since December 31, 2007 in the development and improvement of our branded hotels.

***Leading Global Presence and Scale.*** We are one of the largest hospitality companies in the world with 4,080 properties and 671,926 rooms in 90 countries and territories. We have hotels in key gateway cities such as New York, London, Dubai, Johannesburg, Tokyo, Shanghai and Sydney and 351 hotels located at or near airports around the world. Our global presence allows us to serve our loyal customers throughout the world and to introduce our award-winning brands to customers in new markets. These world-class brands facilitate system growth by providing hotel owners with a variety of options to address each market's specific needs. In addition, the diversity of our operations reduces our exposure to business cycles, individual market disruptions and other risks. Our robust commercial services platform allows us to take advantage of our scale to more effectively deliver products and services that drive customer preference and enhance commercial performance on a global basis.

***Large and Growing Loyal Customer Base.*** Serving our customers is our first priority. By continually adapting to customer preferences and providing our customers with superior experiences, we have improved our overall customer satisfaction ratings four of the last five years. We earned 32 first place awards in the J.D. Power North America Guest Satisfaction rankings since 1999, more than any multi-

---

**Table of Contents**

brand lodging company. Our hotels accommodated more than 127 million customer visits during the twelve months ended September 30, 2013, with members of our Hilton HHonors loyalty program contributing approximately 50% of the nearly 172 million resulting room nights. Hilton HHonors unites all our brands, encourages customer loyalty and allows us to provide tailored promotions, messaging and customer experiences. We have grown the membership in our Hilton HHonors program by approximately 88% from approximately 21 million as of December 31, 2007 to nearly 39 million as of September 30, 2013.

***Significant Embedded Growth.*** All of our segments are expected to grow through improvement in same-store performance driven by strong anticipated industry fundamentals. PKF Hospitality Research, LLC, or PKF-HR, predicts that lodging industry RevPAR in the U.S., where 78% of our system rooms are located, will grow 7.2% in 2014 and 8.1% in 2015. Our management and franchise segment also is expected to grow through new room additions, as upon completion, our industry-leading development pipeline would result in a 28% increase in our room count with minimal capital investment from us. In addition, our franchise revenues should grow over time as franchise agreements renew at our published license rates, which are higher than our current effective rates. For the twelve months ended September 30, 2013, our weighted average effective license rate across our brands was 4.5% of room revenue, an increase of 13% since 2007, and our weighted average published license rate was 5.4% as of September 30, 2013. We also expect our incentive management fees, which are linked to hotel profitability measures, to increase as a result of the expected improvements in industry fundamentals. In our ownership segment, we believe we will benefit from strong growth in bottom-line earnings as industry fundamentals continue to improve as a result of this segment's operating leverage, and our large hotels with significant meeting space should benefit from recent improvements in group demand, which we expect will exhibit strong growth as the current stage of the lodging cycle advances. Finally, our timeshare business has over five years of projected interval supply at our current sales pace in the form of existing owned inventory and executed capital light projects, which should enable us to continue to grow our earnings from the segment with lower levels of capital investment from us.

***Strong Cash Flow Generation.*** We generate significant cash flow from operating activities with an increasing percentage from our growing capital light management and franchise and timeshare segments. During the five-year period ended December 31, 2012, we generated an aggregate of \$3.6 billion in cash flow from operating activities. We increased our cash flow from operating activities from \$219 million for the year ended December 31, 2008 to \$1.1 billion for the year ended December 31, 2012. We believe that our focus on cash flow generation, the relatively low investment required to grow our management and franchise and timeshare segments, and our disciplined approach to capital allocation position us to maximize opportunities for profitability and growth while continuing to reduce our indebtedness over time.

***Iconic Hotels with Significant Underlying Real Estate Value.*** Our diverse global portfolio of owned and leased hotels includes a number of iconic properties in major gateway cities such as New York City, London, San Francisco, Chicago, São Paulo, Sydney and Tokyo. The portfolio also includes iconic hotels with significant embedded asset value, including: The Waldorf Astoria New York, a landmark luxury hotel with 1,413 rooms encompassing an entire city block in the heart of midtown Manhattan near Grand Central Terminal; the Hilton Hawaiian Village, a full-service beach resort with 2,860 rooms that sits on approximately 22 oceanfront acres along Waikiki Beach on the island of Oahu; and the London Hilton on Park Lane, a 453-room hotel overlooking Hyde Park in the exclusive Mayfair district of London. Our ten owned hotels with the highest Adjusted EBITDA contributed 54% of our ownership segment's Adjusted

EBITDA during the year ended December 31, 2012, which highlights the quality of our key flagship properties. In addition, we believe the iconic nature of many of these properties creates significant value for our entire system of properties by reinforcing the world-class nature of our brands. We continually focus on increasing the value and enhancing the

## **Table of Contents**

market position of our owned and leased hotels and have invested \$1.8 billion in these properties between December 31, 2007 and September 30, 2013. Over time, we believe we can unlock significant incremental value through opportunistically exiting assets or executing on adaptive reuse plans for all or a portion of certain hotels as retail, residential or timeshare uses.

***Market-Leading and Innovative Timeshare Platform.*** Our timeshare business complements our other segments and provides an alternative hospitality product that serves an attractive customer base. Our timeshare customers are among our most loyal hotel customers, with estimated spend in our hotel system increasing approximately 40% after the purchase of their timeshare interests. Historically, we have concentrated our timeshare efforts in four key markets: Florida, Hawaii, New York City and Las Vegas, which has helped us to increase annual sales of timeshare intervals by more than 40% since 2007 while yielding strong profit margins during a time when our competitors generally experienced declines in both sales and profit margins. As a result of this strong operating performance and the returns we were able to drive on our own timeshare developments, in 2010 we began a transformation of our timeshare business to a capital light model in which third-party timeshare owners and developers provide capital for development while we act as sales and marketing agent and property manager. Through these transactions, we receive a sales and marketing commission and branding fees on sales of timeshare intervals, recurring fees to operate the homeowners' associations and revenues from resort operations. We also earn recurring fees in connection with the points-based membership programs we operate that provide for exclusive exchange, leisure travel and reservation services, and through fees related to the servicing of consumer loans. We have increased the sales of intervals developed by third parties from zero in 2009 to 50% for the twelve months ended September 30, 2013, which has dramatically reduced the capital requirements of our timeshare segment while continuing to drive strong earnings and cash flows. For the year ended December 31, 2012 and the nine months ended September 30, 2013, we incurred \$56 million and \$70 million, respectively, of capital expenditures for timeshare inventory, compared to an average of \$405 million annually during 2007 and 2008.

***Performance-Driven Culture.*** We are an organization of people serving people, thus it is imperative that we attract and retain best-in-class talent to serve our various stakeholders. We have a performance-driven culture that begins with an intense alignment around our mission, vision, values and key strategic priorities. Our President and Chief Executive Officer, Christopher J. Nassetta, has nearly 30 years of experience in the hotel industry, previously serving as President and Chief Executive Officer of Host Hotels & Resorts, Inc., where he was named *Institutional Investor*'s 2007 REIT CEO of the Year. He and the balance of our executive management team have been instrumental in transforming our organization and installing a culture that develops leaders at all levels of the organization who are focused on delivering exceptional service to our customers every day. We rely on our over 311,000 team members to execute our strategy and continue to enhance our products and services to ensure that we remain at the forefront of performance and innovation in the lodging industry.

### **Our Business and Growth Strategy**

The following are key elements of our strategy to become the preeminent global hospitality company – the first choice of guests, team members and owners alike:

***Expand our Global Footprint.*** We intend to build on our leading position in the U.S. and expand our global footprint. In February 2006, we reacquired Hilton International Co., which had operated as a separate company since 1964, and in so doing, reacquired the international Hilton branding rights. Reuniting Hilton's U.S. and international operations has provided us with the platform to grow our business and brands globally. As a result of the reacquisition and focus on global expansion, we currently rank number one or number two in every major region of the world by rooms under construction, based on STR data. We aim to increase the relative contribution of our international operations, which accounted for only 27% of our revenues during the year ended December 31, 2012.

## Table of Contents

Of our new rooms under construction, 78% are located outside of the U.S. We plan to continue to expand our global footprint by introducing the right brands with the right product positioning in targeted markets and allocating business development resources effectively to drive new unit growth in every region of the world.

***Grow our Fee-Based Businesses.*** We intend to grow our higher margin, fee-based businesses. We expect to increase the contribution of our management and franchise segment, which already accounts for more than half of our aggregate segment Adjusted EBITDA, through new third-party hotel development and the conversion of existing hotels to our brands. The number of rooms in our management and franchise segment grew by 40% from June 30, 2007 to September 30, 2013 and substantially all of our current development pipeline of 185,699 rooms consists of hotels in this segment. Upon completion, this pipeline of new, third-party owned hotels would result in a 31% increase in our management and franchise room count with minimal capital investment from us. In addition, we aim to increase the average effective franchise fees we receive over time by renewing and entering into new franchise agreements at our current published franchise fee rates.

***Continue to Increase the Capital Efficiency of our Timeshare Business.*** Traditionally, timeshare operators have funded 100% of the investment necessary to acquire land and construct timeshare properties. In 2010, we began sourcing timeshare intervals through sales and marketing agreements with third-party developers. These agreements enable us to generate fees from the sales and marketing of the timeshare intervals and club memberships and from the management of the timeshare properties without requiring us to fund acquisition and construction costs. Our supply of third-party developed timeshare intervals has increased to 65,000 as of September 2013, compared to no supply in 2009, and the percentage of sales of timeshare intervals developed by third parties has already increased to 50% for the twelve months ended September 30, 2013. We will continue to seek opportunities to grow our timeshare business through this capital light model.

***Optimize the Performance of our Owned and Leased Hotels.*** In addition to utilizing our commercial services platform to enhance the revenue performance of our owned and leased assets, we have focused on maximizing the cost efficiency of the portfolio by implementing labor management practices and systems and reducing fixed costs to drive profitability. Through our disciplined approach to asset management, we have developed and executed on strategic plans for each of our hotels and have invested \$1.8 billion in our portfolio since December 31, 2007 to enhance the market position of each property. We expect to continue to enhance the performance of our hotels by improving operating efficiencies, and believe there is an opportunity to drive further improvements in operating margins and Adjusted EBITDA. The Adjusted EBITDA of our owned and leased portfolio for 2012 was still below 2008 levels. Further, at certain of our hotels, we are developing plans for the adaptive reuse of all or a portion of the property to residential, retail or timeshare uses. Finally, we expect to create value over time by opportunistically selling assets and restructuring or exiting leases.

***Strengthen our Brands and Commercial Services Platform.*** We intend to enhance our world-class brands through superior brand management by continuing to develop products and services that drive increased RevPAR premiums. We will continue to refine our luxury brands to deliver modern products and service standards that are relevant to today's luxury traveler. We will continue to position our full-service operating model and product standards to meet evolving customer needs and drive financial results that support

incremental owner investment in our hotels. In our focused-service brands, we will continue to position for growth in the U.S., and tailor our products as appropriate to meet the needs of customers and developers outside the U.S. We will continue to innovate and enhance our commercial services platform to ensure we have the most formidable sales, pricing, marketing and distribution platform in the industry to drive premium commercial performance to our entire system of hotels. We also will continue to invest in our Hilton HHonors customer loyalty program to ensure it remains relevant to our customers and drives customer loyalty and value to our hotel owners.

## **Table of Contents**

### **Our Industry**

We believe that the fundamentals of the global hotel industry, as projected by analysts, particularly in the U.S., where 78% of our system-wide rooms are located, will yield strong industry performance and support the growth of our business in coming years. According to STR data, U.S. lodging demand, as measured by number of booked hotel rooms, has improved with the economic recovery in recent years, experiencing a CAGR of 4.9% over the last three years, significantly exceeding the 25-year CAGR of 1.8%. In contrast, over the last three years, U.S. lodging industry supply has grown at a CAGR of 0.9%, well below the 25-year CAGR of 2.0%. We believe this positive imbalance between demand growth and supply growth has contributed to a RevPAR CAGR of 6.8% over the last three years, well above the 25-year CAGR of 2.7%. According to PKF-HR, total U.S. lodging industry RevPAR is expected to increase 7.2% in 2014 and 8.1% in 2015. According to STR data, global lodging demand, as measured by number of booked hotel rooms, has grown at a CAGR of 5.3% over the last three years and hotel supply growth increased at a CAGR of 1.6%. We believe these attractive supply/demand fundamentals provide the potential for continued global RevPAR growth in the coming years.

In addition, we believe that broader positive global macroeconomic and travel and tourism trends will continue to drive longer-term growth in the lodging sector. In particular, we believe that a growing middle class (which the Organization for Economic Co-operation and Development, or OECD, expects will grow from approximately two to five billion people by 2030) with the desire and resources to travel both within their home regions and elsewhere will support growth in global tourism (which the United Nations World Tourism Organization projects will grow on average between 3% and 4% annually through 2030) and will be an important factor in driving the growth of the global lodging industry. We believe that these trends will provide a strong basis for our growth over the long term.

### **Our Sponsor**

Blackstone (NYSE: BX) is one of the world's leading investment and advisory firms. Blackstone's alternative asset management businesses include the management of corporate private equity funds, real estate funds, hedge fund solutions, credit-oriented funds and closed-end mutual funds. Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Through its different businesses, Blackstone had total assets under management of approximately \$248 billion as of September 30, 2013. Blackstone's global real estate group is the largest private equity real estate manager in the world with \$69 billion of investor capital under management as of September 30, 2013.

### **Refinancing Transactions**

On October 25, 2013, we repaid in full all \$13.4 billion in borrowings outstanding on such date under our legacy senior mortgage loans and secured mezzanine loans using the proceeds from our recent offering of \$1.5 billion of 5.625% senior notes due 2021, which were released from escrow on such date, borrowings under our new senior secured credit facilities, which consists of a \$7.6 billion term loan facility (of which we voluntarily repaid \$0.1 billion in November 2013) and an undrawn \$1.0 billion revolving credit facility, a \$3.5 billion commercial mortgage-backed securities loan and a \$0.525 billion mortgage loan secured by our Waldorf Astoria New York property, together with additional borrowings under our non-recourse timeshare financing receivables credit facility, or Timeshare Facility, and cash on hand. For more information, see Description of Certain Indebtedness.

In addition, on October 25, 2013, Hilton Worldwide, Inc., our wholly owned subsidiary, issued a notice of redemption to holders of all of the outstanding \$96 million aggregate principal amount of its 8% quarterly interest





## **Table of Contents**

bonds due 2031 on November 25, 2013. The bonds were redeemed at a redemption price equal to 100% of the principal amount thereof and accrued and unpaid thereon, to, but not including November 25, 2013. We refer to the repayment of the bonds and the transactions in the preceding paragraph as the Refinancing Transactions.

### **Investment Risks**

An investment in shares of our common stock involves substantial risks and uncertainties that may adversely affect our business, financial condition and results of operations and cash flows. Some of the more significant challenges and risks relating to an investment in our company include those associated with:

We are subject to the business, financial, and operating risks inherent to the hospitality industry, any of which could reduce our revenues and limit opportunities for growth.

Macroeconomic and other factors beyond our control can adversely affect and reduce demand for our products and services.

Contraction in the global economy or low levels of economic growth could adversely affect our revenues and profitability as well as limit or slow our future growth.

The hospitality industry is subject to seasonal and cyclical volatility, which may contribute to fluctuations in our results of operations and financial condition.

Because we operate in a highly competitive industry, our revenues or profits could be harmed if we are unable to compete effectively.

Any deterioration in the quality or reputation of our brands could have an adverse impact on our reputation, business, financial condition or results of operations.

If we are unable to maintain good relationships with third-party hotel owners and renew or enter into new management and franchise agreements, we may be unable to expand our presence and our business, financial condition and results of operations may suffer.

We are exposed to the risks resulting from significant investments in owned and leased real estate, which could increase our costs, reduce our profits and limit our ability to respond to market conditions.

Our efforts to develop, redevelop or renovate our owned and leased properties could be delayed or become more expensive, which could reduce revenues or impair our ability to compete effectively.

We share control in joint venture projects, which limits our ability to manage third-party risks associated with these projects.

The timeshare business is subject to extensive regulation and failure to comply with such regulation may have an adverse impact on our business.

A decline in timeshare interval inventory or our failure to enter into and maintain timeshare management agreements may have an adverse effect on our business or results of operations.

Some of our existing development pipeline may not be developed into new hotels, which could materially adversely affect our growth prospects.

Failures in, material damage to, or interruptions in our information technology systems, software or websites and difficulties in updating our existing software or developing or implementing new software could have a material adverse effect on our business or results of operations.

We may be exposed to risks and costs associated with protecting the integrity and security of our guests personal information.

**Table of Contents**

Failure to comply with marketing and advertising laws, including with regard to direct marketing, could result in fines or place restrictions on our business.

Because we derive a portion of our revenues from operations outside the United States, the risks of doing business internationally could lower our revenues, increase our costs, reduce our profits or disrupt our business.

The loss of senior executives or key field personnel, such as general managers, could significantly harm our business.

Any failure to protect our trademarks and other intellectual property could reduce the value of the Hilton brands and harm our business.

Our substantial indebtedness and other contractual obligations could adversely affect our financial condition, our ability to raise additional capital to fund our operations, our ability to operate our business, our ability to react to changes in the economy or our industry and pay our debts and could divert our cash flow from operations for debt payments.

Our Sponsor and its affiliates control us and their interests may conflict with ours or yours in the future. Please see Risk Factors for a discussion of these and other factors you should consider before making an investment in shares of our common stock.

Hilton Worldwide Holdings Inc. was incorporated in Delaware in March 2010. In 1919, our founder Conrad Hilton purchased his first hotel in Cisco, Texas. Through our predecessors, we commenced operations in 1946 when our subsidiary Hilton Hotels Corporation, later renamed Hilton Worldwide, Inc., was incorporated in Delaware. Our principal executive offices are located at 7930 Jones Branch Drive, Suite 1100, McLean, Virginia 22102 and our telephone number is (703) 883-1000.

**Table of Contents**

**The Offering**

Common stock offered by us	64,102,564 shares.
Common stock offered by the selling stockholder	48,717,948 shares.
Option to purchase additional shares	The underwriters have an option to purchase up to 16,923,076 additional shares of our common stock from the selling stockholder. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.
Common stock outstanding after giving effect to this offering	984,615,385 shares.
Use of proceeds	<p>We estimate that the net proceeds to us from this offering, after deducting estimated underwriting discounts and offering expenses, will be approximately \$1,209 million, based on an assumed initial public offering price of \$19.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus.</p> <p>We intend to use the net proceeds received by us from this offering and available cash to repay approximately \$1,250 million of term loan borrowings outstanding under our new senior secured credit facilities. To the extent we raise more proceeds in this offering than currently estimated, we will repay additional term loan borrowings or use such proceeds for other general corporate purposes. To the extent we raise less proceeds in this offering than currently estimated, we will reduce the amount of term loan borrowings that will be repaid. See Use of Proceeds.</p> <p>Except in relation to the payment to be made to us by the selling stockholder that is described in Principal and Selling Stockholders, we will not receive any proceeds from the sale of shares of common stock offered by the selling stockholder, including from any exercise by the underwriters of their option to purchase additional shares.</p>
Dividend policy	We have no current plans to pay dividends on our common stock. Any decision to declare and pay dividends in the future will be made at the sole discretion of our board of directors and will depend on, among other

things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

Conflicts of Interest

Blackstone Advisory Partners L.P., an underwriter of this offering, is an affiliate of Blackstone, our controlling stockholder. Since Blackstone beneficially owns more than 10% of our outstanding common stock, a conflict of interest is deemed to exist under Rule 5121(f)(5)(B) of the Conduct Rules of the Financial Industry Regulatory Authority, or FINRA. In addition, in connection with the repayment of certain borrowings under our credit facilities, an

**Table of Contents**

affiliate of Goldman, Sachs & Co. is expected to receive a portion of the net proceeds of this offering in its capacity as lender. See **Use of Proceeds**. In addition, an affiliate of Goldman, Sachs & Co. holds, directly or indirectly, limited liability company interests in the Selling Stockholder, the immediate parent company of Hilton Worldwide Holdings Inc., and is expected to receive a portion of the net proceeds of this offering in connection with its election to receive a cash payment in lieu of shares of our common stock that would otherwise have been distributed to it as a member of the immediate parent entity. See

**Principal and Selling Stockholders**. These proceeds, when combined with the proceeds received in its capacity as lender, give Goldman, Sachs & Co. more than 5% of the proceeds of this offering, and consequently, Goldman, Sachs & Co. will be deemed to have a conflict of interest within the meaning of FINRA Rule 5121(f)(5)(C). Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5121. As such, any underwriter that has a conflict of interest pursuant to Rule 5121 will not confirm sales to accounts in which it exercises discretionary authority without the prior written consent of the customer. Pursuant to Rule 5121, a qualified independent underwriter (as defined in Rule 5121) must participate in the preparation of the prospectus and perform its usual standard of due diligence with respect to the registration statement and this prospectus. Deutsche Bank Securities Inc. has agreed to act as qualified independent underwriter for the offering and to undertake the legal responsibilities and liabilities of an underwriter under the Securities Act of 1933, as amended, or the Securities Act, specifically including those inherent in Section 11 of the Securities Act. We have also agreed to indemnify Deutsche Bank Securities Inc. against certain liabilities incurred in connection with it acting as a qualified independent underwriter in this offering, including liabilities under the Securities Act. See **Underwriting (Conflicts of Interest)**.

Risk factors

See **Risk Factors** for a discussion of risks you should carefully consider before deciding to invest in our common stock.

Proposed trading symbol

HLT.

In this prospectus, unless otherwise indicated, the number of shares of common stock outstanding and the information based thereon does not reflect 80,000,000 shares of common stock that may be granted under our Omnibus Incentive Plan. See **Management Omnibus Incentive Plan**. In addition, all share information, other than in historical financial results, reflects a 9,205,128-for-1 forward stock split to occur immediately prior to closing of this offering.

**Table of Contents****Summary Historical Financial Data**

We derived the summary statement of operations data and the summary statement of cash flows data for the years ended December 31, 2012, 2011 and 2010 and the summary balance sheet data as of December 31, 2012 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary balance sheet data as of September 30, 2012 and December 31, 2010 from our unaudited consolidated financial statements that are not included in this prospectus. We derived the summary statement of operations data and the summary statement of cash flows data for the nine months ended September 30, 2013 and 2012 and the summary balance sheet data as of September 30, 2013 from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited consolidated financial statements and, in our opinion, have included all adjustments, which include only normal recurring adjustments, necessary to present fairly in all material respects our financial position and results of operations. The results for any interim period are not necessarily indicative of the results that may be expected for the full year. Additionally, our historical results are not necessarily indicative of the results expected for any future period.

The unaudited summary pro forma financial information has been prepared to reflect the issuance of shares of our common stock offered by us in this offering at an assumed initial public offering price of \$19.50, which is the midpoint of the range set forth on the cover of this prospectus and the other transactions described under Unaudited Pro Forma Condensed Consolidated Financial Information. The following unaudited summary pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the relevant transactions had been consummated on the date indicated, nor is it indicative of future operating results.

You should read the summary historical financial data below, together with the consolidated financial statements and related notes thereto appearing elsewhere in this prospectus, as well as Unaudited Pro Forma Condensed Consolidated Financial Information, Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Description of Certain Indebtedness, and the other financial information included elsewhere in this prospectus.

	<b>Pro Forma</b>		<b>Nine Months</b>		<b>Year Ended</b>		
	<b>Nine Months</b>	<b>Pro Forma</b>	<b>Ended September 30,</b>	<b>Ended September 30,</b>	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>September 30,</b>	<b>December 31,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(dollars in millions, except Hotel RevPAR and ADR)</b>						
<b>Summary Statement of Operations Data:</b>							
<b>Revenues</b>							
Owned and leased hotels	\$ 2,982	\$ 3,979	\$ 2,982	\$ 2,931	\$ 3,979	\$ 3,898	\$ 3,667
Management and franchise fees and other	868	1,088	868	807	1,088	1,014	901
Timeshare	809	1,085	809	822	1,085	944	863
	4,659	6,152	4,659	4,560	6,152	5,856	5,431
Other revenues from managed and	2,433	3,124	2,433	2,378	3,124	2,927	2,637



## franchised properties

Total revenues	7,092	9,276	7,092	6,938	9,276	8,783	8,068
Expenses							
Owned and leased hotels	2,327	3,230	2,327	2,401	3,230	3,213	3,009
Timeshare	545	758	545	568	758	668	634

**Table of Contents**

	<b>Pro Forma Nine Months Ended September 30, 2013</b>	<b>Pro Forma Year Ended December 31, 2012</b>	<b>Nine Months Ended September 30, 2013</b>	<b>2012</b>	<b>2012</b>	<b>Year Ended December 31, 2011</b>	<b>2010</b>
<b>(dollars in millions, except Hotel RevPAR and ADR)</b>							
Depreciation and amortization	455	550	455	394	550	564	574
Impairment losses		54		33	54	20	24
General, administrative and other	319	460	319	327	460	416	637
	3,646	5,052	3,646	3,723	5,052	4,881	4,878
Other expenses from managed and franchised properties	2,433	3,124	2,433	2,378	3,124	2,927	2,637
Total expenses	6,079	8,176	6,079	6,101	8,176	7,808	7,515
Operating income	1,013	1,100	1,013	837	1,100	975	553
Net income attributable to Hilton stockholder	338	288	389	291	352	253	128

	<b>Pro Forma as of September 30, 2013</b>	<b>As of and for the Nine Months Ended September 30, 2013</b>	<b>2012</b>	<b>As of and for the Year Ended December 31, 2012</b>	<b>2011</b>	<b>2010</b>
<b>(dollars in millions, except Hotel RevPAR and ADR)</b>						
<b>Summary Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 441	\$ 724	\$ 883	\$ 755	\$ 781	\$ 796
Restricted cash and cash equivalents	411	502	700	550	658	619
Total assets	26,582	26,729	27,517	27,066	27,312	27,750
Long-term debt <sup>(1)</sup>	12,011	14,279	16,064	15,575	16,311	16,995
Non-recourse timeshare debt <sup>(1)(2)</sup>	688	388				
Non-recourse debt and capital lease obligations of consolidated variable interest entities <sup>(1)</sup>	318	318	471	420	481	541
Total equity	3,822	2,553	1,981	2,155	1,702	1,544

**Summary Statement of Cash Flows Data:**

Capital expenditures for property and equipment	\$ 167	\$ 336	\$ 433	\$ 389	\$ 148
Cash flow from operating activities	1,024	750	1,110	1,167	833
Cash flow from investing activities	(252)	(413)	(558)	(463)	(68)
Cash flow from financing activities	(789)	(236)	(576)	(714)	(703)

**Operational and Other Data:**

Number of hotels and timeshare properties	4,080	3,924	3,966	3,843	3,709
Number of rooms and units	671,926	645,654	652,957	633,238	609,634

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

Hotel RevPAR <sup>(3)</sup>	\$ 100.19	\$ 95.07	\$ 93.38	\$ 90.70	\$ 86.16
Hotel occupancy <sup>(3)</sup>	73.5%	72.4%	71.1%	69.7%	68.4%
Hotel ADR <sup>(3)</sup>	\$ 136.24	\$ 131.30	\$ 131.35	\$ 130.15	\$ 126.06
Adjusted EBITDA:					
Management and franchise <sup>(4)</sup>	\$ 938	\$ 877	\$ 1,180	\$ 1,095	\$ 968
Ownership	672	566	793	725	688
Timeshare <sup>(4)</sup>	205	198	252	207	171
Corporate and other	(208)	(207)	(269)	(274)	(263)
Adjusted EBITDA <sup>(5)</sup>	\$ 1,607	\$ 1,434	\$ 1,956	\$ 1,753	\$ 1,564

---

**Table of Contents**

- (1) Includes current maturities.
- (2) Includes Timeshare Facility and our 2.28% notes backed by timeshare financing receivables, or Securitized Timeshare Debt.
- (3) Operating statistics are for comparable hotels as of each period end. See the definition of comparable hotels in Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business and Financial Metrics Used by Management Comparable Hotels.
- (4) Includes pro forma timeshare license fee for year ended December 31, 2010. Timeshare license fee agreement of 5% of certain timeshare revenues charged by our management and franchise segment to our timeshare segment was effective January 1, 2011.
- (5) EBITDA is defined by us as net income attributable to Hilton stockholder plus interest expense, income tax expense and depreciation and amortization. We evaluate our operating performance using a metric we refer to as Adjusted EBITDA which is defined as net income attributable to Hilton stockholder before interest expense, income tax expense (benefit), depreciation and amortization, as further adjusted to exclude 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 charges; (v) furniture, fixtures and equipment, or FF&E replacement reserves required under certain lease arrangements; (vi) reorganization costs; (vii) share-based and certain other compensation expenses; (viii) severance, relocation and other expenses; and (ix) other items.

EBITDA and Adjusted EBITDA are not recognized terms under generally accepted accounting principles in the United States, or 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 you should not consider such measures either in isolation or as a substitute for profit (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 impact 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.

**Table of Contents**

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.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net income attributable to Hilton stockholder, which we believe is the most closely comparable U.S. GAAP financial measure:

	<b>Nine Months</b>		<b>Year Ended December 31,</b>		
	<b>Ended September 30,</b>		<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>2013</b>	<b>2012</b>	<b>(in millions)</b>		
Net income attributable to Hilton stockholder	\$ 389	\$ 291	\$ 352	\$ 253	\$ 128
Interest expense	401	423	569	643	946
Interest expense included in equity in earnings (losses) from unconsolidated affiliates	10	8	13	12	16
Income tax expense (benefit)	192	166	214	(59)	308
Depreciation and amortization	455	394	550	564	574
Depreciation and amortization included in equity in earnings (losses) from unconsolidated affiliates	23	28	34	48	48
<b>EBITDA</b>	<b>1,470</b>	<b>1,310</b>	<b>1,732</b>	<b>1,461</b>	<b>2,020</b>
Net income (loss) attributable to noncontrolling interest	9	4	7	2	(17)
Loss (gain) on foreign currency transactions	43	(27)	(23)	21	(18)
Gain on debt restructuring <sup>(a)</sup>	29	52	68	57	(789)
	48	48	48	48	48

FF&E replacement reserve <sup>(b)</sup>					
Share-based compensation expense	5	20	50	19	56
Impairment losses		33	54	20	24
Impairment loss included in equity in earnings (losses) from unconsolidated affiliates		4	19	141	6
Other gain, net <sup>(c)</sup>	(5)	(8)	(15)	(19)	(8)
Other adjustment items <sup>(d)</sup>	56	46	64	51	242
<b>Adjusted EBITDA \$</b>	<b>1,607</b>	<b>\$ 1,434</b>	<b>\$ 1,956</b>	<b>\$ 1,753</b>	<b>\$ 1,564</b>

- (a) Represents the gain recognized in our consolidated statement of operations as a result of the debt restructuring in April 2010.
- (b) Represents FF&E replacement reserves established for the benefit of lessors for requisition of capital assets under certain lease agreements.
- (c) Other gain, net includes gains and losses on the dispositions of certain property and equipment and investments in affiliates, as well as a gain related to the restructuring of a capital lease in 2011 and a gain related to the discounted repayment of senior unsecured debt in 2010.
- (d) Represents adjustments for certain legal expenses, severance, and certain guarantee payments. Includes \$150 million of legal settlement expense, including a cash payment of \$75 million, for the year ended December 31, 2010.

**Table of Contents**

**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below and the other information contained in this prospectus, including our consolidated financial statements and the related notes, before you decide whether to purchase our common stock.*

**Risks Relating to Our Business and Industry**

*We are subject to the business, financial and operating risks inherent to the hospitality industry, any of which could reduce our revenues and limit opportunities for growth.*

Our business is subject to a number of business, financial and operating risks inherent to the hospitality industry, including:

significant competition from multiple hospitality providers in all parts of the world;

changes in operating costs, including energy, food, compensation, benefits and insurance;

increases in costs due to inflation that may not be fully offset by price and fee increases in our business;

changes in tax and governmental regulations that influence or set wages, prices, interest rates or construction and maintenance procedures and costs;

the costs and administrative burdens associated with complying with applicable laws and regulations;

the costs or desirability of complying with local practices and customs;

significant increases in cost for health care coverage for employees and potential government regulation with respect to health care coverage;

shortages of labor or labor disruptions;

the availability and cost of capital necessary for us and third-party hotel owners to fund investments, capital expenditures and service debt obligations;

delays in or cancellations of planned or future development or refurbishment projects, which in the case of our managed and franchised hotels and timeshare properties controlled by homeowner associations are



generally not within our control;

the quality of services provided by franchisees;

the financial condition of third-party property owners, developers and joint venture partners;

relationships with third-party property owners, developers and joint venture partners, including the risk that owners may terminate our management, franchise or joint venture agreements;

changes in desirability of geographic regions of the hotels or timeshare resorts in our business, geographic concentration of our operations and customers, and shortages of desirable locations for development;

changes in the supply and demand for hotel services (including rooms, food and beverage, and other products and services) and vacation ownership services and products;

the ability of third-party internet and other travel intermediaries to attract and retain customers; and

decreases that may result in the frequency of business travel as a result of alternatives to in person meetings, including virtual meetings hosted on-line or over private teleconferencing networks.

Any of these factors could increase our costs or limit or reduce the prices we are able to charge for hospitality services and timeshare products, or otherwise affect our ability to maintain existing properties or develop new properties. As a result, any of these factors can reduce our revenues and limit opportunities for growth.

**Table of Contents**

***Macroeconomic and other factors beyond our control can adversely affect and reduce demand for our products and services.***

Macroeconomic and other factors beyond our control can reduce demand for hospitality products and services, including demand for rooms at properties that we manage, franchise, own, lease or develop, as well as demand for timeshare properties. These factors include, but are not limited to:

changes in general economic conditions, including low consumer confidence, unemployment levels, depressed real estate prices resulting from the severity and duration of any downturn in the U.S. or global economy;

war, political conditions or civil unrest, terrorist activities or threats and heightened travel security measures instituted in response to these events;

decreased corporate or government travel-related budgets and spending, as well as cancellations, deferrals or renegotiations of group business such as industry conventions;

statements, actions, or interventions by governmental officials related to travel and corporate travel-related activities and the resulting negative public perception of such travel and activities;

the financial and general business condition of the airline, automotive and other transportation-related industries and its impact on travel, including decreased airline capacity and routes;

conditions which negatively shape public perception of travel, including travel-related accidents and outbreaks of pandemic or contagious diseases, such as avian flu, severe acute respiratory syndrome (SARS) and H1N1 (swine flu);

climate change or availability of natural resources;

natural or man-made disasters, such as earthquakes, tsunamis, tornadoes, hurricanes, typhoons, floods, volcanic eruptions, oil spills and nuclear incidents;

changes in the desirability of particular locations or travel patterns of customers;

cyclical over-building in the hotel and timeshare industries; and

organized labor activities, which could cause a diversion of business from hotels involved in labor negotiations and loss of business for our hotels generally as a result of certain labor tactics.

Any one or more of these factors could limit or reduce overall demand for our products and services or could negatively impact our revenue sources, which could adversely affect our business, financial condition and results of operations.

***Contraction in the global economy or low levels of economic growth could adversely affect our revenues and profitability as well as limit or slow our future growth.***

Consumer demand for our services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Decreased global or regional demand for hospitality products and services can be especially pronounced during periods of economic contraction or low levels of economic growth, and the recovery period in our industry may lag overall economic improvement. Declines in demand for our products and services due to general economic conditions could negatively impact our business by decreasing the revenues and profitability of our owned properties, limiting the amount of fee revenues we are able to generate from our managed and franchised properties, and reducing overall demand for timeshare intervals. In addition, many of the expenses associated with our business, including personnel costs, interest, rent, property taxes, insurance and utilities, are relatively fixed. During a period of overall economic weakness, if we are unable to meaningfully decrease these costs as demand for our hotels and timeshare properties decreases, our business operations and financial performance may be adversely affected.

## **Table of Contents**

***The hospitality industry is subject to seasonal and cyclical volatility, which may contribute to fluctuations in our results of operations and financial condition.***

The hospitality industry is seasonal in nature. The periods during which our lodging properties experience higher revenues vary from property to property, depending principally upon location and the customer base served. We generally expect our revenues to be lower in the first quarter of each year than in each of the three subsequent quarters with the fourth quarter being the highest. In addition, the hospitality industry is cyclical and demand generally follows, on a lagged basis, the general economy. The seasonality and cyclical nature of our industry may contribute to fluctuations in our results of operations and financial condition.

***Because we operate in a highly competitive industry, our revenues or profits could be harmed if we are unable to compete effectively.***

The segments of the hospitality industry in which we operate are subject to intense competition. Our principal competitors are other operators of luxury, full-service and focused-service and timeshare properties, including other major hospitality chains with well-established and recognized brands. We also compete against smaller hotel chains, independent and local hotel owners and operators and independent timeshare operators. If we are unable to compete successfully, our revenues or profits may decline.

### *Competition for hotel guests*

We face competition for individual guests, group reservations and conference business. We compete for these customers based primarily on brand name recognition and reputation, as well as location, room rates, property size and availability of rooms and conference space, quality of the accommodations, customer satisfaction, amenities and the ability to earn and redeem loyalty program points. Our competitors may have greater financial and marketing resources and more efficient technology platforms, which could allow them to improve their properties and expand and improve their marketing efforts in ways that could affect our ability to compete for guests effectively.

### *Competition for management and franchise agreements*

We compete to enter into management and franchise agreements. Our ability to compete effectively is based primarily on the value and quality of our management services, brand name recognition and reputation, our ability and willingness to invest capital, availability of suitable properties in certain geographic areas, and the overall economic terms of our agreements and the economic advantages to the property owner of retaining our management services and using our brands. If the properties that we manage or franchise perform less successfully than those of our competitors, if we are unable to offer terms as favorable as those offered by our competitors, or if the availability of suitable properties is limited, our ability to compete effectively for new management or franchise agreements could be reduced.

### *Competition for sales of timeshare properties*

We compete with other timeshare operators for sales of timeshare intervals based principally on location, quality of accommodations, price, financing terms, quality of service, terms of property use, opportunity for timeshare owners to exchange into time at other timeshare properties or other travel rewards as well as brand name recognition and reputation. Our ability to attract and retain purchasers of timeshare intervals depends on our success in distinguishing the quality and value of our timeshare offerings from those offered by others. If we are unable to do so, our ability to compete effectively for sales of timeshare intervals could be adversely affected.



## **Table of Contents**

***Any deterioration in the quality or reputation of our brands could have an adverse impact on our reputation, business, financial condition or results of operations.***

Our brands and our reputation are among our most important assets. Our ability to attract and retain guests depends, in part, on the public recognition of our brands and their associated reputation. In addition, the success of our hotel owners' businesses and their ability to make payments to us may indirectly depend on the strength and reputation of our brands. Such dependence makes our business susceptible to risks regarding brand obsolescence and to reputational damage. If our brands become obsolete or are viewed as unfashionable or lacking in consistency and quality, we may be unable to attract guests to our hotels, and further we may be unable to attract or retain our hotel owners.

In addition, there are many factors which can negatively affect the reputation of any individual brand, or the overall brand of our company. Changes in ownership or management practices, the occurrence of accidents or injuries, natural disasters, crime, individual guest notoriety, or similar events can have a substantial negative impact on our reputation, create adverse publicity and cause a loss of consumer confidence in our business. Because of the global nature of our brands and the broad expanse of our business and hotel locations, events occurring in one location could have a resulting negative impact on the reputation and operations of otherwise successful individual locations. In addition, the considerable expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such incidents. We could also face legal claims related to these events, along with adverse publicity resulting from such litigation. If the perceived quality of our brands declines, or if our reputation is damaged, our business, financial condition or results of operations could be adversely affected.

***If we are unable to maintain good relationships with third-party hotel owners and renew or enter into new management and franchise agreements, we may be unable to expand our presence and our business, financial condition and results of operations may suffer.***

Our management and franchising business depends on our ability to establish and maintain long-term, positive relationships with third-party property owners and on our ability to renew existing, and enter into new, management and franchise agreements. The management and franchise contracts we enter into with third-party owners are typically long-term arrangements, but may allow the hotel owner to terminate the agreement under certain circumstances, including in certain cases, the failure to meet certain financial or performance criteria. Our ability to meet these financial and performance criteria is subject to, among other things, risks common to the overall hotel industry, including factors outside of our control. In addition, any negative management and franchise pricing trends could adversely affect our ability to negotiate with hotel owners. If we fail to maintain and renew existing management and franchise agreements, and enter into new agreements on favorable terms, we may be unable to expand our presence and our business, financial condition and results of operations may suffer.

***Our management and franchise business is subject to real estate investment risks for third-party owners which could adversely affect our operational results and our prospects for growth.***

The ability to grow our management and franchise business is subject to the range of risks associated with real estate investments. Our ability to sustain continued growth through management and franchise agreements for new hotels and the conversion of existing facilities to managed or franchised branded hotels is affected, and may potentially be limited, by a variety of factors influencing real estate development generally. These include site availability, the availability of financing, planning, zoning and other local approvals. Other limitations that may be imposed by market factors include projected room occupancy, changes in growth in demand compared to projected supply, geographic area restrictions in management and franchise agreements, costs of construction and anticipated room rate structure. Any inability by us or our third-party owners to manage these factors effectively could adversely affect our operational results and our prospects for growth.



## **Table of Contents**

***If our third-party property owners are unable to repay or refinance loans secured by the mortgaged properties, or to obtain financing adequate to fund current operations or growth plans, our revenues, profits and capital resources could be reduced and our business could be harmed.***

Many of the properties owned by our third-party property owners are pledged as collateral for mortgage loans entered into when such properties were purchased or refinanced by them. If our third-party property owners are unable to repay or refinance maturing indebtedness on favorable terms or at all, their lenders could declare a default, accelerate the related debt and repossess the property. Any such repossessions could result in the termination of our management and franchise agreements or eliminate revenues and cash flows from such property, which could negatively affect our business and results of operations. In addition, the owners of managed and franchised hotels depend on financing to buy, develop and improve hotels and in some cases, fund operations during down cycles. Our hotel owners' inability to obtain adequate funding could materially adversely impact the maintenance and improvement plans with respect to existing hotels, as well as result in the delay or stoppage of the development of our existing pipeline.

***If third-party property owners fail to make investments necessary to maintain or improve their properties, guest preference for Hilton brands and reputation and performance results could suffer.***

Substantially all of our management and franchise agreements require third-party property owners to comply with standards that are essential to maintaining the quality and reputation of our branded hotel properties. This includes requirements related to the physical condition, safety standards and appearance of the properties as well as the service levels provided by employees. These standards may evolve with customer preference, or we may introduce new requirements and team members over time. If our property owners fail to make investments necessary to maintain or improve the properties in accordance with such standards, guest preference for our brands could diminish, and this could result in an adverse impact on our results of operations. In addition, if third-party property owners fail to observe standards and meet their contractual requirements, we may elect to exercise our termination rights, which would eliminate revenues from these properties and cause us to incur expenses related to terminating these relationships. We may be unable to find suitable or offsetting replacements for any terminated relationships.

***Contractual and other disagreements with third-party property owners could make us liable to them or result in litigation costs or other expenses.***

Our management and franchise agreements require us and our hotel owners to comply with operational and performance conditions that are subject to interpretation and could result in disagreements. At any given time, we may be in disputes with one or more of our hotel owners. Any such dispute could be very expensive for us, even if the outcome is ultimately in our favor. We cannot predict the outcome of any arbitration or litigation, the effect of any negative judgment against us or the amount of any settlement that we may enter into with any third-party. An adverse result in any of these proceedings could materially adversely affect our results of operations. Furthermore, specific to our industry, some courts have applied principles of agency law and related fiduciary standards to managers of third-party hotel properties, which means that property owners may assert the right to terminate agreements even where the agreements do not expressly provide for termination. In the event of any such termination, our fees from such properties would be eliminated, and accordingly may negatively impact our results of operations.

***We are exposed to the risks resulting from significant investments in owned and leased real estate, which could increase our costs, reduce our profits and limit our ability to respond to market conditions.***

We own or lease a substantial amount of real property as one of our three business segments. Real estate ownership and leasing is subject to various risks which may or may not be applicable to managed or franchised properties, including:



governmental regulations relating to real estate ownership or operations, including tax, environmental, zoning, and eminent domain laws;

**Table of Contents**

changes in market conditions or the area in which real estate is located losing value;

differences in potential civil liability between owners and operators for accidents or other occurrences on owned or leased properties;

the ongoing need for owner-funded capital improvements and expenditures to maintain or upgrade properties;

periodic total or partial closures due to renovations and facility improvements;

risks associated with mortgage debt, including the possibility of default, fluctuating interest rate levels and uncertainties in the availability of replacement financing;

fluctuations in real estate values or potential impairments in the value of our assets; and

the relative illiquidity of real estate compared to some other assets.

The negative impact on profitability and cash flow from declines in revenues is more pronounced in owned properties because we, as the owner, bear the risk of their high fixed-cost structure. Further, during times of economic distress, declining demand and declining earnings often result in declining asset values and we may not be able to sell properties on favorable terms or at all. Accordingly, we may not be able to adjust our owned property portfolio promptly in response to changes in economic or other conditions.

***Our efforts to develop, redevelop or renovate our owned and leased properties could be delayed or become more expensive, which could reduce revenues or impair our ability to compete effectively.***

Certain of our owned and leased properties were constructed more than a century ago. The condition of aging properties could negatively impact our ability to attract guests or result in higher operating and capital costs, either of which could reduce revenues or profits from these properties. While we have budgeted for replacements and repairs to furniture, fixtures and hotel equipment at our properties there can be no assurance that these replacements and repairs will occur, or even if completed, will result in improved performance. In addition, these efforts are subject to a number of risks, including:

construction delays or cost overruns (including labor and materials) that may increase project costs;

obtaining zoning, occupancy, and other required permits or authorizations;

changes in economic conditions that may result in weakened or lack of demand or negative project returns;

governmental restrictions on the size or kind of development;

volatility in the debt and capital markets that may limit our ability to raise capital for projects or improvements;

lack of availability of rooms or meeting spaces for revenue-generating activities during construction, modernization or renovation projects;

force majeure events, including earthquakes, tornadoes, hurricanes, floods or tsunamis; and

design defects that could increase costs.

If our properties are not updated to meet guest preferences, if properties under development or renovation are delayed in opening as scheduled, or if renovation investments adversely affect or fail to improve performance, our operations and financial results could be negatively impacted.

***Our properties may not be permitted to be rebuilt if destroyed.***

Certain of our properties may qualify as legally permissible nonconforming uses and improvements, including certain of our iconic and most profitable properties. If a substantial portion of any such properties were

## **Table of Contents**

to be destroyed by fire or other casualty, we might not be permitted to rebuild that property as it now exists, regardless of the availability of insurance proceeds. Any loss of this nature, whether insured or not, could materially adversely affect our results of operations and prospects.

***We share control in joint venture projects, which limits our ability to manage third-party risks associated with these projects.***

Joint venturers often have shared control over the operation of our joint venture assets. In most cases, we are minority participants and do not control the decisions of the ventures. Therefore, joint venture investments may involve risks such as the possibility that a co-venturer in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. In addition, we may be unable to take action without the approval of our joint venture partners, or our joint venture partners could take actions binding on the joint venture without our consent. Consequently, actions by a co-venturer or other third-party could expose us to claims for damages, financial penalties and reputational harm, any of which could have an adverse effect on our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or co-venturer or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture or other co-venturers. Such a guarantee or indemnity may be on a joint and several basis with a co-venturer, in which case we may be liable in the event such co-venturer defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations.

Preparing our financial statements requires us to have access to information regarding the results of operations, financial position and cash flows of our joint ventures. Any deficiencies in our joint ventures' internal controls over financial reporting may affect our ability to report our financial results accurately or prevent or detect fraud. Such deficiencies also could result in restatements of, or other adjustments to, our previously reported or announced operating results, which could diminish investor confidence and reduce the market price for our shares. Additionally, if our joint ventures are unable to provide this information for any meaningful period or fail to meet expected deadlines, we may be unable to satisfy our financial reporting obligations or timely file our periodic reports.

Although our joint ventures may generate positive cash flow, in some cases they may be unable to distribute that cash to the joint venture partners. Additionally, in some cases our joint venture partners control distributions and may choose to leave capital in the joint venture rather than distribute it. Because our ability to generate liquidity from our joint ventures depends in part on their ability to distribute capital to us, our failure to receive distributions from our joint venture partners could reduce our return on these investments.

***The timeshare business is subject to extensive regulation and failure to comply with such regulation may have an adverse impact on our business.***

We develop, manage, market and sell timeshare intervals. Certain of these activities are subject to extensive state regulation in both the state in which the timeshare property is located and the states in which the timeshare property is marketed and sold. Federal regulation of certain marketing practices also applies. In addition, we provide financing to some purchasers of timeshare intervals and we also service the resulting loans. This practice subjects us to various federal and state regulations, including those which require disclosure to borrowers regarding the terms of their loans as well as settlement, servicing and collection of loans. If we fail to comply with applicable federal, state, and local laws in connection with our timeshare business, we may not be able to offer timeshare intervals or associated financing in certain areas, and as a result, the timeshare business could suffer a decline in revenues.



**Table of Contents**

***A decline in timeshare interval inventory or our failure to enter into and maintain timeshare management agreements may have an adverse effect on our business or results of operations.***

In addition to timeshare interval inventory from our owned timeshare properties, we source inventory through sales and marketing agreements with third-party developers. If we fail to develop timeshare properties or are unsuccessful in entering into new agreements with third-party developers, we may experience a decline in timeshare interval inventory available to be sold by us, which could result in a decrease in our revenues. In addition, a decline in timeshare interval inventory could result in both a decrease of financing revenues that are generated from purchasers of timeshare intervals and fee revenues that are generated by providing management services to the timeshare properties.

***If purchasers default on the loans that we provide to finance their purchases of timeshare intervals, the revenues and profits that we derive from the timeshare business could be reduced.***

Providing secured financing to some purchasers of timeshare intervals subjects us to the risk of purchaser default. As of September 30, 2013, we had approximately \$994 million of timeshare financing receivables outstanding. If a purchaser defaults under the financing that we provide, we could be forced to write off the loan and reclaim ownership of the timeshare interval through foreclosure or deed in lieu of foreclosure. If the timeshare interval has declined in value, we may incur impairment losses that reduce our profits. In addition, we may be unable to resell the property in a timely manner or at the same price, or at all. Also, if a purchaser of a timeshare interval defaults on the related loan during the early part of the amortization period, we may not have recovered the marketing, selling and general and administrative costs associated with the sale of that timeshare interval. If we are unable to recover any of the principal amount of the loan from a defaulting purchaser, or if the allowances for losses from such defaults are inadequate, the revenues and profits that we derive from the timeshare business could be reduced.

***Some of our existing development pipeline may not be developed into new hotels, which could materially adversely affect our growth prospects.***

As of September 30, 2013, we had a total of 1,069 hotels in our development pipeline, which we define as hotels under construction or approved for development under one of our brands. The commitments of owners and developers with whom we have agreements are subject to numerous conditions, and the eventual development and construction of our pipeline not currently under construction is subject to numerous risks, including, in certain cases, obtaining governmental and regulatory approvals and adequate financing. As a result, we cannot assure you that our entire development pipeline will develop into new hotels.

***New brands or services that we launch in the future may not be as successful as we anticipate, which could have a material adverse effect on our business, financial condition or results of operations.***

We opened our first Home2 Suites by Hilton hotel in 2011 and we launched our eforea spa concept in 2010. We may launch additional branded hotel products and services in the future. We cannot assure you that any new hotel products we launch will be accepted by hotel owners, franchisees or customers, that we will recover the costs we incurred in developing the brands, or that the brands, products or services will be successful. If new branded hotel products and services are not as successful as we anticipate, it could have a material adverse effect on our business, financial condition or results of operations.

***We may seek to expand through acquisitions of and investments in other businesses and properties, or through alliances, and we may also seek to divest some of our properties and other assets. These acquisition and disposition activities may be unsuccessful or divert management's attention.***

We may consider strategic and complementary acquisitions of and investments in other hotel or hospitality brands, businesses, properties or other assets. Furthermore, we may pursue these opportunities in alliance with existing or prospective owners of managed or franchised properties. In many cases, we will be competing for

## Table of Contents

these opportunities with third parties that may have substantially greater financial resources than us. Acquisitions or investments in brands, businesses, properties or assets as well as these alliances are subject to risks that could affect our business, including risks related to:

issuing shares of stock that could dilute the interests of our existing stockholders;

spending cash and incurring debt;

assuming contingent liabilities; or

creating additional expenses.

We cannot assure you that we will be able to identify opportunities or complete transactions on commercially reasonable terms or at all or that we will actually realize any anticipated benefits from such acquisitions, investments or alliances. Similarly, we cannot assure you that we will be able to obtain financing for acquisitions or investments on attractive terms or at all or that the ability to obtain financing will not be restricted by the terms of our indebtedness. In addition, the success of any acquisitions or investments also will depend, in part, on our ability to integrate the acquisition or investment with our existing operations.

We may also divest certain properties or assets, and any such divestments may yield lower than expected returns. In some circumstances, sales of properties or other assets may result in losses. Upon a sale of properties or assets, we may become subject to contractual indemnity obligations, incur material tax liabilities or, as a result of required debt repayment, face a shortage of liquidity. Finally, any acquisitions, investments or dispositions could demand significant attention from management that would otherwise be available for business operations, which could harm our business.

### ***Failure to keep pace with developments in technology could adversely affect our operations or competitive position.***

The hospitality industry demands the use of sophisticated technology and systems for property management, brand assurance and compliance, procurement, reservation systems, operation of our customer loyalty programs, distribution of hotel resources to current and future customers, and guest amenities. These technologies may require refinements and upgrades. The development and maintenance of these technologies may require significant investment by us. We cannot assure you that as various systems and technologies become outdated or new technology is required, we will be able to replace or introduce them as quickly as needed or in a cost-effective and timely manner. We also cannot assure you that we will achieve the benefits we may have been anticipating from any new technology or system.

### ***Failures in, material damage to, or interruptions in our information technology systems, software or websites, including as a result of cyber-attacks, and difficulties in updating our existing software or developing or implementing new software could have a material adverse effect on our business or results of operations.***

We depend heavily upon our information technology systems in the conduct of our business. We own and license or otherwise contract for sophisticated technology and systems for property management, procurement, reservations and the operation of the Hilton HHonors customer loyalty program. Such systems are subject to, among other things, damage or interruption from power outages, computer and telecommunications failures, computer viruses, and natural and man-made disasters. In particular, from time to time we and third parties who serve us experience cyber-attacks,



attempted breaches of our or their information technology systems and networks or similar events, which could result in a loss of sensitive business or customer information, systems interruption or the disruption of our operations. For example, in 2011 we were notified by Epsilon, our database marketing vendor, that we were among a group of companies served by Epsilon that were affected by a data breach that resulted in an unauthorized third party gaining access to Epsilon's files that included names and e-mails of certain of our customers. In addition, substantially all of our data center operations are currently located in a single facility, and any loss or damage to the facility could result in operational disruption and data loss.

## **Table of Contents**

Damage or interruption to our information systems may require a significant investment to update, remediate or replace with alternate systems, and we may suffer interruptions in our operations as a result. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations. Any material interruptions or failures in our systems, including those that may result from our failure to adequately develop, implement and maintain a robust disaster recovery plan and backup systems could severely affect our ability to conduct normal business operations and, as a result, have a material adverse effect on our business operations and financial performance.

We rely on third parties for the performance of a significant portion of our information technology functions worldwide and the provision of information technology and business process services. In particular, our reservation system relies on data communications networks operated by unaffiliated third parties. The success of our business depends in part on maintaining our relationships with these third parties and their continuing ability to perform these functions and services in a timely and satisfactory manner. If we experience a loss or disruption in the provision of any of these functions or services, or they are not performed in a satisfactory manner, we may have difficulty in finding alternate providers on terms favorable to us, in a timely manner or at all, and our business could be adversely affected.

We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner.

We are vulnerable to various risks and uncertainties associated with our websites and mobile applications, including changes in required technology interfaces, website and mobile application downtime and other technical failures, costs and issues as we upgrade our website software and mobile applications. Additional risks include computer viruses, changes in applicable federal and state regulation, security breaches, legal claims related to our website operations and e-commerce fulfillment and other consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce website and mobile application sales and have a material adverse effect on our business or results of operations.

### ***We may be exposed to risks and costs associated with protecting the integrity and security of our guests' personal information.***

We are subject to various risks associated with the collection, handling, storage and transmission of sensitive information, including risks related to compliance with U.S. and foreign data collection and privacy laws and other contractual obligations, as well as the risk that our systems collecting such information could be compromised. In the course of doing business, we collect large volumes of internal and customer data, including credit card numbers and other personally identifiable information for various business purposes, including managing our workforce, providing requested products and services, and maintaining guest preferences to enhance customer service and for marketing and promotion purposes. Our various information technology systems enter, process, summarize and report such data. If we fail to maintain compliance with the various U.S. and foreign data collection and privacy laws or with credit card industry standards or other applicable data security standards, we could be exposed to fines, penalties, restrictions, litigation or other expenses, and our business could be adversely impacted.

In addition, even if we are fully compliant with legal standards and contractual requirements, we still may not be able to prevent security breaches involving sensitive data. The sophistication of efforts by hackers to gain unauthorized

access to information systems has increased in recent years. Any breach, theft, loss, or fraudulent use of customer, employee or company data could cause consumers to lose confidence in the security of our

## **Table of Contents**

websites, mobile applications and other information technology systems and choose not to purchase from us. Any such security breach could expose us to risks of data loss, business disruption, litigation and other liability, any of which could adversely affect our business.

In addition, states and the federal government have recently enacted additional laws and regulations to protect consumers against identity theft. These laws and similar laws in other jurisdictions have increased the costs of doing business and, if we fail to implement appropriate safeguards or we fail to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies. If we were required to pay any significant amounts in satisfaction of claims under these laws, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such law, our business, operating results and financial condition could be adversely affected.

### ***Failure to comply with marketing and advertising laws, including with regard to direct marketing, could result in fines or place restrictions on our business.***

We rely on a variety of direct marketing techniques, including telemarketing, email marketing and postal mailings, and we are subject to various laws and regulations in the U.S. and internationally which govern marketing and advertising practices. Any further restrictions in laws, such as the Telephone Consumer Protection Act of 1991, the Telemarketing Sales Rule, CAN-SPAM Act of 2003, and various U.S. state laws, new laws, or international data protection laws, such as the EU member states' implementation of proposed privacy regulation, that govern these activities could adversely affect current or planned marketing activities and cause us to change our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could impact our ability to maintain relationships with our customers and acquire new customers. We also obtain access to names of potential customers from travel service providers or other companies and we market to some individuals on these lists directly or through other companies' marketing materials. If access to these lists was prohibited or otherwise restricted, our ability to develop new customers and introduce them to products could be impaired.

### ***The growth of internet reservation channels could adversely affect our business and profitability.***

A significant percentage of hotel rooms for individual guests is booked through internet travel intermediaries. We contract with such intermediaries and pay them various commissions and transaction fees for sales of our rooms through their systems. If such bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant concessions from us or our franchisees. Although we have established agreements with many of these intermediaries that limit transaction fees for hotels, there can be no assurance that we will be able to renegotiate these agreements upon their expiration with terms as favorable as the provisions that existed before the expiration, replacement or renegotiation. Moreover, hospitality intermediaries generally employ aggressive marketing strategies, including expending significant resources for online and television advertising campaigns to drive consumers to their websites. As a result, consumers may develop brand loyalties to the intermediaries' offered brands, websites and reservations systems rather than to the Hilton brands and systems. If this happens, our business and profitability may be significantly impacted as shifting customer loyalties divert bookings away from our websites.

In addition, in general, internet travel intermediaries have traditionally competed to attract individual consumers or transient business rather than group and convention business. However, hospitality intermediaries have recently grown their business to include marketing to large group and convention business. If that growth continues, it could both divert group and convention business away from our hotels, and it could also increase our cost of sales for group and convention business.

Recent class action litigation against several online travel intermediaries and lodging companies, including Hilton, challenges the legality under certain antitrust laws of certain provisions in contracts and alleged practices with third-party intermediaries. While we are vigorously defending the litigation, and believe the contract

## **Table of Contents**

provisions are lawful, the courts will ultimately determine this issue. Our fees and expenses associated with this litigation, even if we ultimately prevail, could be material. Any adverse outcome could require us to alter our business arrangements with these intermediaries, and consequently could have a negative impact on our financial condition and results of operations.

***Our reservation system is an important component of our business operations and a disruption to its functioning could have an adverse effect on our performance and results.***

We manage a global reservation system that communicates reservations to our branded hotels when made by individuals directly, either online or by telephone to our call centers, or through intermediaries like travel agents, internet travel web sites and other distribution channels. The cost, speed, efficacy and efficiency of the reservation system are important aspects of our business and is an important consideration of hotel owners in choosing to affiliate with our brands. Any failure to maintain or upgrade, and any other disruption to our reservation system may adversely affect our business.

***The cessation, reduction or taxation of program benefits of our Hilton HHonors loyalty program could adversely affect the Hilton brands and guest loyalty.***

We manage the Hilton HHonors guest loyalty and rewards program for the Hilton brands. Program members accumulate points based on eligible stays and hotel charges and redeem the points for a range of benefits including free rooms and other items of value. The program is an important aspect of our business and of the affiliation value for hotel owners under management and franchise agreements. System hotels (including, without limitation, third-party hotels under management and franchise arrangements) contribute a percentage of the guest's charges to the program for each stay of a program member. In addition to the accumulation of points for future hotels stays at our brands, Hilton HHonors arranges with third-party service providers such as airlines and rail companies to exchange monetary value represented by points for program awards. Currently, the program benefits are not taxed as income to members. If the program awards and benefits are materially altered, curtailed or taxed such that a material number of HHonors members choose to no longer participate in the program, this could adversely affect our business.

***Because we derive a portion of our revenues from operations outside the United States, the risks of doing business internationally could lower our revenues, increase our costs, reduce our profits or disrupt our business.***

We currently manage, franchise, own or lease hotels and resorts in 90 countries around the world. Our operations outside the United States represented approximately 27% and 26% of our revenues for the year ended December 31, 2012 and the nine months ended September 30, 2013, respectively. We expect that revenues from our international operations will continue to account for an increasing portion of our total revenues. As a result, we are subject to the risks of doing business outside the United States, including:

rapid changes in governmental, economic and political policy, political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation;

increases in anti-American sentiment and the identification of the licensed brands as an American brand;

recessionary trends or economic instability in international markets;

changes in foreign currency exchange rates or currency restructurings and hyperinflation or deflation in the countries in which we operate;

the effect of disruptions caused by severe weather, natural disasters, outbreak of disease or other events that make travel to a particular region less attractive or more difficult;

the presence and acceptance of varying levels of business corruption in international markets and the impact of various anti-corruption and other laws;

**Table of Contents**

the imposition of restrictions on currency conversion or the transfer of funds or limitations on our ability to repatriate non-U.S. earnings in a tax efficient manner;

the ability to comply with or impact of complying with complex and changing laws, regulations and policies of foreign governments that may affect investments or operations, including foreign ownership restrictions, import and export controls, tariffs, embargoes, increases in taxes paid and other changes in applicable tax laws;

uncertainties as to local laws and enforcement of contract and intellectual property rights;

forced nationalization of our properties by local, state or national governments; and

the difficulties involved in managing an organization doing business in many different countries.

These factors may adversely affect the revenues from and the market value of our properties located in international markets. While these factors and the impact of these factors are difficult to predict, any one or more of them could lower our revenues, increase our costs, reduce our profits or disrupt our business operations.

***Failure to comply with laws and regulations applicable to our international operations may increase costs, reduce profits, limit growth or subject us to broader liability.***

Our business operations in countries outside the U.S. are subject to a number of laws and regulations, including restrictions imposed by the Foreign Corrupt Practices Act, or FCPA, as well as trade sanctions administered by the Office of Foreign Assets Control, or OFAC. The FCPA is intended to prohibit bribery of foreign officials and requires companies whose securities are listed in the U.S. to keep books and records that accurately and fairly reflect those companies' transactions and to devise and maintain an adequate system of internal accounting controls. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. We have policies in place designed to comply with applicable sanctions, rules and regulations. Given the nature of our business, it is possible that hotels we own or manage in the 90 countries and territories in which we operate may provide services to persons subject to sanctions. Where we have identified potential violations in the past, we have taken appropriate remedial action including filing voluntary disclosures to OFAC. In addition, some of our operations may be subject to the laws and regulations of non-U.S. jurisdictions, including the U.K.'s Bribery Act 2010, which contains significant prohibitions on bribery and other corrupt business activities, and other local anti-corruption laws in the countries in which we conduct operations.

If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, and incarceration of employees or restrictions on our operation or ownership of hotels and other properties, including the termination of management, franchising, and ownership rights. In addition, in certain circumstances, the actions of parties affiliated with us (including our owners, joint venture partners, team members and agents) may expose us to liability under the FCPA, U.S. sanctions or other laws. These restrictions could increase costs of operations, reduce profits or cause us to forgo development opportunities that would otherwise support growth.

In August 2012, Congress enacted the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRSHRA, which expands the scope of U.S. sanctions against Iran and Syria. In particular, Section 219 of the ITRSHRA



amended the Securities Exchange Act of 1934, as amended, or Exchange Act, to require companies subject to Securities and Exchange Commission, or SEC, reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain OFAC sanctions engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRSHRA requires companies to disclose these types of transactions even if they would otherwise be permissible under U.S. law. These companies are required to separately file with the SEC a notice that such activities have been disclosed in the relevant periodic report, and the SEC is required to post this notice of disclosure on its website and send the report to the U.S. President

## **Table of Contents**

and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation with respect to certain disclosed activities, to determine whether sanctions should be imposed.

Under ITRSHRA, we will be required to report if we or any of our affiliates knowingly engaged in certain specified activities during a period covered by one of our annual reports on Form 10-K or quarterly reports on Form 10-Q. We have engaged in, and may in the future engage in, activities that would require disclosure pursuant to Section 219 of ITRSHRA, including the activities discussed in the disclosures included on Exhibit 99.1 to the registration statement of which this prospectus forms a part, which disclosures are hereby incorporated by reference herein. In addition, because the SEC defines the term affiliate broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us. Because we may be deemed to be a controlled affiliate of Blackstone, affiliates of Blackstone may also be considered our affiliates. Other affiliates of Blackstone have in the past and may in the future be required to make disclosures pursuant to ITRSHRA. Disclosure of such activities, even if such activities are permissible under applicable law, and any sanctions imposed on us or our affiliates as a result of these activities could harm our reputation and brands and have a negative impact on our results of operations.

***The loss of senior executives or key field personnel, such as general managers, could significantly harm our business.***

Our ability to maintain our competitive position depends somewhat on the efforts and abilities of our senior executives. Finding suitable replacements for senior executives could be difficult. Losing the services of one or more of these senior executives could adversely affect strategic relationships, including relationships with third-party property owners, joint venture partners and vendors, and limit our ability to execute our business strategies.

We also rely on the general managers at each of our managed, owned, leased and joint venture hotels to manage daily operations and oversee the efforts of team members. These general managers are trained professionals in the hospitality industry and have extensive experience in many markets worldwide. The failure to retain, train or successfully manage general managers for our managed, owned, leased and joint venture hotels could negatively affect our operations.

***Collective bargaining activity could disrupt our operations, increase our labor costs or interfere with the ability of our management to focus on executing our business strategies.***

A significant number of our employees (approximately 27%) and employees of our hotel owners are covered by collective bargaining agreements and similar agreements. If relationships with our employees or employees of our hotel owners or the unions that represent them become adverse, the properties we manage, franchise or own could experience labor disruptions such as strikes, lockouts, boycotts and public demonstrations. A number of our collective bargaining agreements, representing approximately 6% of our organized employees, have expired and are in the process of being renegotiated, and we may be required to negotiate additional collective bargaining agreements in the future if more employees become unionized. Labor disputes, which may be more likely when collective bargaining agreements are being negotiated, could harm our relationship with our employees or employees of our hotel owners, result in increased regulatory inquiries and enforcement by governmental authorities and deter guests. Further, adverse publicity related to a labor dispute could harm our reputation and reduce customer demand for our services. Labor regulation and the negotiation of new or existing collective bargaining agreements could lead to higher wage and benefit costs, changes in work rules that raise operating expenses, legal costs, and limitations on our ability or the ability of our third-party property owners to take cost saving measures during economic downturns. We do not have the ability to control the negotiations of collective bargaining agreements covering unionized labor employed by many third-party property owners. Increased unionization of our workforce, new labor legislation or changes in regulations

could disrupt our operations, reduce our profitability, or interfere with the ability of our management to focus on executing our business strategies.

**Table of Contents**

***Labor shortages could restrict our ability to operate our properties or grow our business or result in increased labor costs that could adversely affect our results of operations.***

Our success depends in large part on our ability to attract, retain, train, manage, and engage employees. Our managed, owned, leased and joint venture hotels are staffed by approximately 151,000 team members around the world. If we are unable to attract, retain, train, manage, and engage skilled employees, our ability to manage and staff the managed, owned, leased and joint venture hotels could be impaired, which could reduce customer satisfaction. In addition, the inability of our franchisees to attract, retain, train, manage, and engage skilled employees for the franchised hotels could adversely affect the reputation of our brands. Staffing shortages in various parts of the world also could hinder our ability to grow and expand our businesses. Because payroll costs are a major component of the operating expenses at our hotels and our franchised hotels, a shortage of skilled labor could also require higher wages that would increase labor costs, which could adversely affect our results of operations.

***Any failure to protect our trademarks and other intellectual property could reduce the value of the Hilton brands and harm our business.***

The recognition and reputation of our brands are important to our success. We have over 4,000 trademark registrations in jurisdictions around the world for use in connection with our services. At any given time, we also have a number of pending applications to register trademarks and other intellectual property in the U.S. and other jurisdictions. However, we cannot assure you that those trademark or other intellectual property registrations will be granted or that the steps we take to use, control or protect our trademarks or other intellectual property in the U.S. and other jurisdictions will always be adequate to prevent third parties from copying or using the trademarks or other intellectual property without authorization. We may also fail to obtain and maintain trademark protection for all of our brands in all jurisdictions. For example, in certain jurisdictions, third parties have registered or otherwise have the right to use certain trademarks that are the same as or similar to our trademarks, which could prevent us from registering trademarks and opening hotels in that jurisdiction. Third parties may also challenge our rights to certain trademarks or oppose our trademark applications. Defending against any such proceedings may be costly, and if unsuccessful, could result in the loss of important intellectual property rights. Obtaining and maintaining trademark protection for multiple brands in multiple jurisdictions is also expensive, and we may therefore elect not to apply for or to maintain certain trademarks.

Our intellectual property is also vulnerable to unauthorized copying or use in some jurisdictions outside the U.S., where local law, or lax enforcement of law, may not provide adequate protection. If our trademarks or other intellectual property are improperly used, the value and reputation of the Hilton brands could be harmed. There are times where we may need to resort to litigation to enforce our intellectual property rights. Litigation of this type could be costly, force us to divert our resources, lead to counterclaims or other claims against us or otherwise harm our business or reputation. In addition, we license certain of our trademarks to third parties. For example, we grant our franchisees a right to use certain of our trademarks in connection with their operation of the applicable property. If a franchisee or other licensee fails to maintain the quality of the goods and services used in connection with the licensed trademarks, our rights to, and the value of, our trademarks could potentially be harmed. Failure to maintain, control and protect our trademarks and other intellectual property could likely adversely affect our ability to attract guests or third-party owners, and could adversely impact our results.

In addition, we license the right to use certain intellectual property from unaffiliated third parties. Such rights include the right to grant sublicenses to franchisees. If we are unable to use such intellectual property, our ability to generate revenue from such properties may be diminished.

***Third-party claims that we infringe intellectual property rights of others could subject us to damages and other costs and expenses.***

Third parties may make claims against us for infringing their patent, trademark, copyright or other intellectual property rights or for misappropriating their trade secrets. We have been and are currently party to a

**Table of Contents**

number of such claims and may receive additional claims in the future. Any such claims, even those without merit, could:

be expensive and time consuming to defend, and result in significant damages;

force us to stop using the intellectual property that is being challenged or to stop providing products or services that use the challenged intellectual property;

force us to redesign or rebrand our products or services;

require us to enter into royalty, licensing, co-existence or other agreements to obtain the right to use a third party's intellectual property;

divert management's attention and resources; and

limit the use or the scope of our intellectual property or other rights.

In addition, we may be required to indemnify third-party owners of the hotels that we manage for any losses they incur as a result of any infringement claims against them. All necessary royalty, licensing or other agreements may not be available to us on acceptable terms. Any adverse results associated with third-party intellectual property claims could negatively impact our business.

***Exchange rate fluctuations and foreign exchange hedging arrangements could result in significant foreign currency gains and losses and impact our business results.***

Conducting business in currencies other than the U.S. dollar subjects us to fluctuations in currency exchange rates that could have a negative impact on financial results. We earn revenues and incur expenses in foreign currencies as part of our operations outside of the U.S. As a result, fluctuations in currency exchange rates may significantly increase the amount of U.S. dollars required for foreign currency expenses or significantly decrease the U.S. dollars received from foreign currency revenues. We also have exposure to currency translation risk because, generally, the results of our business outside of the U.S. are reported in local currency and then translated to U.S. dollars for inclusion in our consolidated financial statements. As a result, changes between the foreign exchange rates and the U.S. dollar will affect the recorded amounts of our foreign assets, liabilities, revenues and expenses and could have a negative impact on financial results. Our exposure to foreign currency exchange rate fluctuations will grow if the relative contribution of our operations outside the U.S. increases.

To attempt to mitigate foreign currency exposure, we may enter into foreign exchange hedging agreements with financial institutions to reduce certain of our exposures to fluctuations in currency exchange rates. However, these hedging agreements may not eliminate foreign currency risk entirely and involve costs and risks of their own in the form of transaction costs, credit requirements and counterparty risk.

***If the insurance that we or our owners carry does not sufficiently cover damage or other potential losses or liabilities to third parties involving properties that we manage, franchise or own, our profits could be reduced.***

We operate in certain areas where the risk of natural disaster or other catastrophic losses vary, and the occasional incidence of such an event could cause substantial damage to us, our owners or the surrounding area. We carry, and we require our owners to carry, insurance from solvent insurance carriers that we believe is adequate for foreseeable first- and third-party losses and with terms and conditions that are reasonable and customary. Nevertheless, market forces beyond our control could limit the scope of the insurance coverage that we and our owners can obtain or which may otherwise restrict our or our owners' ability to buy insurance coverage at reasonable rates. In the event of a substantial loss, the insurance coverage that we and/or our owners carry may not be sufficient to pay the full value of our financial obligations, our liabilities or the replacement cost of any lost investment or property. Because certain types of losses are uncertain, they can be uninsurable or prohibitively expensive. In addition, there are other risks that may fall outside the general coverage terms and limits of our policies.

## **Table of Contents**

In some cases, these factors could result in certain losses being completely uninsured. As a result, we could lose some or all of the capital we have invested in a property, as well as the anticipated future revenues, profits, management fees or franchise fees from the property.

### ***Terrorism insurance may not be available at all or at commercially reasonable rates.***

Following the September 11, 2001 terrorist attacks in New York City and the Washington, D.C. area, Congress passed the Terrorism Risk Insurance Act of 2002, which established the Terrorism Insurance Program to provide insurance capacity for terrorist acts. On December 26, 2007, the Terrorism Insurance Program was extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007 through December 31, 2014, or TRIPRA. We carry, and we require our owners and our franchisees to carry, insurance from solvent insurance carriers to respond to both first-party and third-party liability losses related to terrorism. We purchase our first-party property damage and business interruption insurance from a stand-alone market in place of and to supplement insurance from government run pools. If TRIPRA is not extended or renewed upon its expiration in 2014, premiums for terrorism insurance coverage will likely increase and/or the terms of such insurance may be materially amended to increase stated exclusions or to otherwise effectively decrease the scope of coverage available, perhaps to the point where it is effectively unavailable.

### ***Terrorist attacks and military conflicts may adversely affect the hospitality industry.***

The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 underscore the possibility that large public facilities or economically important assets could become the target of terrorist attacks in the future. In particular, properties that are well-known or are located in concentrated business sectors in major cities may be subject to the risk of terrorist attacks.

The occurrence or the possibility of terrorist attacks or military conflicts could:

cause damage to one or more of our properties that may not be fully covered by insurance to the value of the damages;

cause all or portions of affected properties to be shut down for prolonged periods, resulting in a loss of income;

generally reduce travel to affected areas for tourism and business or adversely affect the willingness of customers to stay in or avail themselves of the services of the affected properties;

expose us to a risk of monetary claims arising out of death, injury or damage to property caused by any such attacks; and

result in higher costs for security and insurance premiums or diminish the availability of insurance coverage for losses related to terrorist attacks, particularly for properties in target areas, all of which could adversely affect our results.



Certain of our buildings are also highly profitable properties to our business. In addition to the impacts noted above, the occurrence of a terrorist attack with respect to one of these properties could directly and materially adversely affect our results of operations. Furthermore, the loss of any of our well-known buildings could indirectly impact the value of our brands, which would in turn adversely impact our business prospects.

***Changes in U.S. federal, state and local or foreign tax law, interpretations of existing tax law, or adverse determinations by tax authorities, could increase our tax burden or otherwise adversely affect our financial condition or results of operations.***

We are subject to taxation at the federal, state or provincial and local levels in the U.S. and various other countries and jurisdictions. Our future effective tax rate could be affected by changes in the composition of

## **Table of Contents**

earnings in jurisdictions with differing tax rates, changes in statutory rates and other legislative changes, changes in the valuation of our deferred tax assets and liabilities, or changes in determinations regarding the jurisdictions in which we are subject to tax. From time to time, the U.S. federal, state and local and foreign governments make substantive changes to tax rules and their application, which could result in materially higher corporate taxes than would be incurred under existing tax law and could adversely affect our financial condition or results of operations.

We record tax expense based in part on our estimates of expected future tax rates, reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets, including net operating loss carryforwards.

We are subject to ongoing and periodic tax audits and disputes in various state, local and foreign jurisdictions. In particular, our consolidated U.S. federal income tax returns for the fiscal years ended December 31, 2006 and October 24, 2007 are under audit by the Internal Revenue Service, or IRS, and the IRS has proposed adjustments to increase our taxable income based on several assertions involving intercompany loans, our Hilton HHonors guest loyalty and reward program and our foreign-currency denominated loans issued by one of our subsidiaries. In total, the proposed adjustments sought by the IRS would result in U.S. federal tax owed of approximately \$695 million, excluding interest and penalties and potential state income taxes. We disagree with the IRS's position on each of the assertions and intend to vigorously contest them. See Note 18: Income Taxes in our audited consolidated financial statements included elsewhere in this prospectus for additional information. An unfavorable outcome from any tax audit could result in higher tax costs, penalties and interest, thereby adversely impacting our financial condition or results of operations.

### ***Changes to accounting rules or regulations may adversely affect our financial condition and results of operations.***

New accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. A change in accounting rules or regulations may even affect our reporting of transactions completed before the change is effective, and future changes to accounting rules or regulations or the questioning of current accounting practices may adversely affect our financial condition and results of operations. For example, in 2013, the Financial Accounting Standards Board, or FASB, issued a revised exposure draft outlining proposed changes to current lease accounting in FASB Accounting Standards Codification Topic 840, *Leases*. The proposed accounting standards update, if ultimately adopted in its current form, could result in significant changes to current accounting, including the capitalization of leases on the balance sheet that currently are recorded off balance sheet as operating leases. While this change would not impact the cash flow related to our leased hotels and other leased assets, it could adversely impact our balance sheet and could therefore impact our ability to raise financing from banks or other sources.

### ***Changes to estimates or projections used to assess the fair value of our assets, or operating results that are lower than our current estimates at certain locations, may cause us to incur impairment charges that could adversely affect our results of operations.***

Our total assets include goodwill, intangible assets with an indefinite life, other intangible assets with finite useful lives, and substantial amounts of long-lived assets, principally property and equipment, including hotel properties. We evaluate our goodwill and trademarks for impairment on an annual basis or at other times during the year if events or circumstances indicate that it is more likely than not that the fair value is below the carrying value. We evaluate intangible assets with finite useful lives and long-lived assets for impairment when circumstances indicate that the carrying amount may not be recoverable. Our evaluation of impairment requires us to make certain estimates and assumptions including projections of future results. After performing our evaluation for impairment, including an analysis to determine the recoverability of long-lived assets, we will record an impairment loss when the carrying

value of the underlying asset, asset group or reporting unit exceeds its fair value. If the estimates or assumptions used in our evaluation of impairment change, we may be required to

## **Table of Contents**

record additional impairment losses on certain of these assets. If these impairment losses are significant, our results of operations would be adversely affected.

### ***Governmental regulation may adversely affect the operation of our properties.***

In many jurisdictions, the hotel industry is subject to extensive foreign or U.S. federal, state and local governmental regulations, including those relating to the service of alcoholic beverages, the preparation and sale of food and those relating to building and zoning requirements. We are also subject to licensing and regulation by foreign or U.S. state and local departments relating to health, sanitation, fire and safety standards, and to laws governing their relationships with employees, including minimum wage requirements, overtime, working conditions and citizenship requirements. We or our third-party owners may be required to expend funds to meet foreign or U.S. federal, state and local regulations in connection with the continued operation or remodeling of certain of our properties. The failure to meet the requirements of applicable regulations and licensing requirements, or publicity resulting from actual or alleged failures, could have an adverse effect on our results of operations.

### ***Foreign or U.S. environmental laws and regulations may cause us to incur substantial costs or subject us to potential liabilities.***

We are subject to certain compliance costs and potential liabilities under various foreign and U.S. federal, state and local environmental, health and safety laws and regulations. These laws and regulations govern actions including air emissions, the use, storage and disposal of hazardous and toxic substances, and wastewater disposal. Our failure to comply with such laws, including any required permits or licenses, could result in substantial fines or possible revocation of our authority to conduct some of our operations. We could also be liable under such laws for the costs of investigation, removal or remediation of hazardous or toxic substances at our currently or formerly owned, leased or operated real property (including managed and franchised properties) or at third-party locations in connection with our waste disposal operations, regardless of whether or not we knew of, or caused, the presence or release of such substances. From time to time, we may be required to remediate such substances or remove, abate or manage asbestos, mold, radon gas, lead or other hazardous conditions at our properties. The presence or release of such toxic or hazardous substances could result in third-party claims for personal injury, property or natural resource damages, business interruption or other losses. Such claims and the need to investigate, remediate, or otherwise address hazardous, toxic or unsafe conditions could adversely affect our operations, the value of any affected real property, or our ability to sell, lease or assign our rights in any such property, or could otherwise harm our business or reputation. Environmental, health and safety requirements have also become increasingly stringent, and our costs may increase as a result. For example, Congress, the U.S. Environmental Protection Agency, or EPA, and some states are considering or have undertaken actions to regulate and reduce greenhouse gas emissions. New or revised laws and regulations or new interpretations of existing laws and regulations, such as those related to climate change, could affect the operation of our properties or result in significant additional expense and operating restrictions on us. The potential for changes in the frequency, duration and severity of extreme weather events that may be a result of climate change could lead to significant property damage at our hotels and other assets, impact our ability to obtain insurance coverage in areas that are most vulnerable to such events, such as the coastal resort areas where we operate, and have a negative effect on revenues.

### ***The cost of compliance with the Americans with Disabilities Act and similar legislation outside of the U.S. may be substantial.***

We are subject to the Americans with Disabilities Act, or ADA, and similar legislation in certain jurisdictions outside of the U.S. Under the ADA all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. These regulations apply to accommodations first occupied after January 26, 1993,

and older structures that undergo material renovations. The regulations also mandate certain operational requirements that hotel operators must observe. The failure of a property to comply

**Table of Contents**

with the ADA could result in injunctive relief, fines, an award of damages to private litigants or mandated capital expenditures to remedy such noncompliance. Any imposition of injunctive relief, fines, damage awards or capital expenditures could adversely affect the ability of an owner or franchisee to make payments under the applicable management or franchise agreement or negatively impact the reputation of our brands. In November 2010, we entered into a settlement with the U.S. Department of Justice related to compliance with the ADA. Under the terms of the settlement, we must: ensure compliance with ADA regulations at our owned and joint venture properties built after January 26, 1993; require managed or franchised hotels that enter into a new management or franchise agreement, experience a change in ownership, or renew or extend a franchise agreement, to conduct a survey of its facilities and to certify that the hotel complies with the ADA; ensure that new hotels constructed in our system are compliant with ADA regulations; provide ADA training to our team members; improve the accessibility of our websites and reservations system for individuals with disabilities; appoint a national ADA compliance officer; and appoint an ADA contact on-site at each hotel. If we fail to comply with the requirements of the ADA and our related consent decree, we could be subject to fines, penalties, injunctive action, reputational harm, and other business impacts which could materially and negatively affect our performance and results of operations.

***Casinos featured on certain of our properties are subject to gaming laws and noncompliance could result in the revocation of the gaming licenses.***

Several of our properties feature casinos, most of which are operated by third-parties. Factors affecting the economic performance of a casino property include:

location, including proximity to or easy access from major population centers;

appearance;

local, regional or national economic conditions, which may limit the amount of disposable income that potential patrons may have for gambling;

the existence or construction of competing casinos;

dependence on tourism; and

governmental regulation.

Jurisdictions in which our properties containing casinos are located, including Nevada, New Jersey, Puerto Rico and Egypt have laws and regulations governing the conduct of casino gaming. These jurisdictions generally require that the operator of a casino must be found suitable and be registered. Once issued, a registration remains in force until revoked. The law defines the grounds for registration, as well as revocation or suspension of such registration. The loss of a gaming license for any reason would have a material adverse effect on the value of a casino property and could reduce fee income associated with such operations and consequently negatively impact our business results.

***We are subject to risks from litigation filed by or against us.***

Legal or governmental proceedings brought by or on behalf of franchisees, third-party owners of managed properties, employees or customers may adversely affect our financial results. In recent years, a number of hospitality companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal laws and regulations regarding workplace and employment matters, consumer protection claims and other commercial matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits have been and may be instituted against us from time to time, and we may incur substantial damages and expenses resulting from lawsuits of this type, which could have a material adverse effect on our business. At any given time, we may be engaged in lawsuits involving third-party owners of our hotels. Similarly, we may from time to time institute legal proceedings on behalf of ourselves or others, the ultimate outcome of which could cause us to incur substantial damages and expenses, which could have a material adverse effect on our business.

## Table of Contents

### **Risks Relating to Our Indebtedness**

*Our substantial indebtedness and other contractual obligations could adversely affect our financial condition, our ability to raise additional capital to fund our operations, our ability to operate our business, our ability to react to changes in the economy or our industry and pay our debts and could divert our cash flow from operations for debt payments.*

We have a significant amount of indebtedness. As of September 30, 2013, after giving effect to the transactions described in Unaudited Pro Forma Condensed Consolidated Financial Information, our total indebtedness would have been approximately \$13.0 billion, including \$1,006 million of non-recourse debt, and our contractual debt maturities of our long-term debt and non-recourse debt for the three months ending December 31, 2013 and the years ending December 31, 2014, 2015 and 2016, respectively, would be \$21 million, \$50 million, \$73 million and \$622 million. Our substantial debt and other contractual obligations could have important consequences, including:

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures and pursue future business opportunities;

increasing our vulnerability to adverse economic, industry or competitive developments;

exposing us to increased interest expense, as our degree of leverage may cause the interest rates of any future indebtedness (whether fixed or floating rate interest) to be higher than they would be otherwise;

exposing us to the risk of increased interest rates because certain of our indebtedness is at variable rates of interest;

making it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants, could result in an event of default that accelerates our obligation to repay indebtedness;

restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

limiting our ability to obtain additional financing for working capital, capital expenditures, product development, satisfaction of debt service requirements, acquisitions and general corporate or other purposes; and

limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who may be better positioned to take advantage of opportunities that our leverage prevents us from exploiting.



We are a holding company and substantially all of our consolidated assets are owned by, and most of our business is conducted through, our subsidiaries. Revenues from these subsidiaries are our primary source of funds for debt payments and operating expenses. If our subsidiaries are restricted from making distributions to us, that may impair our ability to meet our debt service obligations or otherwise fund our operations. Moreover, there may be restrictions on payments by subsidiaries to their parent companies under applicable laws, including laws that require companies to maintain minimum amounts of capital and to make payments to stockholders only from profits. As a result, although a subsidiary of ours may have cash, we may not be able to obtain that cash to satisfy our obligation to service our outstanding debt or fund our operations.

**Table of Contents**

*Certain of our debt agreements impose significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.*

The indenture that governs our senior notes, the credit agreement that will govern our new senior secured credit facilities and the agreements that will govern our new commercial mortgage-backed securities loan and the mortgage loan secured by our Waldorf Astoria New York property, will impose significant operating and financial restrictions on us. These restrictions will limit our ability and/or the ability of our subsidiaries to, among other things:

incur or guarantee additional debt or issue disqualified stock or preferred stock;

pay dividends (including to us) and make other distributions on, or redeem or repurchase, capital stock;

make certain investments;

incur certain liens;

enter into transactions with affiliates;

merge or consolidate;

enter into agreements that restrict the ability of restricted subsidiaries to make dividends or other payments to the issuers;

designate restricted subsidiaries as unrestricted subsidiaries; and

transfer or sell assets.

In addition, if, on the last day of any period of four consecutive quarters on or after the date to be specified in the new credit agreement, the aggregate principal amount of revolving credit loans, swing line loans and/or letters of credit (excluding up to \$50 million of letters of credit and certain other letters of credit that have been cash collateralized or back-stopped) that are issued and/or outstanding is greater than 25% of the revolving credit facility, the new credit agreement will require us to maintain a consolidated first lien net leverage ratio not to exceed 7.9 to 1.0. Our subsidiaries' mortgage-backed loans also require them to maintain certain debt service coverage ratios and minimum net worth requirements.

As a result of these restrictions, we will be limited as to how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able

to obtain waivers from the lenders and/or amend the covenants.

Our failure to comply with the restrictive covenants described above as well as other terms of our other indebtedness and/or the terms of any future indebtedness from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their due date. If we are forced to refinance these borrowings on less favorable terms or are unable to refinance these borrowings, our results of operations and financial condition could be adversely affected.

***Servicing our indebtedness will require a significant amount of cash. Our ability to generate sufficient cash depends on many factors, some of which are not within our control.***

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. To a certain extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow to service our debt and meet our other commitments, we may need to restructure or refinance all or a portion of our debt, sell material assets or operations or raise additional debt or equity capital. We may not be able to effect any of these actions on a timely basis, on commercially reasonable terms or at all, and these actions may not be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt arrangements may restrict us from effecting any of these alternatives.

## **Table of Contents**

***Despite our current level of indebtedness, we may be able to incur substantially more debt and enter into other transactions, which could further exacerbate the risks to our financial condition described above.***

We may be able to incur significant additional indebtedness in the future. Although the credit agreements and indentures that govern substantially all of our indebtedness contain restrictions on the incurrence of additional indebtedness and entering into certain types of other transactions, these restrictions are subject to a number of qualifications and exceptions. Additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also do not prevent us from incurring obligations, such as trade payables, that do not constitute indebtedness as defined under our debt instruments. To the extent new debt is added to our current debt levels, the substantial leverage risks described in the preceding two risk factors would increase.

## **Risks Related to this Offering and Ownership of Our Common Stock**

***Our Sponsor and its affiliates control us and their interests may conflict with ours or yours in the future.***

Immediately following this offering, our Sponsor and its affiliates will beneficially own approximately 76.2% of our common stock. Moreover, under our bylaws and the stockholders' agreement with our Sponsor and its affiliates that will be in effect by the completion of this offering, for so long as our existing owners and their affiliates retain significant ownership of us, we will agree to nominate to our board individuals designated by our Sponsor, whom we refer to as the Sponsor Directors. Even when our Sponsor and its affiliates cease to own shares of our stock representing a majority of the total voting power, for so long as our Sponsor continues to own a significant percentage of our stock our Sponsor will still be able to significantly influence the composition of our board of directors and the approval of actions requiring stockholder approval. Accordingly, for such period of time, our Sponsor will have significant influence with respect to our management, business plans and policies, including the appointment and removal of our officers. In particular, for so long as our Sponsor continues to own a significant percentage of our stock, our Sponsor will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could deprive you of an opportunity to receive a premium for your shares of common stock as part of a sale of our company and ultimately might affect the market price of our common stock.

Our Sponsor and its affiliates engage in a broad spectrum of activities, including investments in real estate generally and in the hospitality industry in particular. In the ordinary course of their business activities, our Sponsor and its affiliates may engage in activities where their interests conflict with our interests or those of our stockholders. For example, our Sponsor owns interests in Extended Stay America, Inc. and La Quinta Hotels, and certain other investments in the hotel industry that compete directly or indirectly with us. In addition, affiliates of our Sponsor directly and indirectly own hotels that we manage or franchise, and they may in the future enter into other transactions with us, including hotel or timeshare development projects, that could result in their having interests that could conflict with ours. Our amended and restated certificate of incorporation will provide that none of our Sponsor, any of its affiliates or any director who is not employed by us (including any non-employee director who serves as one of our officers in both his director and officer capacities) or his or her affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. Our Sponsor also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, Blackstone may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its investment, even though such transactions might involve risks to you.



## **Table of Contents**

***Upon the listing of our shares on the NYSE, we will be a controlled company within the meaning of rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.***

After completion of this offering, affiliates of our Sponsor will continue to control a majority of the combined voting power of all classes of our stock entitled to vote generally in the election of directors. As a result, we will be a controlled company within the meaning of the corporate governance standards of the NYSE. Under these rules, a company of which more than 50% of the voting power in the election of directors is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements. For example, controlled companies, within one year of the date of the listing of their common stock:

are not required to have a board that is composed of a majority of independent directors, as defined under the rules of such exchange;

are not required to have a compensation committee that is composed entirely of independent directors; and

are not required to have a nominating and corporate governance committee that is composed entirely of independent directors.

Following this offering, we intend to utilize these exemptions. As a result, we do not expect a majority of the directors on our board will be independent upon closing this offering. In addition, although we will have a fully independent audit committee and have independent director representation on our compensation and nominating and corporate governance committees upon closing this offering, we do not expect that our compensation and nominating and corporate governance committees will consist entirely of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

***We will incur increased costs and become subject to additional regulations and requirements as a result of becoming a public company, which could lower our profits or make it more difficult to run our business.***

As a public company, we will incur significant legal, accounting and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, and related rules implemented by the SEC and the NYSE. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations also could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.***

As a public company, we will be required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, beginning with our second annual report on

## **Table of Contents**

Form 10-K, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is required to express an opinion as to the effectiveness of our internal control over financial reporting beginning with our second annual report on Form 10-K. The process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation is time consuming, costly, and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***There may not be an active trading market for shares of our common stock, which may cause shares of our common stock to trade at a discount from the initial offering price and make it difficult to sell the shares of common stock you purchase.***

Prior to this offering, there has not been a public trading market for shares of our common stock. It is possible that after this offering an active trading market will not develop or continue or, if developed, that any market will be sustained which would make it difficult for you to sell your shares of common stock at an attractive price or at all. The initial public offering price per share of common stock will be determined by agreement among us, the selling stockholder and the representatives of the underwriters, and may not be indicative of the price at which shares of our common stock will trade in the public market after this offering.

***The market price of shares of our common stock may be volatile, which could cause the value of your investment to decline.***

Even if a trading market develops, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly operating results, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, adverse publicity about the industries we participate in or individual scandals, and in response the market price of shares of our common stock could decrease significantly. You may be unable to resell your shares of common stock at or above the initial public offering price.

In the past few years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.





## **Table of Contents**

***Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.***

We have no current plans to pay any cash dividends. The declaration, amount and payment of any future dividends on shares of common stock will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us and such other factors as our board of directors may deem relevant. In addition, our ability to pay dividends will be limited by our new senior secured credit facility and our new senior notes and first priority senior secured notes and may be limited by covenants of other indebtedness we or our subsidiaries incur in the future. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

***Investors in this offering will suffer immediate and substantial dilution.***

The initial public offering price per share of common stock will be substantially higher than our pro forma net tangible book deficit per share immediately after this offering. As a result, you will pay a price per share of common stock that substantially exceeds the per share book value of our tangible assets after subtracting our liabilities. In addition, you will pay more for your shares of common stock than the amounts paid by our existing owners. Assuming an offering price of \$19.50 per share of common stock, which is the midpoint of the range on the front cover of this prospectus, you will incur immediate and substantial dilution in an amount of \$22.65 per share of common stock. See Dilution.

***You may be diluted by the future issuance of additional common stock in connection with our incentive plans, acquisitions or otherwise.***

After this offering we will have approximately 29,015 million shares of common stock authorized but unissued. Our amended and restated certificate of incorporation to become effective immediately prior to the consummation of this offering authorizes us to issue these shares of common stock and options, rights, warrants and appreciation rights relating to common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. We have reserved 80,000,000 shares for issuance under our Omnibus Incentive Plan. See Management Omnibus Incentive Plan. Any common stock that we issue, including under our Omnibus Incentive Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by the investors who purchase common stock in this offering.

***If we or our existing investors sell additional shares of our common stock after this offering, the market price of our common stock could decline.***

The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Upon completion of this offering we will have a total of 984,615,385 shares of our common stock outstanding. Of the outstanding shares, the 112,820,512 shares sold in this offering (or 129,743,588 shares if the underwriters exercise in full their option to purchase additional shares) will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described in Shares Eligible for Future Sale.

The remaining outstanding 871,794,873 shares of common stock held by our existing owners and management after this offering (or 854,871,797 shares if the underwriters exercise in full their option to purchase additional shares) will be subject to certain restrictions on resale. We, our officers, directors and holders of

---

**Table of Contents**

certain of our outstanding shares of common stock immediately prior to this offering, including our Sponsor, that collectively will own 780,647,079 shares following this offering, will sign lock-up agreements with the underwriters that will, subject to certain customary exceptions, restrict the sale of the shares of our common stock held by them for 180 days following the date of this prospectus, subject to extension in the case of an earnings release or material news or a material event relating to us. Deutsche Bank Securities Inc. and Goldman, Sachs & Co. may, in their sole discretion, release all or any portion of the shares of common stock subject to lock-up agreements. See **Underwriting (Conflicts of Interest)** for a description of these lock-up agreements. In addition, members of Hilton Global Holdings LLC, including Blackstone, who receive, in the aggregate, approximately 852,353,371 shares of our common stock from Hilton Global Holdings LLC (or 835,430,295 shares if the underwriters exercise their option to purchase shares in full) (750,552,282 shares of which are subject to the lock-up agreement described above) will be prohibited from transferring such shares for six months beginning on the date of receipt of such shares. One third of the shares they receive (approximately 284,117,790 shares or approximately 278,476,765 shares if the underwriters exercise their option to purchase additional shares in full) may be transferred between 6 and 12 months following the date of receipt and an additional one third of the shares they receive (approximately 284,117,790 additional shares, or approximately 278,476,765 shares if the underwriters exercise their option to purchase additional shares in full) may be transferred between 13 and 18 months after the date of receipt. The transfer restrictions applicable to such holders will lapse after 18 months after the date of receipt. In the aggregate, 865,525,092 shares of our common stock (or 848,602,016 shares if the underwriters exercise their option to purchase additional shares in full) will be subject to the lock-up agreements entered into with the underwriters and/or the transfer restrictions described immediately above. See **Principal and Selling Stockholders** and **Shares Eligible for Future Sale Lock-up Arrangements**.

Upon the expiration of the lock-up agreements described above, all of such shares will be eligible for resale in a public market, subject, in the case of shares held by our affiliates, to volume, manner of sale and other limitations under Rule 144. We expect that our Sponsor will be considered an affiliate 180 days after this offering based on their expected share ownership (consisting of 750,552,282 shares, excluding shares held by a debt-focused investment vehicle now managed by Blackstone that has elected to receive cash in lieu of shares representing less than 1% of our common stock), as well as their board nomination rights. Certain other of our stockholders may also be considered affiliates at that time. However, commencing 180 days following this offering, the holders of these shares of common stock will have the right, subject to certain exceptions and conditions, to require us to register their shares of common stock under the Securities Act, and they will have the right to participate in future registrations of securities by us. Registration of any of these outstanding shares of common stock would result in such shares becoming freely tradable without compliance with Rule 144 upon effectiveness of the registration statement. See **Shares Eligible for Future Sale**.

We intend to file one or more registration statements on Form S-8 under the Securities Act to register shares of our common stock or securities convertible into or exchangeable for shares of our common stock issued pursuant to our Omnibus Incentive Plan. Any such Form S-8 registration statements will automatically become effective upon filing. Accordingly, shares registered under such registration statements will be available for sale in the open market. We expect that the initial registration statement on Form S-8 will cover 80,000,000 shares of our common stock.

As restrictions on resale end, the market price of our shares of common stock could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of our shares of common stock or other securities.

**Table of Contents**

***Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.***

Our amended and restated certificate of incorporation and amended and restated bylaws to become effective immediately prior to the consummation of this offering will contain provisions that may make the merger or acquisition of our company more difficult without the approval of our board of directors. Among other things:

although we do not have a stockholder rights plan, and would either submit any such plan to stockholders for ratification or cause such plan to expire within a year, these provisions would allow us to authorize the issuance of undesignated preferred stock in connection with a stockholder rights plan or otherwise, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;

these provisions prohibit stockholder action by written consent from and after the date on which the parties to our stockholders agreement cease to beneficially own at least 40% of the total voting power of all then outstanding shares of our capital stock unless such action is recommended by all directors then in office;

these provisions provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws and that our stockholders may only amend our bylaws with the approval of 80% or more of all the outstanding shares of our capital stock entitled to vote; and

these provisions establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Further, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus 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, 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 Risk Factors. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. 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.

**TRADEMARKS AND SERVICE MARKS**

Hilton Hotels & Resorts, Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, DoubleTree by Hilton®, Embassy Suites Hotels®, Hilton Garden Inn®, Hampton Inn®, Homewood Suites by Hilton®, Home2 Suites by Hilton®, Hilton Grand Vacations®, Hilton Grand Vacations Club®, The Hilton Club®, Hilton HHonors, eforea®, OnQ®, LightStay®, the Hilton Hawaiian Village®, Requests Upon Arrival and other trademarks, trade names, and service marks of Hilton and our brands appearing in this prospectus are the property of Hilton and our affiliates.

Solely for convenience, the trademarks, service marks and trade names referred to in this prospectus are without the ® and symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks, and trade names. All trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners.

**INDUSTRY AND MARKET DATA**

Within this prospectus, we reference information and statistics regarding various industries and sectors. We have obtained this information and statistics from various independent third-party sources, including independent industry publications, reports by market research firms and other independent sources. STR and PKF-HR are the primary sources for third-party market data and industry statistics and forecasts, respectively, included in this prospectus. STR does not guarantee the performance of any company about which it collects and provides data. Nothing in the STR or PKF-HR data should be construed as advice. Some data and other information are also based on our good faith estimates, which are derived from our review of internal surveys and independent sources. We believe that these external sources and estimates are reliable, but have not independently verified them.

---

**Table of Contents**

**USE OF PROCEEDS**

We estimate that the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of \$19.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$1,209 million. A \$1.00 increase or decrease in the assumed initial public offering price of \$19.50 per share would increase or decrease, as applicable, the net proceeds to us from this offering by approximately \$63 million, assuming the number of shares offered by us remains the same as set forth on the cover page of this prospectus and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds received by us from this offering and available cash to repay approximately \$1,250 million of term loan borrowings outstanding under our new senior secured credit facilities. As of November 8, 2013, we had \$7.5 billion of term loan borrowings outstanding under our senior secured credit facilities which will mature on October 25, 2020. The currently outstanding term loan borrowings were used, together with other borrowings and cash on hand, to repay in full all \$13.4 billion of our legacy senior mortgage loans and secured mezzanine loans. See Summary Refinancing Transactions. The term loan borrowings bear interest, at our option, at a rate equal to a margin over either (a) a base rate determined by reference to the highest of (1) the administrative agent's prime lending rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) the LIBOR rate for a one-month interest period plus 1.00% or (b) a LIBOR rate determined by reference to the Reuters LIBOR rate for the interest period relevant to such borrowing. The margin for the term loans is 2.00%, in the case of base rate loans, and 3.00%, in the case of LIBOR rate loans, subject to one step-down of 0.25% upon the achievement of a first lien net leverage ratio of less than or equal to 3.85 to 1.00 and subject to an additional step-down of 0.25% following a qualifying initial public offering, subject to a base rate floor of 2.00%, and a LIBOR floor of 1.00%. See Description of Certain Indebtedness. To the extent we raise more proceeds in this offering than currently estimated, we will repay additional term loans borrowings or use such proceeds for other general corporate purposes. To the extent we raise less proceeds in this offering than currently estimated, we will reduce the amount of term loans borrowings that will be repaid. Affiliates of certain of the underwriters currently serve as lenders and/or agents under our term loan borrowings and would be entitled to receive their pro rata portion of the proceeds of this offering that are used to repay such term loan borrowings. See Underwriting (Conflicts of Interest) Relationships.

Except in relation to the payment to be made to us by the selling stockholder that is described in Principal and Selling Stockholders, we will not receive any proceeds from the sale of shares of our common stock by the selling stockholder, including from any exercise by the underwriters of their option to purchase additional shares.

**Table of Contents**

**DIVIDEND POLICY**

We have no current plans to pay dividends on our common stock. Any decision to declare and pay dividends in the future will be made at the sole discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. Because we are a holding company and have no direct operations, we will only be able to pay dividends from funds we receive from our subsidiaries.

We did not declare or pay any dividends on our common stock in 2012, 2011 or in the first nine months of 2013.



**Table of Contents****CAPITALIZATION**

The following table sets forth our consolidated cash and cash equivalents, restricted cash and cash equivalents and capitalization as of September 30, 2013 on:

an actual basis; and

an as adjusted basis to reflect:

the sale by us of 64,102,564 shares of common stock in this offering at an assumed initial public offering price of \$19.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus;

the application of net proceeds from this offering as described under Use of Proceeds, as if this offering and the application of the net proceeds of this offering had occurred on September 30, 2013; and

other transactions described in Unaudited Pro Forma Condensed Consolidated Financial Information included in this prospectus.

The information below is illustrative only and our capitalization following this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. Cash and cash equivalents and restricted cash and cash equivalents are not components of our total capitalization. You should read this table together with the information contained in this prospectus, including Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations, Description of Certain Indebtedness and our historical financial statements and related notes included elsewhere in this prospectus.

	<b>As of September 30, 2013</b>	
	<b>Actual</b>	<b>As Adjusted<sup>(1)</sup></b>
	<b>(in millions, except share and</b>	
	<b>per share data)</b>	
Cash and cash equivalents	\$ 724	\$ 441
Restricted cash and cash equivalents <sup>(2)</sup>	502	411
<b>Total</b>	<b>\$ 1,226</b>	<b>\$ 852</b>
Total long-term debt and non-recourse debt:		
Long-term debt, including current maturities	\$ 14,279	\$ 12,011
Non-recourse timeshare debt, including current maturities <sup>(3)</sup>	388	688

Non-recourse debt and capital lease obligations of consolidated variable interest entities, including current maturities	318	318
Total debt	14,985	13,017
Equity:		
Common stock, par value \$0.01 per share, 1,000 shares authorized and 100 shares issued and outstanding, actual; and 30,000,000,000 shares authorized and        shares issued and outstanding, as adjusted	1	10
Additional paid-in capital	8,452	9,900
Accumulated deficit	(5,357)	(5,545)
Accumulated other comprehensive loss	(417)	(417)
Total stockholders' equity	2,679	3,948
Noncontrolling interests	(126)	(126)
Total equity	2,553	3,822
Total capitalization	\$ 17,538	\$ 16,839

- (1) Each \$1.00 increase or decrease in the assumed initial public offering price of \$19.50 per share would increase or decrease, as applicable, cash and cash equivalents, additional paid-in capital and total stockholders' deficit by approximately \$63 million, assuming the number of shares offered by us remains the same as set forth on the cover page of this prospectus and after deducting the estimated underwriting discounts and commissions and estimated offering expenses that we must pay.
- (2) The majority of our restricted cash and cash equivalents balances relates to cash collateral on our self-insurance programs and escrowed cash from our timeshare operations.
- (3) Includes Timeshare Facility and Securitized Timeshare Debt.

**Table of Contents****DILUTION**

If you invest in shares of our common stock in this offering, your investment will be immediately diluted to the extent of the difference between the initial public offering price per share of common stock and the net tangible book deficit per share of common stock after this offering. Dilution results from the fact that the per share offering price of the shares of common stock is substantially in excess of the net tangible book deficit per share attributable to the shares of common stock held by existing owners.

Pro forma net tangible book deficit represents the amount of total tangible assets less total liabilities, after giving effect to the adjustments presented in the Financing Transactions included in Unaudited Pro Forma Condensed Consolidated Financial Information but before giving effect to this offering. Our pro forma net tangible book deficit as of September 30, 2013 was approximately \$4,242 million, or \$4.61 per share of common stock.

After giving effect to our sale of the shares in this offering at an assumed initial public offering price of \$19.50 per share, the midpoint range described on the cover of this prospectus, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, our net pro forma tangible book deficit as of September 30, 2013 would have been \$3,106 million, or \$3.15 per share of common stock. This represents an immediate decrease in net tangible book deficit of \$1.46 per share of common stock to our existing owners and an immediate and substantial dilution in net tangible book value of \$22.65 per share of common stock to investors in this offering at the assumed initial public offering price.

The following table illustrates this dilution on a per share of common stock basis:

Assumed initial public offering price per share of common stock		\$ 19.50
Pro forma net tangible book deficit per share of common stock as of September 30, 2013	\$ (4.61)	
Increase in pro forma net tangible book deficit per share of common stock attributable to investors in this offering	\$ 1.46	
Net tangible book deficit per share of common stock after giving effect to this offering		\$ (3.15)
Dilution per share of common stock to investors in this offering		\$ 22.65

A \$1.00 increase in the assumed initial public offering price of \$19.50 per share of our common stock would decrease our pro forma net tangible book deficit after giving effect to this offering by \$63 million, or by \$0.06 per share of our common stock, assuming the number of shares offered by us remains the same and after deducting the underwriting discount and the estimated offering expenses payable by us. A \$1.00 decrease in the assumed initial public offering price per share would result in equal changes in the opposite direction.

**Table of Contents**

The following table summarizes, as of September 30, 2013, the total number of shares of common stock purchased from us, the total cash consideration paid to us, and the average price per share paid by existing owners and by new investors. As the table shows, new investors purchasing shares in this offering will pay an average price per share substantially higher than our existing owners paid. The table below assumes an initial public offering price of \$19.50 per share, the midpoint of the range set forth on the cover of this prospectus, for shares purchased in this offering and excludes underwriting discounts and commissions and estimated offering expenses payable by us:

	Shares of Common Stock Purchased		Total Consideration		Average Price Per Share of Common Stock
	Number	Percent (Dollar amounts in millions, except per share amounts)	Amount	Percent	
Existing owners	920,512,821	93.5%	\$ 8,354	87.0%	\$ 9.08
Investors in this offering	64,102,564	6.5%	\$ 1,250	13.0%	\$ 19.50
<b>Total</b>	<b>984,615,385</b>	<b>100.0%</b>	<b>\$ 9,604</b>	<b>100.0%</b>	

Each \$1.00 increase in the assumed offering price of \$19.50 per share would increase total consideration paid by investors in this offering by \$63 million, assuming the number of shares offered by us remains the same and after deducting the underwriting discount and the estimated offering expenses payable by us. A \$1.00 decrease in the assumed initial public offering price per share would result in equal changes in the opposite direction.

The dilution information above is for illustration purposes only. Our net tangible book deficit following the consummation of this offering is subject to adjustment based on the actual initial public offering price of our shares and other terms of this offering determined at pricing.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma financial information has been prepared to reflect (1) the issuance of 64,102,564 shares of our common stock offered by us in this offering at an assumed initial public offering price of \$19.50 per share, which is the midpoint of the range set forth on the cover of this prospectus and (2) the Refinancing Transactions, the Hilton HHonors point sales and the use of proceeds from the foregoing (collectively, the Financing Transactions ), in our historical consolidated financial statements.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2013 is presented on a pro forma adjusted basis to give effect to this offering and the Financing Transactions. The following unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2012 and the nine months ended September 30, 2013 are presented on a pro forma adjusted basis to give effect to this offering and the Financing Transactions, and to give effect to the stock split that we intend to effectuate immediately prior to closing this offering, whereby each issued and outstanding share of our common stock will be converted into 9,205,128 shares, as if they had been completed on January 1, 2012.

The pro forma adjustments are based on preliminary estimates, accounting judgments and currently available information and assumptions that management believes are reasonable. The notes to the unaudited pro forma statements provide a detailed discussion of how such adjustments were derived and presented in the unaudited pro forma financial information. The unaudited pro forma financial information should be read in conjunction with Summary Refinancing Transactions, Capitalization, Use of Proceeds, Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

The unaudited pro forma financial information has been prepared for illustrative purposes only and is not necessarily indicative of our financial position or results of operations had the transactions actually occurred on the dates indicated, nor is such unaudited pro forma financial information necessarily indicative of the results to be expected for any future period. A number of factors may affect our results. See Risk Factors and Forward-Looking Statements.

**Table of Contents****Hilton Worldwide Holdings Inc.****Unaudited Pro Forma Condensed Consolidated Balance Sheet**

As of September 30, 2013

(in millions)

		Pro Forma Adjustments <sup>(1)</sup>		
	Historical	Financing Transactions	Common Stock Offering	Pro Forma
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 724	\$ (242)(a)	\$ (41)(j)	\$ 441
Restricted cash and cash equivalents	502	(91)(a)		411
Accounts receivable, net of allowance for doubtful accounts	813			813
Inventories	386			386
Deferred income tax assets	75			75
Current portion of financing receivables, net	94			94
Current portion of securitized financing receivables, net	27			27
Prepaid expenses	156			156
Other	40			40
Total current assets	2,817	(333)	(41)	2,443
<b>Property, Investments, and Other Assets:</b>				
Property and equipment, net	9,071			9,071
Financing receivables, net	623			623
Securitized financing receivables, net	202			202
Investments in affiliates	268			268
Goodwill	6,205			6,205
Brands	5,012			5,012
Management and franchise contracts, net	1,467			1,467
Other intangible assets, net	723			723
Deferred income tax assets	103			103
Other	238	249 (b)	(22)(j)	465
Total property, investments, and other assets	23,912	249	(22)	24,139
<b>TOTAL ASSETS</b>	<b>\$ 26,729</b>	<b>\$ (84)</b>	<b>\$ (63)</b>	<b>\$ 26,582</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities:</b>				
Accounts payable, accrued expenses, and other	\$ 1,940	\$ (21)(b)	\$ 45 (i)	\$ 1,964

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

Current maturities of long-term debt	356	(352)(b)		4
Current maturities of non-recourse debt	53			53
Income taxes payable	61	125 (c)		186
<b>Total current liabilities</b>	<b>2,410</b>	<b>(248)</b>	<b>45</b>	<b>2,207</b>
Long-term debt	13,923	(672)(b)	(1,244)(j)	12,007
Non-recourse debt	653	300 (d)		953
Deferred income tax liabilities	5,040	(43)(c)		4,997
Liability for guest loyalty program	546			546
Other <sup>(2)</sup>	1,604	446 (b)(e)		2,050
<b>Total liabilities</b>	<b>24,176</b>	<b>(217)</b>	<b>(1,199)</b>	<b>22,760</b>
<b>Equity:</b>				
Common stock	1		9 (j)	10
Additional paid-in capital	8,452		1,448 (i)(j)	9,900
Accumulated deficit	(5,357)	133 (f)	(321)(i)	(5,545)
Accumulated other comprehensive loss	(417)			(417)
<b>Total Hilton stockholder s equity</b>	<b>2,679</b>	<b>133</b>	<b>1,136</b>	<b>3,948</b>
Noncontrolling interests	(126)			(126)
<b>Total equity</b>	<b>2,553</b>	<b>133</b>	<b>1,136</b>	<b>3,822</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 26,729</b>	<b>\$ (84)</b>	<b>\$ (63)</b>	<b>\$ 26,582</b>

(1) For details of the adjustments referenced, see Note 4: Pro Forma Adjustments.

(2) Pro forma adjustments to other liabilities include deferred revenue of \$650 million related to our Hilton HHonors point sales. See Note 4: Pro Forma Adjustments adjustment (e) and Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Events for further discussion of this transaction. See notes to unaudited pro forma condensed consolidated financial statements.

Table of Contents**Hilton Worldwide Holdings Inc.****Unaudited Pro Forma Condensed Consolidated Statement of Operations****For the Nine Months Ended September 30, 2013****(in millions, except share data)**

		<b>Pro Forma Adjustments<sup>(1)</sup></b>		
	<b>Historical</b>	<b>Financing Transactions</b>	<b>Common Stock Offering</b>	<b>Pro Forma</b>
<b>Revenues</b>				
Owned and leased hotels	\$ 2,982	\$	\$	\$ 2,982
Management and franchise fees and other	868			868
Timeshare	809			809
	4,659			4,659
Other revenues from managed and franchised properties	2,433			2,433
<b>Total revenues</b>	<b>7,092</b>			<b>7,092</b>
<b>Expenses</b>				
Owned and leased hotels	2,327			2,327
Timeshare	545			545
Depreciation and amortization	455			455
General, administrative, and other	319			319
	3,646			3,646
Other expenses from managed and franchised properties	2,433			2,433
<b>Total expenses</b>	<b>6,079</b>			<b>6,079</b>
<b>Operating income</b>	<b>1,013</b>			<b>1,013</b>
Interest income	5			5
Interest expense	(401)	(124)(g)	41 (j)	(484)
Equity in earnings from unconsolidated affiliates	11			11
Loss on foreign currency transactions	(43)			(43)
Other gain, net	5			5
<b>Income before income taxes</b>	<b>590</b>	<b>(124)</b>	<b>41</b>	<b>507</b>
Income tax expense	(192)	48 (h)	(16)(j)	(160)



<b>Net income</b>	398	(76)	25	347
<b>Net income attributable to noncontrolling interests</b>	(9)			(9)
<b>Net income attributable to Hilton stockholder</b>	\$ 389	\$ (76)	\$ 25	\$ 338
<b>Earnings per share:</b>				
Basic and diluted				\$ 0.34
<b>Weighted average shares outstanding:</b>				
Basic and diluted				984,615,385 (k)

- (1) For details of the adjustments referenced, see Note 4: Pro Forma Adjustments.  
See notes to unaudited pro forma condensed consolidated financial statements.

Table of Contents**Hilton Worldwide Holdings Inc.****Unaudited Pro Forma Condensed Consolidated Statement of Operations****For the Year Ended December 31, 2012****(in millions, except share data)**

		<b>Pro Forma Adjustments<sup>(1)</sup></b>		
	<b>Historical</b>	<b>Financing Transactions</b>	<b>Common Stock Offering</b>	<b>Pro Forma</b>
<b>Revenues</b>				
Owned and leased hotels	\$ 3,979	\$	\$	\$ 3,979
Management and franchise fees and other	1,088			1,088
Timeshare	1,085			1,085
	6,152			6,152
Other revenues from managed and franchised properties	3,124			3,124
<b>Total revenues</b>	<b>9,276</b>			<b>9,276</b>
<b>Expenses</b>				
Owned and leased hotels	3,230			3,230
Timeshare	758			758
Depreciation and amortization	550			550
Impairment losses	54			54
General, administrative, and other	460			460
	5,052			5,052
Other expenses from managed and franchised properties	3,124			3,124
<b>Total expenses</b>	<b>8,176</b>			<b>8,176</b>
<b>Operating income</b>	<b>1,100</b>			<b>1,100</b>
Interest income	15			15
Interest expense	(569)	(158)(g)	54 (j)	(673)
Equity in losses from unconsolidated affiliates	(11)			(11)
Gain on foreign currency transactions	23			23
Other gain, net	15			15
<b>Income before income taxes</b>	<b>573</b>	<b>(158)</b>	<b>54</b>	<b>469</b>

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

Income tax expense	(214)	61 (h)	(21)(j)	(174)
<b>Net income</b>	359	(97)	33	295
<b>Net income attributable to noncontrolling interests</b>	(7)			(7)
<b>Net income attributable to Hilton stockholder</b>	\$ 352	\$ (97)	\$ 33	\$ 288
<b>Earnings per share:</b>				
Basic and diluted				\$ 0.29
<b>Weighted average shares outstanding:</b>				
Basic and diluted				984,615,385 (k)

- (1) For details of the adjustments referenced, see Note 4: Pro Forma Adjustments.  
See notes to unaudited pro forma condensed consolidated financial statements.

**Table of Contents**

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**Note 1: Basis of Presentation**

The unaudited pro forma financial information is based on our historical financial statements, which are included elsewhere in this prospectus, and has been prepared to reflect this offering and the Financing Transactions.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2013 is presented on a pro forma adjusted basis to give effect to this offering and the Financing Transactions. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2012 and the nine months ended September 30, 2013 are presented on a pro forma adjusted basis to give effect to this offering and the Financing Transactions as if they had been completed on January 1, 2012.

The unaudited pro forma adjustments are based on preliminary estimates, accounting judgments and currently available information and assumptions that management believes are reasonable. These adjustments are included only to the extent they are directly attributable to this offering and the Financing Transactions and the appropriate information is known and factually supportable. We continue to evaluate the accounting impact of the Financing Transactions and believe that substantially all of the existing long-term debt (and related current maturities) to be repaid as a part of the Financing Transactions will be considered extinguished. Accordingly, the pro forma financial information reflects all of the repaid debt being accounted for as an extinguishment of debt. We believe that any portion of the repaid debt that may be required to be subject to modification of debt accounting guidance will not have a material effect on the pro forma financial information. Pro forma adjustments reflected in the unaudited pro forma condensed consolidated statements of operations are expected to have a continuing effect on us. As a result, the unaudited pro forma condensed consolidated statements of operations exclude gains and losses related to the Financing Transactions that will not have a continuing effect on us, although these items are reflected in the unaudited pro forma condensed consolidated balance sheet.

**Note 2: Financing Transactions**

Prior to consummating this offering, we closed or expect to close various debt refinancing and related transactions. These Financing Transactions, which are discussed in greater detail elsewhere in this prospectus, include the following:

entry into a new \$1 billion senior secured revolving credit facility (the **Revolving Credit Facility**), with no expected borrowings upon the completion of the Financing Transactions;

entry into a new \$7.6 billion senior secured term loan facility (the **Term Loan**), of which \$100 million was voluntarily prepaid in November 2013;

the issuance of \$1.5 billion of our 5.625% senior notes due 2021;

entry into a new \$3.5 billion commercial mortgage-backed securities loan (the **CMBS Loan**) secured by 23 of our U.S. owned real estate assets;

entry into a new \$525 million mortgage loan (the Waldorf Astoria Loan ) secured by our Waldorf Astoria New York property;

additional borrowings of \$300 million under our Timeshare Facility;

entry into four interest rate swaps with a notional value of \$1.45 billion, which swap floating three-month LIBOR on the Term Loan to a fixed rate of 1.87%;

sales of Hilton HHonors points for cash proceeds of \$650 million, classified as deferred revenue at the date of receipt; and

the repayment of our senior mortgage loans and secured mezzanine loans and the redemption of our unsecured notes due 2031 with available cash and proceeds from the transactions described above.

For more information regarding these transactions, see Summary Refinancing Transactions, Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Recent Events and Description of Certain Indebtedness.

**Table of Contents****Note 3: The Common Stock Offering**

We estimate that the gross proceeds to us from this offering will be approximately \$1,250 million and that proceeds to us net of underwriting discounts and estimated offering expenses will be approximately \$1,209 million. Net proceeds of this offering and available cash will be used to repay approximately \$1,250 million of the Term Loan.

**Note 4: Pro Forma Adjustments**

**Adjustments included under the heading Pro Forma Adjustments Financing Transactions represent the following:**

- a. To adjust cash for the transactions discussed below, as follows:

	<b>(in millions)</b>
Cash paid to repay debt principal <sup>(1)(2)</sup>	\$ (14,066)
Cash paid for interest on repaid debt <sup>(3)</sup>	(39)
Cash paid for debt issuance costs	(265)
Cash received from new debt issuances	13,387
Cash received from Hilton HHonors point sales	650
<b>Net adjustment to cash<sup>(4)</sup></b>	<b>\$ (333)</b>

- (1) The long-term debt balance of our senior mortgage loans and secured mezzanine loans include \$18 million and \$27 million, respectively, of yield adjustments related to prior debt modifications. Thus, the principal balance of our debt to be repaid in cash is presented net of this amount. These yield adjustments, totaling \$45 million, will be released concurrent with the repayment of the debt. This release is not considered to have a continuing effect on us and, therefore, it is not reflected in our unaudited pro forma condensed consolidated statements of operations.
- (2) Includes the voluntary prepayment of \$100 million on the Term Loan made in November 2013.
- (3) Includes our accrued balance of \$21 million and \$18 million of additional interest we are required to pay, concurrent with the principal repayment of our senior mortgage loans and secured mezzanine loans.
- (4) The above adjustments result in changes to cash and cash equivalents of \$242 million and to restricted cash and cash equivalents of \$91 million.

- b. To adjust for the completion of the Financing Transactions and the repayment of our senior mortgage loans, secured mezzanine loans and unsecured notes due 2031, as follows:

	<b>Long-term Debt (in millions)</b>
<b>Repayment of existing debt:</b>	
Senior mortgage loans	\$ (7,010)

Secured mezzanine loans <sup>(1)</sup>	(6,905)
Unsecured notes due 2031 <sup>(2)</sup>	(96)
<b>Total repayment of existing debt<sup>(3)</sup></b>	<b>(14,011)</b>
<b>Issuance of new debt:</b>	
Term Loan <sup>(4)</sup>	7,462
Senior Notes	1,500
CMBS Loan	3,500
Waldorf Astoria Loan	525
<b>Total issuance of new debt</b>	<b>12,987</b>
<b>Net effect of refinancing on long-term debt, including current maturities</b>	<b>\$ (1,024)</b>

- (1) Includes an unscheduled, voluntary debt repayment of \$450 million on the secured mezzanine loans in October 2013, prior to the issuance of new debt.
- (2) Repayment of these 8% unsecured notes was completed on November 25, 2013.
- (3) Includes current maturities of long-term debt of \$352 million.
- (4) Long-term debt for the Term Loan is net of the original issue discount of \$38 million and the \$100 million voluntary prepayment made in November 2013.

**Table of Contents**

The Financing Transactions also reflect:

the release of debt issuance costs of \$16 million related to the existing debt payoff and the addition of debt issuance costs of \$265 million related to the new debt issued. The net increase to the debt issuance costs, which are classified as other assets in our unaudited pro forma condensed consolidated balance sheet, was \$249 million;

the payment of current accrued interest of \$21 million related to the existing debt payoff, which was reflected in accounts payable, accrued expenses, and other in our unaudited pro forma condensed consolidated balance sheet. This release is not considered to have a continuing effect on us and, therefore, it is not reflected in our unaudited pro forma condensed consolidated statements of operations; and

the release of \$204 million of interest, which was reflected in other liabilities in our unaudited pro forma condensed consolidated balance sheet, that related to our senior mortgage loans and secured mezzanine loans. The interest expense was recognized using the interest method and has exceeded the cash paid due to the fact that the terms of the senior mortgage loans and secured mezzanine loans require annual increases in the interest rate. Since we have assumed all extensions of the senior mortgage loans and secured mezzanine loans, which were at our option, our accrual of interest under the interest method contemplated these increases in interest expense over the fully extended life of the debt, resulting in an accrual of interest expected to be paid over the term of the debt based on increased cash payments of interest in subsequent periods. Upon consummation of the Financing Transactions, such payments will no longer be required and the accrual for these amounts will be reversed. Refer to adjustment (c) for the associated adjustment to deferred tax liabilities. This release is not considered to have a continuing effect on us and, therefore, it is not reflected in our unaudited pro forma condensed consolidated statements of operations.

- c. To adjust for the tax effects of the gains and losses referenced in adjustment (f) and the Hilton HHonors point sales referenced in adjustment (e), using the statutory tax rate of 38.4% referenced in adjustment (h), as follows:

	(in millions)
<b>Income taxes payable:</b>	
Unamortized portion of yield adjustments of debt principal	\$ 17
Interest not accrued <sup>(1)</sup>	(7)
Unamortized debt issuance costs	(29)
Hilton HHonors point sales	144
<b>Net adjustment to income taxes payable</b>	<b>\$ 125</b>

**Deferred tax liabilities:**



Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

Other liabilities - interest accrued under the interest method	\$	78
Unamortized debt issuance costs		23
Hilton HHonors point sales		(144)
<b>Net adjustment to deferred tax liabilities</b>	<b>\$</b>	<b>(43)</b>

- (1) Represents interest we are required to pay, concurrent with the principal repayment of our senior mortgage loans and secured mezzanine loans.

**Table of Contents**

- d. To adjust for additional borrowings of \$300 million under our Timeshare Facility.
- e. To adjust for proceeds of \$650 million presented as deferred revenue as a result of the Hilton HHonors point sales. Refer to adjustment (c) for related tax adjustments.
- f. To adjust accumulated deficit for amounts related to the senior mortgage loans and secured mezzanine loans that do not have a continuing effect on us, as follows:

	(in millions)
Unamortized portion of yield adjustments of debt principal, net of taxes of \$17 million	\$ 28
Other liabilities - interest accrued under the interest method, net of taxes of \$78 million	126
Interest not accrued, net of taxes of \$(7) million <sup>(1)</sup>	(11)
Unamortized debt issuance costs, net of taxes of \$(6) million	(10)
<b>Net adjustment to accumulated deficit</b>	<b>\$ 133</b>

- (1) Represents interest we are required to pay, concurrent with the principal repayment of our senior mortgage loans and secured mezzanine loans.

- g. To adjust interest expense for the repayment of the existing indebtedness and additional borrowings discussed above, as follows:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
	(in millions)	
<b>Repayment of existing debt:</b>		
Interest expense	\$ (337)	\$ (461)
Amortization expense of debt issuance costs	(7)	(9)
	(344)	(470)
<b>Issuance of new debt:</b>		
Interest expense <sup>(1)(2)(3)(4)</sup>	431	579
Amortization expense of debt issuance costs and discounts <sup>(1)</sup>	37	49
	468	628
<b>Net adjustment to interest expense</b>	<b>\$ 124</b>	<b>\$ 158</b>

- (1) Includes interest expense and amortization expense of the debt issuance costs of the Timeshare Facility as if the facility was in place on January 1, 2012. Also, includes interest expense and amortization expense related to the Securitized Timeshare Debt, which was issued in August 2013, as if it were issued on January 1, 2012. See Description of Certain Indebtedness for further discussion of the transaction.
  - (2) Includes commitment fees on the unused Revolving Credit Facility commitments.
  - (3) We applied the interest rates that were prevailing during the periods presented for our variable interest rate debt totaling approximately \$8 billion, which excludes \$1.45 billion of the Term Loan, for which a variable to fixed interest rate swap has been executed.
  - (4) A 0.125 percent change to interest rates on our variable rate debt would result in an increase in interest expense of approximately \$7 million and \$10 million for the nine months ended September 30, 2013 and the year ended December 31, 2012, respectively.
- h. To adjust income tax expense for the changes in the expense items noted above in adjustment (g). The statutory tax rate of 38.4% is a blended U.S. federal and state income tax rate.

---

**Table of Contents**

**Adjustments included under the heading Pro Forma Adjustments Common Stock Offering represent the following:**

- i. Certain members of our senior management team were offered the opportunity to participate in an executive compensation plan (the Promote plan ). The Promote plan provides for the grant of a Tier I liability award, or an alternative cash payment in lieu thereof, and a Tier II equity award, representing Class B Units in BH Hotels Holdco, LLC (our Ultimate Parent ). The awards vest based on service and performance conditions. For further discussion of the Promote plan, including the assumptions used in estimating fair value of the awards, refer to our audited consolidated financial statements included elsewhere within this prospectus.

In connection with this offering, the Tier I liability awards that remain outstanding at the time of the offering will vest as of the pricing date of this offering and will be paid in cash no later than 30 days following the pricing of this offering. Additionally, the Tier II equity awards that remain outstanding at the time of the pricing of the offering will be exchanged for restricted stock in the Company of equivalent economic value, which will be received from the Ultimate Parent, and will vest as follows:

40% of each award will vest as of the pricing date with respect to this offering;

40% of each award will vest on the first anniversary of the pricing date with respect to this offering, contingent upon continued employment through that date; and

20% of each award will vest on the date that our Sponsor and its affiliates cease to own 50% or more of the shares of the Company, contingent upon continued employment through that date.

Upon the effective date of this offering, we expect to record incremental compensation expense of approximately \$293 million as a result of modifying the vesting conditions of the Tier I liability award, as well as the exchange of the Tier II awards for restricted shares. The adjustment is reflected in our unaudited pro forma condensed balance sheet as an increase to accounts payable, accrued expenses, and other of \$45 million reflecting cash due within 30 days to settle the Tier I awards, a \$248 million increase to additional paid-in capital and an increase to accumulated deficit of \$293 million.

Further, we do not anticipate that there will be a material, recurring effect on the amount of future compensation expense as a result of modifying the terms of the awards which solely vest upon achieving the service conditions, including the additional compensation expense of approximately \$22 million that we expect to record from the pricing date of this offering through the first anniversary of that date. Accordingly, we have made no adjustment to our unaudited pro forma condensed consolidated statements of operations for any incremental compensation expense resulting from the modification of these awards. No compensation expense will be recognized for the 20% of restricted stock that will vest on the date that our Sponsor and its affiliates cease to own 50% or more of the shares of the Company, as this performance condition has been determined to be not probable of occurring for accounting purposes.

- j.

We expect to receive net proceeds from this offering of \$1,209 million after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use proceeds from this offering and \$41 million of available cash and cash equivalents to repay \$1,250 million of our Term Loan. Associated with the repayment of our Term Loan, we will release \$22 million of deferred financing costs and \$6 million of original issue discount. This will reduce our net income for the three months ended December 31, 2013 by \$28 million. The estimated reduction in interest expense as a result of the repayment and associated tax benefits are reflected in our unaudited pro forma condensed consolidated statements of operations. The reduction of deferred financing costs and original issue discount are reflected in our unaudited pro forma condensed consolidated balance sheet as a reduction of other assets and an increase in long-term debt, respectively, offset by an increase to accumulated deficit of \$28 million.

**Table of Contents**

- k. Unaudited pro forma weighted average shares outstanding is calculated assuming all shares of common stock issued by us in the initial public offering were outstanding for the entire period, as the proceeds from the sale of such shares will be used to repay indebtedness also being reflected in our unaudited pro forma condensed consolidated statements of operations, and each issued and outstanding share of our existing common stock was converted into 9,205,128 shares as of the beginning of each period.

**Table of Contents****SELECTED FINANCIAL DATA**

We derived the selected statement of operations data for the years ended December 31, 2012, 2011 and 2010 and the selected balance sheet data as of December 31, 2012 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the selected balance sheet data as of December 31, 2010 from our unaudited consolidated financial statements that are not included in this prospectus. We derived the selected statement of operations data for the years ended December 31, 2009 and 2008 and the selected balance sheet data as of December 31, 2009 and 2008 from Hilton Worldwide, Inc.'s audited consolidated financial statements, which are not included in this prospectus. We derived the selected statement of operations data for the nine months ended September 30, 2013 and 2012 and the selected consolidated balance sheet data as of September 30, 2013 from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited consolidated financial statements and, in our opinion, have included all adjustments, which include only normal recurring adjustments, necessary to present fairly in all material respects our financial position and results of operations. The results for any interim period are not necessarily indicative of the results that may be expected for the full year. Additionally, our historical results are not necessarily indicative of the results expected for any future period.

You should read the selected consolidated financial data below together with the consolidated financial statements including the related notes thereto appearing elsewhere in this prospectus, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Description of Certain Indebtedness, and the other financial information included elsewhere in this prospectus.

	Nine Months Ended		Year Ended December 31,				
	September 30, 2013	2012	2012	2011	2010	2009	2008
(in millions)							
<b>Statement of Operations Data:</b>							
<b>Revenues</b>							
Owned and leased hotels	\$ 2,982	\$ 2,931	\$ 3,979	\$ 3,898	\$ 3,667	\$ 3,540	\$ 4,301
Management and franchise fees and other	868	807	1,088	1,014	901	807	901
Timeshare	809	822	1,085	944	863	832	920
	4,659	4,560	6,152	5,856	5,431	5,179	6,122
Other revenues from managed and franchised properties	2,433	2,378	3,124	2,927	2,637	2,397	2,753
Total revenues	7,092	6,938	9,276	8,783	8,068	7,576	8,875
<b>Expenses</b>							
Owned and leased hotels	2,327	2,401	3,230	3,213	3,009	2,904	3,328
Timeshare	545	568	758	668	634	644	682
Depreciation and amortization	455	394	550	564	574	587	598
Impairment losses		33	54	20	24	475	5,611
General, administrative and other	319	327	460	416	637	423	416

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

	3,646	3,723	5,052	4,881	4,878	5,033	10,635
Other expenses from managed and franchised properties	2,433	2,378	3,124	2,927	2,637	2,394	2,746
Total expenses	6,079	6,101	8,176	7,808	7,515	7,427	13,381
Operating income (loss)	1,013	837	1,100	975	553	149	(4,506)
Net income (loss) attributable to Hilton stockholder	389	291	352	253	128	(532)	(5,663)



**Table of Contents**

	September 30, 2013	2012	2011	December 31, 2010 (in millions)	2009	2008
<b>Selected Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 724	\$ 755	\$ 781	\$ 796	\$ 738	\$ 397
Restricted cash and cash equivalents	502	550	658	619	394	691
Total assets	26,729	27,066	27,312	27,750	29,140	30,639
Long-term debt <sup>(1)</sup>	14,279	15,575	16,311	16,995	21,125	21,157
Non-recourse timeshare debt <sup>(1)(2)</sup>	388					
Non-recourse debt and capital lease obligations of consolidated variable interest entities <sup>(1)</sup>	318	420	481	541	574	565
Total equity (deficit)	2,553	2,155	1,702	1,544	(1,470)	(1,253)

(1) Includes current maturities.

(2) Includes Timeshare Facility and Securitized Timeshare Debt.

**Table of Contents**

**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 Summary Historical Financial Data, Selected Financial Data and our consolidated financial statements and related notes that appear elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.*

**Overview**

***Our Business***

Hilton Worldwide is one of the largest and fastest growing hospitality companies in the world, with 4,080 hotels, resorts and timeshare properties comprising 671,926 rooms in 90 countries and territories. In the nearly 100 years since our founding, we have defined the hospitality industry and established a portfolio of 10 world-class brands. Our flagship full-service Hilton Hotels & Resorts brand is the most recognized hotel brand in the world. Our premier brand portfolio also includes our luxury hotel brands, Waldorf Astoria Hotels & Resorts and Conrad Hotels & Resorts, our full-service hotel brands, DoubleTree by Hilton and Embassy Suites Hotels, our focused-service hotel brands, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton and Home2 Suites by Hilton, and our timeshare brand, Hilton Grand Vacations. We own or lease interests in 156 hotels, many of which are located in global gateway cities, including iconic properties such as The Waldorf Astoria New York, the Hilton Hawaiian Village, and the London Hilton on Park Lane. More than 311,000 team members proudly serve in our properties and corporate offices around the world, and we have approximately 39 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, which, at hotels, are based on a percentage of the hotel's gross revenue, operating profits, cash flows, or a combination thereof, and, at timeshare properties, are fixed amounts stated in the management agreements. As a franchisor of hotels, we charge franchise fees, which generally are based on a percentage of room revenue, and in some instances, may also include a percentage of food and beverage and other revenues 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, 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

## **Table of Contents**

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 and, as such, are presented separately within the analysis herein. The Asia Pacific region includes the eastern and southeastern nations of Asia, as well as India, Australia, New Zealand, and the Pacific island nations.

As of September 30, 2013, approximately 78 percent of our system-wide hotel rooms were located in the U.S. We expect that the percentage of our hotels outside the U.S. will continue to increase in future years as hotels in our pipeline open.

### ***System Growth and Pipeline***

In recent years, we have made significant progress on our strategic priorities including the expansion of our global footprint, particularly in our management and franchise business, and as of September 30, 2013, we had the largest rooms pipeline in the lodging industry according to data provided by STR. From June 30, 2007 through September 30, 2013, we added a net 1,182 managed and franchised hotels to our system and 172,748 rooms, of which 29.1 percent of the rooms were located outside the U.S.

To support our growth strategy, we also continue to expand our development pipeline. As of September 30, 2013, we had a total of 1,069 hotels in our development pipeline, representing 185,699 rooms under construction or approved for development throughout 71 countries. As of September 30, 2013, 97,520 rooms, representing 52.5 percent of our development pipeline, are under construction. Of the 185,699 rooms in the pipeline, 111,642 rooms, representing 60.1 percent of the pipeline, were located outside the U.S. Over 99% of the hotels in our pipeline and under construction as of September 30, 2013 are within our management and franchise segment. As of September 30, 2013, only one development project was within our ownership segment. We do not consider such project, or 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.

### ***Recent Events***

In October 2013, we sold Hilton HHonors points to American Express Travel Related Services Company, Inc. ( Amex ), and Citibank, N.A. ( Citi ), for \$400 million and \$250 million, respectively, in cash. We used the net proceeds of the HHonors points sales to reduce outstanding indebtedness. Amex and Citi and their respective designees may use the points in connection with Hilton HHonors co-branded credit cards and for promotions, rewards and incentive programs or other certain activities as they may establish or engage in from time to time.

## **Principal Components and Factors Affecting our Results of Operations**

### ***Revenues***

#### ***Principal Components***

We primarily derive our revenues from the following sources:

*Owned and leased hotels.* Represents revenues derived from hotel operations, including room rentals and food and beverage sales and other ancillary services.

Revenues from room rentals, food and beverage sales, and other ancillary services are primarily derived from two categories of customers: transient and group. Transient guests are individual travelers

## Table of Contents

who are traveling for business or leisure. Our group guests are traveling for group events that reserve rooms for meetings, conferences, or social functions sponsored by associations, corporate, social, military, educational, religious or other organizations. Group business usually includes a block of room accommodations as well as other ancillary services, such as catering and banquet services. A majority of our food and beverage sales and other ancillary services are provided to customers who are also occupying rooms at our hotel properties. As a result, key drivers of operations, such as occupancy, generally affect all components of our owned and leased hotel revenues consistently.

*Management and franchise fees and other.* Represents revenues derived from fees earned from hotels and timeshare properties managed by us, franchise fees received in connection with the franchising of our brands, and other revenue generated by the incidental support of hotel operations for owned, leased, managed, and franchised properties, and other rental income.

Terms of our management agreements vary, but our fees generally consist of a base fee, which is generally a percentage of each hotel's gross revenue, and in some cases an incentive fee, which is based on gross operating profits, cash flow or a combination thereof. Management fees from timeshare properties are generally a fixed amount as stated in the management agreement. Outside of the U.S., our fees are often more dependent on hotel profitability measures, either through a single management fee structure where the entire fee is based on a profitability measure, or because our two-tier fee structure is more heavily weighted toward the incentive fee than the base fee. Additionally, we receive one-time upfront fees upon execution of certain management contracts. In general, the hotel owner pays all operating and other expenses and reimburses our out-of-pocket expenses. The initial terms of our management agreements for full service hotels typically are 20 years. Extensions are negotiated and vary, but typically are more prevalent in full-service hotels. These extensions typically are either for five or ten years and can be exercised once or twice at our or the other party's option or by mutual agreement. Some of our management agreements provide early termination rights to hotel owners upon certain events, including the failure to meet certain financial or performance criteria. Performance test measures typically are based upon the hotel's performance individually and/or in comparison to specified hotels.

Under our franchise agreements, franchisees pay us franchise fees which consist of an initial application and initiation fees for new hotels entering the system and monthly royalty fees, generally calculated as a percentage of room revenue. Royalty fees for our full-service brands may also include a percentage of gross food and beverage revenues and other revenues, where applicable. In addition to the franchise application and royalty fees, franchisees also generally pay a monthly program fee based on a percentage of the total gross room revenue that covers the cost of advertising and marketing programs; internet, technology and reservation system expenses; and quality assurance program costs. Our franchise agreements typically have initial terms of approximately 20 years for new construction and approximately 10 to 20 years for properties that are converted from other brands. At the expiration of the initial term, we may relicense the hotel to the franchisee, at our or the other party's option or by mutual agreement, for an additional term ranging from 10 to 15 years. We have the right to terminate a franchise agreement upon specified events of default, including nonpayment of fees or noncompliance with brand standards. If a franchise agreement is terminated by us because of a franchisee's default, the franchisee is contractually required to pay us liquidated damages.

*Timeshare.* Represents revenues derived from the sale and financing of timeshare units and revenues from enrollments and other fees, rentals of timeshare units, food and beverage sales and other ancillary services at our timeshare properties and fees which we refer to as resort operations. Additionally, in recent years, we began a transformation of our timeshare business to a capital light model in which third-party timeshare owners and developers provide capital for development while we act as sales and marketing agent and property manager. Through these transactions, we receive a sales and marketing commission and branding fees on sales of timeshare intervals, recurring fees to operate the homeowners' associations and revenues from resort operations.

## Table of Contents

*Other revenues from managed and franchised properties.* These revenues represent the payroll and its related costs for hotels that we manage where the hotel employees are legally our responsibility, as well as certain other operating costs of the managed and franchised hotels' operations, marketing expenses, and other expenses associated with our brands and shared services that are contractually either reimbursed to us by the hotel owners or paid from fees collected in advance from these hotels. The corresponding expenses are presented as other expenses from managed and franchised properties in our consolidated statements of operations resulting in no impact to operating income or net income.

### *Factors Affecting our Revenues*

The following factors affect the revenues we derive from our operations. For other factors affecting our revenues, see Risk Factors Risks Relating to Our Business and Industry.

*Consumer demand and global economic conditions.* Consumer demand for our products and services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Declines in consumer demand due to adverse general economic conditions, risks affecting or reducing travel patterns, lower consumer confidence and adverse political conditions can lower the revenues and profitability of our owned operations and the amount of management and franchise fee revenues we are able to generate from our managed and franchised properties. Also, declines in hotel profitability during an economic downturn directly impact the incentive portion of our management fees, which is based on hotel profit measures. Our timeshare segment is also linked to cycles in the general economy and consumer discretionary spending. As a result, changes in consumer demand and general business cycles can subject and have subjected our revenues to significant volatility. See Risk Factors Risks Relating to Our Business and Industry.

Our results of operations have steadily improved as the global economy continues to improve following the global recession in recent years. Our comparable system-wide RevPAR increased 20.9% from the year ended December 31, 2009 to the nine months ended September 30, 2013.

*Agreements with third-party owners and franchisees and relationships with developers.* We depend on our long-term management and franchise agreements with third-party owners and franchisees for a significant portion of our management and franchise fee revenues. The success and sustainability of our management and franchise business depends on our ability to perform under our management and franchise agreements and maintain good relationships with third-party owners and franchisees. Our relationships with these third parties also generate new relationships with developers and opportunities for property development that can support our growth. We believe that we have good relationships with our third-party owners, franchisees and developers and are committed to the continued growth and development of these relationships. These relationships exist with a diverse group of owners, franchisees and developers and are not significantly concentrated with any particular third party. 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 65,000, or 78% of our total supply, as of September 30, 2013. We expect sales and marketing agreements with third-party developers and resort operations to comprise a growing percentage of our timeshare revenue and revenues derived from the sale and financing of timeshare units developed by us to comprise a smaller percentage of our timeshare revenue in future periods, consistent with our strategy to focus our business on the management aspects and deploy less of our capital to asset construction.



***Expenses***

*Principal Components*

We primarily incur the following expenses:

*Owned and leased hotels.* Owned and leased hotel expenses reflect the operating expenses of our consolidated owned and leased hotels, including room expense, food and beverage costs, other support

---

**Table of Contents**

costs and property expenses. Room expense includes compensation costs for housekeeping, laundry and front desk staff and supply costs for guest room amenities and laundry. Food and beverage costs include costs for wait and kitchen staff and food and beverage products. Other support expenses consist of costs associated with property-level management, utilities, sales and marketing, operating hotel spas, telephones, parking and other guest recreation, entertainment and services. Property expenses include property taxes, repairs and maintenance, rent and insurance.

*Timeshare.* Timeshare expenses include the cost of inventory sold during the period, sales and marketing expenses, resort operations expenses, bad debt expense on financing of timeshare units, and other overhead expenses associated with our timeshare business.

*Depreciation and amortization.* These are non-cash expenses that primarily consist of depreciation of fixed assets such as buildings, furniture, fixtures and equipment at our consolidated owned and leased hotels, as well as certain corporate assets. Amortization expense primarily consists of amortization of management agreement acquisition costs and franchise and brand intangibles, which are amortized over their estimated useful lives.

*General, administrative, and other expenses.* General, administrative, and other expenses consist primarily of compensation expense for our corporate staff and personnel supporting our business segments (including divisional offices that support our management and franchising segments), professional fees (including consulting, audit and legal fees), travel and entertainment expenses, bad debt expenses, contractual performance obligations and office administrative and related expenses. Expenses incurred by our supply management business, laundry facilities and other ancillary businesses are also included in general, administrative and other expenses.

*Impairment losses.* We hold goodwill, amortizing and non-amortizing intangible assets, long-lived assets and equity method investments. We evaluate these assets for impairment as further discussed in Critical Accounting Policies and Estimates. These evaluations have, in the past, resulted in impairment losses for certain of these assets based on the specific facts and circumstances surrounding those assets and our estimates of the fair value of those assets. Based on economic conditions or other factors at a property-specific or company-wide level, we may be required to take additional impairment losses to reflect further declines in our asset and/or investment values.

*Other expenses from managed and franchised properties.* These expenses represent the payroll and its related costs for hotels that we manage where the hotel employees are legally our responsibility, as well as certain other operating costs of the managed and franchised hotels operations, marketing expenses, and other expenses associated with our brands and shared services that are contractually either reimbursed to us by the hotel owners or paid from fees collected in advance from these hotels. The corresponding revenues are presented as other revenues from managed and franchised properties in our consolidated statements of operations resulting in no impact to operating income or net income.

***Factors Affecting our Costs and Expenses***

The following are several principal factors that affect the costs and expenses we incur in the course of our operations. For other factors affecting our costs and expenses, see [Risk Factors](#) [Risks Relating to Our Business and Industry](#).

*Fixed nature of expenses.* Many of the expenses associated with managing, franchising, and owning hotels and timeshare resorts are relatively fixed. These expenses include personnel costs, rent, property taxes, insurance and utilities, as well as sales and marketing expenses for our timeshare segment. If we are unable to decrease these costs significantly or rapidly when demand for our hotels and other properties decreases, the resulting decline in our revenues can have an adverse effect on our net cash flow, margins and profits. This effect can be especially pronounced during periods of economic contraction or slow economic growth. Economic downturns generally affect the results of our ownership segment more significantly than the results of our management and franchise segment due

## **Table of Contents**

to the high fixed costs associated with operating an owned or leased hotel. The effectiveness of any cost-cutting efforts is limited by the fixed-cost nature of our business. As a result, we may not be able to offset further revenue reductions through cost cutting. Employees at some of our owned hotels are parties to collective bargaining agreements that may also limit our ability to make timely staffing or labor changes in response to declining revenues. In addition, any of our efforts to reduce costs, or to defer or cancel capital improvements, could adversely affect the economic value of our hotels and brands. We have taken steps to reduce our fixed costs to levels we feel are appropriate to maximize profitability and respond to market conditions without jeopardizing the overall customer experience or the value of our hotels or brands. Also, a significant portion of our costs to support our timeshare business relates to direct sales and marketing of these units. In periods of decreased demand for timeshare units, we may be unable to reduce our sales and marketing expenses quickly enough to prevent a deterioration of our profit margins on our timeshare business.

*Changes in depreciation and amortization expense.* Changes in depreciation expenses may be driven by renovations of existing hotels, acquisition or development of new hotels or the disposition of existing hotels through sale or closure. As we place new assets into service, we will be required to record additional depreciation expense on those assets. Additionally, we capitalize costs associated with certain software development projects, and as those projects are completed and placed into service, amortization expense will increase.

### ***Other Items***

#### *Effect of foreign currency exchange rate fluctuations*

Significant portions of our operations are conducted in functional currencies other than our reporting currency, which is the U.S. dollar, and we have assets and liabilities denominated in a variety of foreign currencies. As a result, we are required to translate those results, assets and liabilities from the functional currency into U.S. dollars at market-based exchange rates for each reporting period. When comparing our results of operations between periods, there may be material portions of the changes in our revenues or expenses that are derived from fluctuations in exchange rates experienced between those periods.

#### *Seasonality*

The lodging industry is seasonal in nature. However, the periods during which our hotels experience higher or lower levels of demand vary from property to property and depend upon location, type of property, and competitive mix within the specific location. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the fourth quarter producing the strongest revenues of the year.

### **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 were open as of 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 4,039 hotels in our system as of September 30, 2013, 3,571 have been classified as comparable hotels for the nine months ended September 30, 2013. Our non-comparable hotels include 16 properties, or less than one percent of the total hotels in our system, that have been removed from the comparable group during the last twelve months because they have sustained substantial property damage, business interruption, undergone large-scale capital projects or comparable results were not available.

## **Table of Contents**

Of the 3,926, 3,806 and 3,671 hotels in our system as of December 31, 2012, 2011, and 2010, respectively, 3,484, 3,401, and 3,164 have been classified as comparable hotels for the years ended December 31, 2012, 2011, and 2010, respectively.

### ***Occupancy***

Occupancy represents the total number of rooms sold divided by the total number of rooms 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* )***

ADR represents hotel room revenue divided by total number of rooms 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 the 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 and ADR throughout this report are presented on a currency neutral (all periods using the same exchange rates) and comparable basis, unless otherwise noted.

### ***Earnings before Interest Expense, Taxes, Depreciation and Amortization ( *EBITDA* ) and Adjusted EBITDA***

EBITDA, presented herein, is a non-GAAP financial measure that reflects net income attributable to Hilton stockholder, excluding interest expense, a provision for income taxes, and depreciation and amortization. We consider EBITDA to be a useful measure of operating performance, due to the significance of our long-lived assets and level of indebtedness.

Adjusted EBITDA, presented herein, is calculated as EBITDA, as previously defined, further adjusted to exclude 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 charges; (v) furniture, fixtures and equipment, or FF&E, replacement reserves required under certain lease agreements; (vi) reorganization costs; (vii) share-based and certain other compensation expenses; (viii) severance, relocation and other expenses; and (ix) other items.

EBITDA and Adjusted EBITDA are not recognized terms under generally accepted accounting principles in the United States, or 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

## **Table of Contents**

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 profit (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 impact 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**

Our business has steadily improved in recent years, resulting in higher RevPAR on a year-over-year basis since 2010. We have experienced occupancy increases in all segments of our business and we have been able to increase rates in market segments where demand has outpaced supply. The following table presents hotel operating statistics for our system-wide comparable hotels:



	Nine Months		Year		Year	
	Ended	Variance	Ended	Variance	Ended	Variance
	September 30, 2013	2013 vs. 2012	December 31, 2012	2012 vs. 2011	December 31, 2011	2011 vs. 2010
Occupancy	73.5%	1.4% pts	71.1%	1.9% pts	69.7%	2.1% pts
ADR	\$ 136.24	3.4%	\$ 131.35	2.9%	\$ 130.15	2.8%
RevPAR	\$ 100.19	5.3%	\$ 93.38	5.7%	\$ 90.70	5.9%

We anticipate that if worldwide gross domestic product continues to exhibit growth, we will continue to experience increases in demand for lodging accommodations. Because this continued increase in demand is not expected to be met with a corresponding significant increase in hotel room supply in the near term, particularly in the U.S., we expect to see continued improvement in our operational and financial metrics. While we expect operating results at existing properties to improve and our business to continue to grow based on our business strengths and strategies that have and will continue to maximize our performance, our ability to do so is dependent in part on increases in discretionary spending and continued stabilization and recovery in the global

**Table of Contents**

economic environment. We also anticipate growth in our management and franchise fee business, driven both by improvements in performance at our existing hotels and by increases in the number of hotels in our system based on our management and franchise property development pipeline. However, should hotel developers experience difficulty in securing on-going financing for hotel projects or a decline in demand for any other reason, our pipeline may be adversely affected, resulting in delays in the opening of new hotels or decreases in the number of future properties that we could potentially manage or franchise.

***Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012***

During the nine months ended September 30, 2013, we experienced system-wide improvement at our comparable hotels in occupancy, ADR and RevPAR, compared to the nine months ended September 30, 2012. Despite challenges in specific markets, we were able to increase rates in markets where demand outpaced supply resulting in a 3.4 percent increase in system-wide ADR. System-wide occupancy increased 1.4 percentage points and the combination of improved occupancy and ADR drove a system-wide RevPAR increase of 5.3 percent.

Our Asia Pacific region had a RevPAR increase of 6.3 percent due to an increase in occupancy of 5.0 percentage points. In the Americas region, which includes the U.S., RevPAR increased 5.4 percent due to an increase in ADR of 3.7 percent.

Our hotels in the MEA region experienced a RevPAR increase of 10.2 percent, due to an increase in ADR of 14.9 percent. The majority of this improvement occurred during the first half of 2013. Our European hotels experienced a RevPAR increase of 3.7 percent due to increased occupancy of 2.9 percentage points. There continues to be political unrest and macroeconomic uncertainty in certain portions of the EMEA region that may have an effect on our hotel revenues.

**Table of Contents**

Our overall operating performance during the nine months ended September 30, 2013 improved when compared to the nine months ended September 30, 2012, driven by improvements in both system-wide occupancy and ADR. Our results for the periods are as follows:

	<b>Nine Months Ended</b>		<b>Increase / (Decrease)</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>\$ change</b>	<b>% change</b>
	<b>2013</b>	<b>2012</b>		
	<b>(in millions)</b>			
<b>Revenues</b>				
Owned and leased hotels	\$ 2,982	\$ 2,931	\$ 51	1.7
Management and franchise fees and other	868	807	61	7.6
Timeshare	809	822	(13)	(1.6)
	4,659	4,560	99	2.2
Other revenues from managed and franchised properties	2,433	2,378	55	2.3
<b>Total revenues</b>	<b>7,092</b>	<b>6,938</b>	<b>154</b>	<b>2.2</b>
<b>Expenses</b>				
Owned and leased hotels	2,327	2,401	(74)	(3.1)
Timeshare	545	568	(23)	(4.0)
Depreciation and amortization	455	394	61	15.5
Impairment losses		33	(33)	NM <sup>(1)</sup>
General, administrative, and other	319	327	(8)	(2.4)
	3,646	3,723	(77)	(2.1)
Other expenses from managed and franchised properties	2,433	2,378	55	2.3
<b>Total expenses</b>	<b>6,079</b>	<b>6,101</b>	<b>(22)</b>	<b>(0.4)</b>
<b>Operating income</b>	<b>1,013</b>	<b>837</b>	<b>176</b>	<b>21.0</b>
Interest income	5	11	(6)	(54.5)
Interest expense	(401)	(423)	22	(5.2)
Equity in earnings from unconsolidated affiliates	11	1	10	NM <sup>(1)</sup>
Gain (loss) on foreign currency transactions	(43)	27	(70)	NM <sup>(1)</sup>
Other gain, net	5	8	(3)	(37.5)
<b>Income before income taxes</b>	<b>590</b>	<b>461</b>	<b>129</b>	<b>28.0</b>
Income tax expense	(192)	(166)	(26)	15.7
<b>Net income</b>	<b>398</b>	<b>295</b>	<b>103</b>	<b>34.9</b>
<b>Net income attributable to noncontrolling interests</b>	<b>(9)</b>	<b>(4)</b>	<b>(5)</b>	<b>NM<sup>(1)</sup></b>
<b>Net income attributable to Hilton stockholder</b>	<b>\$ 389</b>	<b>\$ 291</b>	<b>\$ 98</b>	<b>33.7</b>

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



**Table of Contents**

	<b>Nine Months Ended September 30, 2013</b>	<b>Variance 2013 vs. 2012</b>
<b>Comparable Hotel Statistics</b>		
Owned and leased hotels		
Occupancy	76.6%	0.9% pts
ADR	\$ 188.01	3.2%
RevPAR	\$ 144.06	4.5%
Managed and franchised hotels		
Occupancy	73.3%	1.4% pts
ADR	\$ 130.75	3.4%
RevPAR	\$ 95.78	5.4%
System-wide		
Occupancy	73.5%	1.4% pts
ADR	\$ 136.24	3.4%
RevPAR	\$ 100.19	5.3%

**Revenues**

	<b>Nine Months Ended September 30,</b>		<b>Percent Change</b>
	<b>2013</b>	<b>2012</b>	<b>2013 vs. 2012</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 2,982	\$ 2,931	1.7
Management and franchise fees and other	868	807	7.6
Timeshare	809	822	(1.6)
	\$ 4,659	\$ 4,560	2.2

Revenues as presented in this section excludes other revenues from managed and franchised properties of \$2,433 million and \$2,378 million during the nine months ended September 30, 2013 and 2012, respectively.

*Owned and leased hotels*

The overall improved performance at our owned and leased hotels primarily was a result of improvement in RevPAR of 4.5 percent, respectively, at our comparable owned and leased hotels.

As of September 30, 2013, we had 35 consolidated owned and leased hotels located in the U.S., comprising 24,050 rooms. Revenues at our U.S. owned and leased hotels totaled \$1,520 million and \$1,411 million for the nine months ended September 30, 2013 and 2012, respectively. The increase of \$109 million, or 7.7 percent, was primarily driven by an increase in RevPAR at our U.S. comparable owned and leased hotels of 7.0 percent, which was due to increases in ADR and occupancy of 4.9 percent and 1.6 percentage points, respectively. The increase in our U.S. owned and leased hotel revenue was primarily driven by group business, as room revenue from group travel at our U.S. comparable owned and leased hotels increased 7.7 percent, due to a combination of increases in group ADR of 3.9 percent and group occupied rooms of 3.7 percent. Room revenue from transient guests at our U.S. comparable owned and leased hotels also increased 3.4 percent, primarily due to an increase in transient ADR of 3.3 percent.

As of September 30, 2013, 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 \$1,462 million and \$1,520 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease of \$58 million, or 3.8 percent, was primarily due to a combination of an unfavorable movement in foreign currency rates and the sales and lease terminations of hotels after September 30, 2012, which contributed to \$49 million and \$27 million of the decrease, respectively. These decreases were partially offset by the increase in RevPAR at our international comparable owned and leased hotels of 1.6 percent, which was primarily due to an increase in ADR of 1.2 percent.

**Table of Contents***Management and franchise fees and other*

Management and franchise fee revenue for the nine months ended September 30, 2013 and 2012 totaled \$827 million and \$768 million, respectively. The increase of \$59 million, or 7.7 percent, in our management and franchise fee business reflects increases in RevPAR of 6.2 percent and 5.2 percent at our comparable managed and franchised properties, respectively. The increases in RevPAR for managed and franchised hotels were driven by both increased occupancy and ADR.

The addition of new hotels to our managed and franchised system also contributed to the growth in revenue. From September 30, 2012 to September 30, 2013 we added 47 managed properties on a net basis, contributing an additional 9,447 rooms to our system, as well as 112 franchised properties on a net basis, providing an additional 16,813 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 nine months ended September 30, 2013 and 2012 were relatively unchanged at \$41 million and \$39 million, respectively.

*Timeshare*

The decrease in timeshare revenue was due to a decrease of approximately \$90 million in real estate sales, due to lower sales volumes from our developed properties, which we expect to continue as we further develop our capital light timeshare business. This decrease was partially offset by an increase of \$56 million in sales commissions and fees earned on projects developed by third parties, primarily due to two properties comprising 1,033 units commencing sales during or after the nine months ended September 30, 2012. There was also an increase of approximately \$17 million of financing revenues and other revenues generated primarily from our resort operations.

**Operating Expenses**

	<b>Nine Months Ended September 30, 2013      2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 2,327	\$ 2,401	(3.1)
Timeshare	545	568	(4.0)

Fluctuations in operating expenses at our owned and leased hotels can be related 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 \$1,046 million and \$1,021 million for the nine months ended September 30, 2013 and 2012, respectively. The increase of \$25 million, or 2.4 percent, was due to increased occupancy levels, which resulted in an increase in variable operating expenses, including labor and utility costs.

International owned and leased hotel expenses decreased \$99 million, or 7.2 percent, to \$1,281 million from \$1,380 million. Foreign currency movements contributed \$38 million of the decrease, as international owned and leased hotel expenses, on a currency neutral basis, decreased \$61 million. The decrease in currency neutral expenses was primarily due to expenses incurred in the prior year at properties which we no longer own or lease subsequent to September 30,

2012, as well as cost mitigation strategies and operational efficiencies employed at all of our owned and leased properties. Occupancy at our comparable international owned and leased hotels was relatively consistent period over period.



**Table of Contents**

Timeshare expense decreased \$23 million for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. The decrease was primarily due to lower sales volume at our developed properties resulting in lower cost of sales, offset by an increase in sales and marketing expenses of \$20 million most significantly related to the shift towards our capital light timeshare business. This is consistent with the slight decrease in timeshare revenue during the same periods.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Depreciation and amortization	\$ 455	\$ 394	15.5

Depreciation expense increased \$28 million primarily due to \$264 million in capital expenditures for property and equipment between September 30, 2012 and September 30, 2013, resulting in additional depreciation expense on certain owned and leased assets in 2013. Amortization expense increased \$33 million primarily due to capitalized software costs that were placed into service during the fourth quarter of 2012.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Impairment losses	\$	\$ 33	NM <sup>(1)</sup>

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

During the first nine months of 2012, certain specific markets and properties faced operating and competitive challenges. Such challenges caused a decline in market value of certain corporate buildings and in the expected future results of certain owned and leased properties, which caused us to evaluate the carrying values of these affected properties for impairment. As a result of this evaluation, we recognized impairment losses for the nine months ended September 30, 2012 of \$33 million.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
General, administrative, and other	\$ 319	\$ 327	(2.4)

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 \$282 million and \$288 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease of \$6 million was primarily a result of legal and other operating costs incurred during the nine months ended September 30, 2012 that were not incurred during the nine months ended

September 30, 2013. The decrease also included a decrease in share-based compensation expense, predominately due to the acceleration of certain payments under our share-based compensation plan during the first quarter of 2012, which resulted in an additional \$9 million of expense in that period. The decrease was partially offset by an increase in employee severance costs of \$18 million. Additionally, there was an acceleration of prior service credit of \$13 million on our pension plan in the United Kingdom during the first quarter of 2012, which resulted in a reduction to general and administrative expenses during the nine months ended September 30, 2012.

Other expenses were relatively unchanged at \$37 million and \$39 million for the nine months ended September 30, 2013 and 2012, respectively.

**Table of Contents****Non-operating Income and Expenses**

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Interest expense	\$ 401	\$ 423	(5.2)

Interest expense decreased \$22 million as a result of reductions in our debt balances. We repaid \$389 million of our unsecured notes during the fourth quarter of 2012, and we made unscheduled, voluntary debt payments of \$1 billion during the nine months ended September 30, 2013.

The weighted average effective interest rate on our outstanding debt was approximately 3.2 percent for the nine months ended September 30, 2013, compared to 3.1 percent for the nine months ended September 30, 2012.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Equity in earnings from unconsolidated affiliates	\$ 11	\$ 1	NM <sup>(1)</sup>

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

The \$10 million increase in equity in earnings from unconsolidated affiliates was primarily due to improved performance of our unconsolidated affiliates, as well as the sale of our interest in an unconsolidated affiliate in June 2012 that generated a loss of \$2 million during the nine months ended September 30, 2012. In addition, during the nine months ended September 30, 2012, we recognized \$4 million of impairment losses on our equity investments, while there were no impairment losses on our equity method investments during the nine months ended September 30, 2013.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Gain (loss) on foreign currency transactions	\$ (43)	\$ 27	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.

	<b>Nine Months Ended September 30,</b>		<b>Percent Change</b>
	<b>2013</b>	<b>2012</b>	<b>2013 vs. 2012</b>
	<b>(in millions)</b>		
Other gain, net	\$ 5	\$ 8	(37.5)

The other gain, net for the nine months ended September 30, 2013 was primarily related to a capital lease restructuring by one of our consolidated variable interest entities ( VIEs ) during the period. 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.

**Table of Contents**

The other gain, net for the nine months ended September 30, 2012 was primarily related to the pre-tax gain of \$5 million resulting from the sale of our interest in an investment in affiliate accounted for under the equity method.

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
Income tax expense	\$ (192)	\$ (166)	15.7

The effective income tax rate is determined by the level and composition of pre-tax income which is subject to federal, foreign, state, and local income taxes. The lower effective tax rate, as compared to our statutory tax rate, for the nine months ended September 30, 2013, was largely affected by a net decrease of \$35 million in unrecognized tax benefits.

**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 included elsewhere in this prospectus. Refer to those financial statements for a reconciliation of Adjusted EBITDA, a non-GAAP financial measure, to net income attributable to Hilton stockholder. For a discussion of our definition of EBITDA and Adjusted EBITDA, how management uses it 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, for the nine months ended September 30, 2013 and 2012:

	<b>Nine Months Ended September 30, 2013                  2012</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>(in millions)</b>		
<b>Revenues:</b>			
Ownership <sup>(1)</sup>	\$ 3,003	\$ 2,951	1.8
Management and franchise <sup>(2)</sup>	938	877	7.0
Timeshare	809	822	(1.6)
Segment revenues	4,750	4,650	2.2
Other revenues from managed and franchised properties	2,433	2,378	2.3
Other revenues <sup>(3)</sup>	48	46	4.3
Intersegment fees elimination <sup>(1)(2)(3)</sup>	(139)	(136)	2.2
Total revenues	\$ 7,092	\$ 6,938	2.2
<b>Adjusted EBITDA</b>			
Ownership <sup>(1)(4)</sup>	\$ 672	\$ 566	18.7
Management and franchise <sup>(2)</sup>	938	877	7.0
Timeshare	205	198	3.5
Corporate and other <sup>(3)</sup>	(208)	(207)	0.5

Adjusted EBITDA	\$ 1,607	\$ 1,434	12.1
-----------------	----------	----------	------

- (1) Includes charges to our timeshare segment by our ownership segment for rental fees and fees for other amenities, which are eliminated in our condensed consolidated financial statements. These charges totaled \$19 million and \$17 million for the nine months ended September 30, 2013 and 2012, respectively. While the net impact is zero, our measure of segment Adjusted EBITDA includes these fees as a benefit to the ownership segment and a cost to the timeshare segment.

**Table of Contents**

- (2) Includes management, royalty, and intellectual property fees of \$71 million and \$70 million for the nine months ended September 30, 2013 and 2012, respectively. These fees are charged to consolidated owned and leased properties and are eliminated in our condensed consolidated financial statements. Also, includes a licensing fee of \$40 million and \$39 million for the nine months ended September 30, 2013 and 2012, respectively, which is charged to our timeshare segment by our management and franchise segment and is eliminated in our condensed consolidated financial statements.
- (3) Includes charges to consolidated owned and leased properties for laundry services of \$7 million for the nine months ended September 30, 2013 and 2012, respectively. These charges are earned by our Other category and therefore are eliminated in our condensed consolidated financial statements.
- (4) Includes Adjusted EBITDA from unconsolidated affiliates.

*Ownership*

Ownership segment revenues increased \$52 million primarily due to an improvement in RevPAR of 4.5 percent at our comparable owned and leased hotels. Refer to Revenues Owned and leased hotels within this section for further discussion on the increase in revenues from our comparable owned and leased hotels. Our ownership segment's Adjusted EBITDA increased \$106 million primarily as a result of the increase in ownership segment revenues of \$52 million and the decrease in segment operating expenses of \$50 million. Refer to Operating Expenses Owned and leased hotels within this section for further discussion on the decrease in operating expenses.

*Management and franchise*

Management and franchise segment revenues increased \$61 million primarily as a result of increases in RevPAR of 6.2 percent and 5.2 percent at our comparable managed and franchised properties, respectively, and the net addition of hotels added to our managed and franchised system. Refer to Revenues Management and franchise fees and other within this section for further discussion on the increase in revenues from our comparable 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*

Refer to Revenues Timeshare within this section for a discussion of the decrease in revenues from our timeshare segment. Our timeshare segment's Adjusted EBITDA increased \$7 million as a result of the \$23 million decrease in timeshare operating expense, offset by the \$13 million decrease in timeshare revenue. Refer to Operating Expenses Timeshare within this section for a discussion of the decrease in operating expenses from our timeshare segment.

***Year Ended December 31, 2012 Compared with Year Ended December 31, 2011***

For 2012, the growth in hotel room demand continued from 2011 and 2010, as we experienced system-wide improvement in occupancy, ADR, and RevPAR, compared to the year ended December 31, 2011. Despite challenges in specific markets, we were able to increase rates in markets where demand outpaced supply resulting in a 2.9 percent increase in system-wide ADR in the year ended December 31, 2012, compared to the year ended December 31, 2011. System-wide occupancy increased 1.9 percentage points in the year ended December 31, 2012, compared to the year ended December 31, 2011; and, the combination of improved occupancy and ADR drove a system-wide RevPAR increase of 5.7 percent in the year ended December 31, 2012, compared to the year ended December 31, 2011.

The system-wide increase in occupancy was led by our Asia Pacific region, which had an increase of 4.8 percentage points, and was lagged by our European hotels, which had a growth in occupancy of 1.3 percentage points. Our

European hotels experienced a 2.5 percent increase in RevPAR in the year ended December 31, 2012, compared to the year ended December 31, 2011, partially attributable to the 2012 Summer Olympics held in



**Table of Contents**

London. While political unrest in portions of the Middle East continued throughout 2012, the Middle East and Africa experienced a 2.8 percent increase in RevPAR in the year ended December 31, 2012, compared to the year ended December 31, 2011.

As of December 31, 2012, we had ten hotels in Japan, five of which were included in our ownership segment. Additionally, Hilton Grand Vacations had eight sales centers and offices in Japan. None of our hotels or offices in Japan were damaged in the March 2011 earthquake and tsunami. Our Japanese operations stabilized during the third quarter of 2011 and, from that time on, our Japanese hotels have experienced continued improvement in RevPAR, which increased 14.9 percent in the year ended December 31, 2012, compared to the year ended December 31, 2011 and supported the increase in RevPAR of 8.7 percent in our Asia Pacific region between periods. The Asia Pacific region experienced the largest increase in RevPAR of all our regions from 2011.

	<b>Year Ended</b>		<b>Increase / (Decrease)</b>	
	<b>December 31, 2012</b>	<b>2011</b>	<b>\$ change</b>	<b>% change</b>
	<b>(in millions)</b>			
<b>Revenues</b>				
Owned and leased hotels	\$ 3,979	\$ 3,898	\$ 81	2.1
Management and franchise fees and other	1,088	1,014	74	7.3
Timeshare	1,085	944	141	14.9
	6,152	5,856	296	5.1
Other revenues from managed and franchised properties	3,124	2,927	197	6.7
<b>Total revenues</b>	<b>9,276</b>	<b>8,783</b>	<b>493</b>	<b>5.6</b>
<b>Expenses</b>				
Owned and leased hotels	3,230	3,213	17	0.5
Timeshare	758	668	90	13.5
Depreciation and amortization	550	564	(14)	(2.5)
Impairment losses	54	20	34	NM <sup>(1)</sup>
General, administrative, and other	460	416	44	10.6
	5,052	4,881	171	3.5
Other expenses from managed and franchised properties	3,124	2,927	197	6.7
<b>Total expenses</b>	<b>8,176</b>	<b>7,808</b>	<b>368</b>	<b>4.7</b>
<b>Operating income</b>	<b>1,100</b>	<b>975</b>	<b>125</b>	<b>12.8</b>
Interest income	15	11	4	36.4
Interest expense	(569)	(643)	74	(11.5)
Equity in losses from unconsolidated affiliates	(11)	(145)	134	(92.4)
Gain (loss) on foreign currency transactions	23	(21)	44	NM <sup>(1)</sup>
Other gain, net	15	19	(4)	(21.1)
<b>Income before income taxes</b>	<b>573</b>	<b>196</b>	<b>377</b>	<b>NM<sup>(1)</sup></b>
Income tax benefit (expense)	(214)	59	(273)	NM <sup>(1)</sup>

<b>Net income</b>	359	255	104	40.8
<b>Net income attributable to noncontrolling interests</b>	(7)	(2)	(5)	NM <sup>(1)</sup>
<b>Net income attributable to Hilton stockholder</b>	\$ 352	\$ 253	\$ 99	39.1

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

**Table of Contents**

	<b>Year Ended December 31, 2012</b>	<b>Variance 2012 vs. 2011</b>
<b>Comparable Hotel Statistics</b>		
Owned and leased hotels		
Occupancy	74.5%	2.3%pts
ADR	\$ 183.29	1.0%
RevPAR	\$ 136.55	4.2%
Managed and franchised hotels		
Occupancy	70.8%	1.9%pts
ADR	\$ 126.17	3.0%
RevPAR	\$ 89.34	5.8%
System-wide		
Occupancy	71.1%	1.9%pts
ADR	\$ 131.35	2.9%
RevPAR	\$ 93.38	5.7%
<b>Revenues</b>		

	<b>Year ended December 31, 2012      2011</b>		<b>Percent Change 2012 vs. 2011</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 3,979	\$ 3,898	2.1
Management and franchise fees and other	1,088	1,014	7.3
Timeshare	1,085	944	14.9
	\$ 6,152	\$ 5,856	5.1

Revenues as presented in this section, excludes other revenues from managed and franchised properties of \$3,124 million and \$2,927 million during the years ended December 31, 2012 and 2011, respectively.

*Owned and leased hotels*

During the year ended December 31, 2012, the improved performance of our owned and leased hotels primarily was a result of improvement in RevPAR of 4.2 percent at our comparable owned and leased hotels.

As of December 31, 2012, we had 35 consolidated owned and leased hotels located in the U.S., comprising 24,054 rooms. Revenue at our U.S. owned and leased hotels for the years ended December 31, 2012 and 2011 totaled \$1,922 million and \$1,822 million, respectively. The increase of \$100 million, or 5.5 percent, was primarily driven by an increase in RevPAR of 5.1 percent, which was due to increases in ADR and occupancy at our U.S. comparable owned and leased hotels of 1.5 percent and 2.7 percentage points, respectively.

Room revenue from transient guests at our U.S. comparable owned and leased hotels increased 10.4 percent, due to increases in transient ADR of 2.9 percent and transient occupancy of 7.3 percent. The increased transient room revenue was in part offset by decreases in room revenue from group travel at our U.S. comparable owned and leased hotels of 3.0 percent during the year ended December 31, 2012, compared to the year ended December 31, 2011. The

decrease in group room revenue at our U.S. comparable owned and leased hotels was primarily due to one large group at one hotel driving significant group room revenue in 2011 that did not recur in 2012. Excluding this one hotel from the prior year results, our group room revenue at our U.S. comparable owned and leased hotels increased 2.0 percent.

**Table of Contents**

As of December 31, 2012, we had 94 consolidated owned and leased hotels located outside of the U.S., comprising 26,565 rooms. Revenue from our international owned and leased hotels totaled \$2,057 million and \$2,076 million for the years ended December 31, 2012 and December 31, 2011, respectively. The revenue decrease of \$19 million, or 0.9 percent, was primarily due to an unfavorable movement in foreign currency rates of \$76 million. On a currency neutral basis, international owned and leased hotel revenue increased \$57 million, or 2.9 percent. The increase was primarily driven by an increase in RevPAR of 3.4 percent, which was due to an increase in occupancy at our comparable international owned and leased hotels of 1.9 percentage points, while ADR remained relatively consistent period over period. The increase was also due to recovery in Japan as operations stabilized in the third quarter of 2011 after the natural disasters negatively impacted revenues for the first half of 2011. This recovery, on a currency neutral basis, resulted in an increase in RevPAR at our comparable Japanese owned and leased hotels of 18.2 percent, which was driven by an increase in occupancy and ADR of 10.5 percentage points and 2.1 percent, respectively.

*Management and franchise fees and other*

Management and franchise fee revenue for the years ended December 31, 2012 and 2011 totaled \$1,032 million and \$965 million, respectively. The increase of \$67 million, or 6.9 percent, in our management and franchise business reflects increases in RevPAR of 4.9 percent and 6.2 percent at our comparable managed and franchised properties, respectively. The increases in RevPAR for both comparable periods for managed and franchised hotels were primarily driven by increased occupancy and rates charged to guests.

The addition of new hotels to our managed and franchised system also contributed to the growth in revenue. We added 13 managed properties on a net basis, contributing an additional 4,265 rooms to our system, as well as 107 franchised properties on a net basis, providing an additional 14,007 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 increased \$7 million, or 14.3 percent, between periods, totaling \$56 million and \$49 million, respectively, for the years ended December 31, 2012 and 2011.

*Timeshare*

Timeshare revenue for the year ended December 31, 2012 was \$1,085 million, an increase of \$141 million, or 14.9 percent, from \$944 million during the year ended December 31, 2011. This increase was primarily due to a \$66 million increase in revenue from the sale of timeshare units developed by us, as well as an increase of \$46 million in sales commissions and fees earned on projects developed by third parties. Additionally, our revenue from resorts operations and financing and other revenues both increased \$9 million.

**Operating Expenses**

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 3,230	\$ 3,213	0.5
Timeshare	758	668	13.5

U.S. owned and leased hotel expense totaled \$1,370 million and \$1,345 million, respectively, for the years ended December 31, 2012 and 2011. The increase of \$25 million, or 1.9 percent, was partially due to increased occupancy of 2.7 percentage points at our comparable U.S. owned and leased hotels, which resulted in an increase in labor and utility costs. The increase was also due to increases to sales and marketing expenses, insurance expenses, and property taxes at our U.S. owned and leased hotels.

**Table of Contents**

International owned and leased hotel expense decreased \$8 million, or 0.4 percent, to \$1,860 million from \$1,868 million, respectively, for the year ended December 31, 2012 compared to the year ended December 31, 2011. However, there were foreign currency movements of \$66 million between the years ended December 31, 2012 and 2011, which decreased owned and leased hotel expenses. International owned and leased hotel expenses, on a currency neutral basis, increased \$58 million. The increase in currency neutral expense was primarily due to increased occupancy of 1.9 percentage points at our comparable international owned and leased hotels, which resulted in an increase in variable operating expenses and energy costs. The increase was also due to increases in rent expenses, certain of which have a variable component based on hotel revenues or profitability, as well as repair and maintenance expenses, insurance expenses, and property taxes at our international owned and leased hotels.

Timeshare expense increased \$90 million for the year ended December 31, 2012, compared to the year ended December 31, 2011 primarily due to increased sales, marketing, general, and administrative costs associated with the increase in timeshare revenue during the same period.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
Depreciation and amortization	\$ 550	\$ 564	(2.5)

Depreciation and amortization expense decreased \$14 million for the year ended December 31, 2012, compared to the year ended December 31, 2011. Depreciation expense, including amortization of assets recorded under capital leases, decreased \$33 million primarily due to capital lease amendments which resulted in extending asset useful lives in the second half of 2011, as well as 2011 impairments, which resulted in lower depreciable asset bases for 2012. These instances led to lower depreciation expense on the same assets for the year ended December 31, 2012 compared to the year ended December 31, 2011. Amortization expense increased \$19 million primarily due to capitalized software that was placed in service during the year ended December 31, 2012.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
Impairment losses	\$ 54	\$ 20	NM <sup>(1)</sup>

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

During the year ended December 31, 2012, certain specific markets and properties, particularly in Europe, continued to face operating and competitive challenges. Such challenges caused a decline in market value of certain corporate buildings in the current year and in expected future results for certain owned and leased properties, which caused us to evaluate the carrying values of these affected properties for impairment. During 2012, we recognized impairment losses of \$42 million related to our owned and leased hotels, \$11 million of impairment losses related to certain corporate office facilities, and \$1 million of impairment losses related to one cost method investment. During 2011, we recognized impairment losses of \$17 million related to our owned and leased hotels and \$3 million on timeshare properties.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
General, administrative, and other expense	\$ 460	\$ 416	10.6

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



**Table of Contents**

General and administrative expenses for the years ended December 31, 2012 and 2011 totaled \$398 million and \$377 million, respectively. In 2011, we recorded a one-time \$20 million insurance recovery related to a prior year legal settlement. Excluding this recovery, general and administrative expenses increased \$1 million for the year ended December 31, 2012, compared to the year ended December 31, 2011. The increase includes a \$31 million increase in share-based compensation expense due to the acceleration of certain payments under our share-based compensation plan. These increases were offset by decreases in employee retirement costs from the acceleration of a \$13 million prior service credit relating to the freeze of our U.K. Pension Plan agreed to in March 2012, reorganization costs of \$16 million that were recorded in 2011, and other operating costs.

Other expenses were \$62 million and \$39 million, respectively, for the years ended December 31, 2012 and 2011. This increase of \$23 million was due to an increase of \$16 million in various operating expenses incurred for the incidental support of hotel operations and an increase of \$3 million for guarantee payments.

**Non-operating Income and Expenses**

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		

Interest expense	\$ 569	\$ 643	(11.5)
------------------	--------	--------	--------

Interest expense decreased \$74 million for the year ended December 31, 2012, compared to the year ended December 31, 2011. The decrease in interest expense was attributable to debt payments during the fourth quarter 2011, which resulted in lower 2012 debt principal balances to which interest was applied.

The weighted average effective interest rate on our outstanding debt was approximately 3.4 percent and 3.7 percent for the years ended December 31, 2012 and 2011, respectively.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		

Equity in losses from unconsolidated affiliates	\$ 11	\$ 145	(92.4)
---	-------	--------	--------

The \$134 million decrease in the loss from prior year was primarily due to other-than-temporary impairments on our equity investments of \$19 million for the year ended December 31, 2012, as compared to other-than-temporary impairments of \$141 million for the year ended December 31, 2011 resulting from declines in certain joint ventures current and expected future operating results.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		

Gain (loss) on foreign currency transactions	\$ 23	\$ (21)	NM <sup>(1)</sup>
--	-------	---------	-------------------

(1) 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.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
Other gain, net	\$ 15	\$ 19	(21.1)

**Table of Contents**

The other gain, net for the year ended December 31, 2012 was primarily related to a pre-tax gain of \$5 million resulting from the sale of our interest in an investment in affiliate accounted for under the equity method, as well as a \$6 million gain due to the resolution of certain contingencies relating to historical asset sales.

The other gain, net for the year ended December 31, 2011 was primarily due to a gain of \$16 million on the sale of our former headquarters building in Beverly Hills, California, as well a gain of \$13 million related to the restructuring of a capital lease. These gains were offset by a loss of \$10 million related to the sale of our interest in a hotel development joint venture.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
Income tax benefit (expense)	\$ (214)	\$ 59	NM <sup>(1)</sup>

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

Our income tax expense for the year ended December 31, 2012 was primarily a result of \$201 million related to our U.S. federal income tax provision. For the year ended December 31, 2011, our income tax expense, which was primarily related to \$69 million and \$50 million in U.S. federal and foreign income tax provision, respectively, was offset by a release of \$182 million in valuation allowance against our deferred tax assets related to U.S. federal foreign tax credits resulting in an overall tax benefit. Based on our consideration of all positive and negative evidence available, we believe that it is more likely than not we will be able to realize our U.S. federal foreign tax credits.

**Table of Contents****Segment Results**

We evaluate our business segment operating performance using segment revenue and segment Adjusted EBITDA, as described in Note 22: Business Segments in our audited consolidated financial statements included elsewhere in this prospectus. Refer to those financial statements for a reconciliation of Adjusted EBITDA, a non-GAAP financial measure, to net income attributable to Hilton stockholder. For a discussion of our definition of EBITDA and Adjusted EBITDA, how we use it and material limitation 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, for the years ended December 31, 2012 and 2011:

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2012</b>	<b>2011</b>	<b>2012 vs. 2011</b>
	<b>(in millions)</b>		
<b>Revenues</b>			
Ownership	\$ 4,006	\$ 3,926	2.0
Management and franchise	1,180	1,095	7.8
Timeshare	1,085	944	14.9
<b>Segment revenues</b>	<b>6,271</b>	<b>5,965</b>	<b>5.1</b>
Other revenues from managed and franchised properties	3,124	2,927	6.7
Other	66	58	13.8
Intersegment fees elimination <sup>(1)(2)(3)</sup>	(185)	(167)	10.8
	<b>\$ 9,276</b>	<b>\$ 8,783</b>	<b>5.6</b>
<b>Adjusted EBITDA:</b>			
Ownership <sup>(1)(4)</sup>	\$ 793	\$ 725	9.4
Management and franchise <sup>(2)</sup>	1,180	1,095	7.8
Timeshare	252	207	21.7
Corporate and other <sup>(3)</sup>	(269)	(274)	(1.8)
	<b>\$ 1,956</b>	<b>\$ 1,753</b>	<b>11.6</b>

(1) Includes charges to our timeshare segment by our ownership segment for rental fees and fees for other amenities, which are eliminated in our consolidated financial statements. These charges totaled \$24 million and \$27 million for the years ended December 31, 2012 and 2011, respectively. While the net impact is zero, our measure of segment Adjusted EBITDA includes these fees as a benefit to ownership Adjusted EBITDA and a cost to the timeshare segment. Additionally, includes various other intercompany charges of \$3 million for the year ended December 31, 2012, which are eliminated in our consolidated financial statements.

(2) Includes management, royalty, and intellectual property fees of \$96 million and \$88 million for the years ended December 31, 2012 and 2011, respectively. These fees are charged to consolidated owned and leased properties

and are eliminated in our consolidated financial statements. Also, includes a licensing fee of \$52 million and \$43 million for the years ended December 31, 2012 and 2011, respectively, charged to our timeshare segment by our management and franchise segment and eliminated in our consolidated financial statements. While the net impact is zero, our measure of segment Adjusted EBITDA includes these fees as a benefit to management and franchise Adjusted EBITDA and a cost to the ownership and timeshare segments.

- (3) Includes charges to consolidated owned and leased properties for laundry services of \$10 million and \$9 million for the years ended December 31, 2012 and 2011, respectively. These charges are earned by our Other category and therefore are eliminated in our consolidated financial statements.
- (4) Includes unconsolidated affiliate Adjusted EBITDA.

## **Table of Contents**

### *Ownership*

Ownership segment revenues increased primarily due to an improvement in RevPAR of 4.2 percent at our comparable owned and leased hotels. Refer to *Revenues Owned and leased hotels* within this section for further discussion on the increase in revenues from our comparable owned and leased hotels. Our ownership segment's Adjusted EBITDA increased primarily as a result of the increase in ownership segment revenues of \$80 million offset by an increase in operating expenses of \$17 million at our owned and leased hotels. Refer to *Operating Expenses Owned and leased hotels* within this section for further discussion on the increase in operating expenses at our owned and leased hotels.

### *Management and franchise*

Management and franchise segment revenues increased primarily as a result of increases in RevPAR of 4.9 percent and 6.2 percent at our comparable managed and franchised properties, respectively, and the net addition of hotels added to our managed and franchised system. Refer to *Revenues Management and franchise fees and other* within this section for further discussion on the increase in revenues from our comparable 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*

Refer to *Revenues Timeshare* within this section for a discussion of the increase in revenues from our timeshare segment. Our timeshare segment's Adjusted EBITDA increased as a result of the \$141 million increase in timeshare revenue, offset by a \$90 million increase in timeshare operating expenses. Refer to *Operating Expenses Timeshare* within this section for a discussion of the increase in operating expenses from our timeshare segment.

**Table of Contents****Year Ended December 31, 2011 Compared with Year Ended December 31, 2010**

In 2011, we continued to experience the recovery in hotel room demand that began in 2010, as we had system-wide improvement in occupancy, ADR, and RevPAR during the year ended December 31, 2011 compared to the year ended December 31, 2010. System-wide occupancy increased 2.1 percentage points, in the year ended December 31, 2011, compared to the year ended December 31, 2010, although certain geographic regions had lower growth or occupancy, which was driven by unrest in the Middle East and the tsunami in Japan. Despite challenges in specific markets, we were able to increase rates in markets where demand outpaced supply. System-wide ADR increased 2.8 percent, on a currency neutral basis, in the year ended December 31, 2011, compared to the year ended December 31, 2010, reflecting an improvement in pricing power and stronger year-over-year revenue from business travel. The combination of improved occupancy and ADR drove a system-wide RevPAR increase of 5.9 percent, on a currency neutral basis, in the year ended December 31, 2011, compared to the year ended December 31, 2010.

	<b>Year Ended</b>		<b>Increase / (Decrease)</b>	
	<b>December 31,</b>	<b>2010</b>	<b>\$ change</b>	<b>% change</b>
	<b>(in millions)</b>			
<b>Revenues</b>				
Owned and leased hotels	\$ 3,898	\$ 3,667	\$ 231	6.3
Management and franchise fees and other	1,014	901	113	12.5
Timeshare	944	863	81	9.4
	5,856	5,431	425	7.8
Other revenues from managed and franchised properties	2,927	2,637	290	11.0
<b>Total revenues</b>	<b>8,783</b>	<b>8,068</b>	<b>715</b>	<b>8.9</b>
<b>Expenses</b>				
Owned and leased hotels	3,213	3,009	204	6.8
Timeshare	668	634	34	5.4
Depreciation and amortization	564	574	(10)	(1.7)
Impairment losses	20	24	(4)	(16.7)
General, administrative, and other	416	637	(221)	(34.7)
	4,881	4,878	3	0.1
Other expenses from managed and franchised properties	2,927	2,637	290	11.0
<b>Total expenses</b>	<b>7,808</b>	<b>7,515</b>	<b>293</b>	<b>3.9</b>
<b>Operating income</b>	<b>975</b>	<b>553</b>	<b>422</b>	<b>76.3</b>
Interest income	11	9	2	22.2
Interest expense	(643)	(946)	303	(32.0)
Equity in losses from unconsolidated affiliates	(145)	(12)	(133)	NM <sup>(1)</sup>
Gain (loss) on foreign currency transactions	(21)	18	(39)	NM <sup>(1)</sup>
Gain on debt restructuring		789	(789)	NM <sup>(1)</sup>
Other gain, net	19	8	11	NM <sup>(1)</sup>
<b>Income before income taxes</b>	<b>196</b>	<b>419</b>	<b>(223)</b>	<b>(53.2)</b>

Income tax benefit (expense)	59	(308)	367	NM <sup>(1)</sup>
<b>Net income</b>	255	111	144	NM <sup>(1)</sup>
<b>Net loss (income) attributable to noncontrolling interests</b>	(2)	17	(19)	NM <sup>(1)</sup>
<b>Net income attributable to Hilton stockholder</b>	\$ 253	\$ 128	\$ 125	97.7

(1) Fluctuation in terms of percentage change is not meaningful.



**Table of Contents**

	<b>Year Ended December 31, 2011</b>	<b>Variance 2011 vs. 2010</b>
<b>Comparable Hotel Statistics</b>		
Owned and leased hotels		
Occupancy	73.7%	0.1%pts
ADR	\$ 186.56	4.1%
RevPAR	\$ 137.41	4.3%
Managed and franchised hotels		
Occupancy	69.4%	2.3%pts
ADR	\$ 124.11	2.7%
RevPAR	\$ 86.09	6.3%
System-wide		
Occupancy	69.7%	2.1%pts
ADR	\$ 130.15	2.8%
RevPAR	\$ 90.70	5.9%

**Revenues**

	<b>Year ended December 31, 2011                  2010</b>		<b>Percent Change 2011 vs. 2010</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 3,898	\$ 3,667	6.3
Management and franchise fees and other	1,014	901	12.5
Timeshare	944	863	9.4
	\$ 5,856	\$ 5,431	7.8

Revenues as presented in this section, excludes other revenues from managed and franchised properties of \$2,927 million and \$2,637 million during the years ended December 31, 2011 and 2010, respectively.

*Owned and leased hotels*

During the year ended December 31, 2011, the improved performance of our owned and leased hotels primarily was a result of an increase in RevPAR of 4.3 percent at our comparable owned and leased hotels and an additional \$35 million in revenue from the Hilton Orlando Lake Buena Vista, which we acquired in August 2010.

As of December 31, 2011, we had 35 consolidated owned and leased hotels located in the U.S., comprising 24,044 rooms. Revenue at our U.S. owned and leased hotels for the years ended December 31, 2011 and 2010 totaled \$1,822 million and \$1,707 million, respectively. The increase of \$115 million, or 6.7 percent, was primarily driven by an increase in RevPAR of 5.1 percent, which was due to an increase in ADR at our U.S. comparable owned and leased hotels of 5.1 percent, while occupancy remained consistent.

Room revenue from group travel at our U.S. comparable owned and leased hotels increased 8.1 percent, due to increases in group ADR and group occupancy of 4.4 percent and 3.6 percent, respectively. Room revenue from transient guests at our U.S. comparable owned and leased hotels increased 3.3 percent, due to an increase in transient

ADR of 6.0 percent, offset by a decrease in transient occupancy of 2.5 percent.

As of December 31, 2011, we had 94 consolidated owned and leased hotels located outside of the U.S., comprising 26,578 rooms. Revenue from our international owned and leased hotels totaled \$2,076 million and \$1,960 million for the years ended December 31, 2011 and December 31, 2010, respectively. The revenue increase of \$116 million, or 5.9 percent, was primarily due to a favorable movement in foreign currency rates of

**Table of Contents**

\$82 million. On a currency neutral basis, international owned and leased hotel revenue increased \$34 million, or 1.7 percent. The increase was primarily driven by an increase in RevPAR of 3.6 percent, which was due to an increase in ADR at our comparable international owned and leased hotels of 3.3 percent, while occupancy remained relatively flat.

*Management and franchise fees and other*

Management and franchise fee revenue for the years ended December 31, 2011 and 2010 totaled \$965 million and \$851 million, respectively. The increase of \$114 million, or 13.4 percent, in our management and franchise business reflects increases in RevPAR of 4.9 percent and 6.8 percent at our comparable managed and franchised properties, respectively. The increases in RevPAR for both comparable periods for managed and franchised hotels were primarily driven by global economic recovery. Additionally, we recognized \$24 million of termination fees during 2011, primarily related to the early termination of two management contracts.

The addition of new hotels to our managed and franchised system also contributed to the growth in revenue. We added 32 managed properties on a net basis, contributing an additional 8,122 rooms to our system, as well as 103 franchised properties on a net basis, providing an additional 15,431 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 decreased \$1 million, or 2.0 percent, between periods, totaling \$49 million and \$50 million, respectively, for the years ended December 31, 2011 and 2010.

*Timeshare*

Timeshare revenue for the year ended December 31, 2011 was \$944 million, an increase of \$81 million, or 9.4 percent, from \$863 million during the year ended December 31, 2010. This increase was primarily due to an increase of \$28 million in sales and marketing fee revenue from selling timeshare properties developed by third parties and a \$23 million increase in revenue from the sale of timeshare units developed by us. Our revenue from resort operations and financing and other revenues also increased \$19 million and \$7 million, respectively.

**Operating Expenses**

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Owned and leased hotels	\$ 3,213	\$ 3,009	6.8
Timeshare	668	634	5.4

U.S. owned and leased hotel expense totaled \$1,345 million and \$1,256 million, respectively, for the years ended December 31, 2011 and 2010. As occupancy was relatively unchanged between the years, the increase of \$89 million, or 7.1 percent, was primarily due to increases in wages and benefits, energy costs, as well as an increase in food and beverage expenses at our U.S. comparable owned and leased hotels, which correlates with the increase in food and beverage revenue at those hotels.

International owned and leased hotel expense increased \$115 million, or 6.6 percent, from \$1,753 million to \$1,868 million, respectively, for the year ended December 31, 2011, compared to the year ended December 31, 2010. The primary driver of this increase was foreign currency movements of \$70 million between the years ended December 31, 2011 and 2010. International owned and leased hotel expenses, on a currency neutral basis, increased \$45 million. As occupancy remained relatively consistent, the increase in currency neutral expense was primarily due to increases in wages and benefits at our international owned and leased hotels.

**Table of Contents**

Timeshare expense increased \$34 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to increased sales, marketing, general, and administrative costs as well as increased timeshare cost of sales.

	<b>Year ended December 31, 2011                  2010 (in millions)</b>		<b>Percent Change 2011 vs. 2010</b>
Depreciation and amortization	\$ 564	\$ 574	(1.7)

Depreciation and amortization expense decreased \$10 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, due to certain furniture, fixtures, and equipment being fully depreciated in 2011.

	<b>Year ended December 31, 2011                  2010 (in millions)</b>		<b>Percent Change 2011 vs. 2010</b>
Impairment losses	\$ 20	\$ 24	(16.7)

While the performance of our owned and leased portfolio generally improved during 2011, certain segments and markets continued to face challenges. Such challenges caused a decline in 2011 results and expected future results for certain owned and leased properties, which caused us to evaluate the carrying values of specific owned and leased properties. During 2011, we recognized impairment on various property and equipment, including \$17 million related to our owned and leased hotels and \$3 million on timeshare properties. During 2010, we recognized impairment of \$23 million related to our owned and leased hotels and \$1 million on timeshare properties.

	<b>Year ended December 31, 2011                  2010 (in millions)</b>		<b>Percent Change 2011 vs. 2010</b>
General, administrative, and other expenses	\$ 416	\$ 637	(34.7)

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 for the years ended December 31, 2011 and 2010 totaled \$377 million and \$578 million, respectively. In 2011, we recorded a one-time \$20 million insurance recovery related to a prior year legal settlement. In 2010, we recorded \$150 million of expense related to a legal settlement. Excluding this recovery and legal settlement, general and administrative expenses decreased \$31 million. The decrease was primarily due to higher share-based compensation expense in 2010 of \$37 million, resulting from the modification of our share-based compensation plan, offset by increases in various other general and administrative costs.

Other expenses were \$39 million and \$59 million, respectively, for the years ended December 31, 2011 and 2010. This decrease of \$20 million, or 33.9 percent, was due to a decrease of \$9 million in guarantee payments related to management contracts and a net decrease of \$11 million in various operating expenses incurred for the incidental

support of hotel operations.

**Table of Contents****Non-operating Income and Expenses**

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Interest expense	\$ 643	\$ 946	(32.0)

Interest expense decreased \$303 million for the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease was primarily due to a decrease in our long-term debt that occurred as a result of the restructuring (the Debt Restructuring) of our senior mortgage loan and our secured mezzanine loans (collectively, the Secured Debt) in April 2010. The Debt Restructuring resulted in a \$4.0 billion overall reduction in our indebtedness. Additionally, the decrease is the result of a reduction in the long-term debt balance due to principal payments of \$726 million made during the year ended December 31, 2011 and the expiration of our interest rate swaps at the end of 2010. This decrease was partially offset by an increase in the interest rate spreads on certain portions of the Secured Debt in conjunction with the Debt Restructuring. The increases in the interest rate spreads were partially offset by a decrease in the London Interbank Offered Rate (LIBOR) between periods (see Liquidity and Capital Resources) and the reduction of the principal of third-party debt.

The weighted average effective interest rate on our outstanding debt was approximately 3.7 percent and 4.9 percent for the years ended December 31, 2011 and 2010, respectively.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Equity in losses from unconsolidated affiliates	\$ 145	\$ 12	NM <sup>(1)</sup>

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

The increase in the loss from prior year was primarily due to other-than-temporary impairments on our equity investments of \$141 million for the year ended December 31, 2011, as compared to other than temporary impairments of \$6 million for the year ended December 31, 2010. In connection with the economic downturn and recent valuations received for our equity method investments, which indicate a lack of recoverability to the fair values assigned during our acquisition in October 2007, we determined that we had an other-than-temporary impairment on 20 and three of our equity method investments during 2011 and 2010, respectively. These impairments resulted from declines in certain hotel joint ventures current and expected future operating results. The amount of the impairment was based on the excess of carrying amount of the assets over the fair value as calculated using discounted operating cash flows.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		

Gain (loss) on foreign currency transactions	\$ (21)	\$ 18	NM <sup>(1)</sup>
--	---------	-------	-------------------

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



**Table of Contents**

The net gain (loss) on foreign currency transactions primarily relates to changes in foreign currency rates relating to short-term cross-currency intercompany loans. Additionally, the gain in 2010 partially resulted from the settlement of our portfolio of Euro ( EUR ) and Australian dollar ( AUD ) foreign currency options with a notional value of approximately EUR 540 million and AUD 374 million, as well as the settlement of our remaining undesignated foreign currency options, for a gain of \$20 million.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Gain on debt restructuring	\$	\$ 789	NM <sup>(1)</sup>

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

The gain on debt restructuring of \$789 million for the year ended December 31, 2010 relates to the Debt Restructuring, of which \$4 million of unamortized deferred financing costs were expensed and \$39 million of fees were incurred as part of the overall transaction and were required to be expensed in accordance with the accounting guidance for debt modifications and extinguishments. See the table below for a reconciliation of the \$789 million gain:

	<b>(in millions)</b>
Gain on excess of carrying amount over reacquisition price of certain debt	\$ 910
Less: write-off of existing deferred financing costs	(4)
Less: fees incurred as part of Debt Restructuring	(39)
Loss on excess of reacquisition price over carrying value of debt extinguished by an affiliate on behalf of the Company	(78)
	<b>\$ 789</b>

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Other gain, net	\$ 19	\$ 8	NM <sup>(1)</sup>

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

The other gain, net for the year ended December 31, 2011 was primarily due to a gain of \$16 million on the sale of our former headquarters building in Beverly Hills, California, as well a gain of \$13 million related to the restructuring of a capital lease. These gains were offset by a loss of \$10 million related to the sale of our interest in a hotel development joint venture.

The other gain, net for the year ended December 31, 2010 was primarily related to a gain of \$11 million related to the discounted acquisition of senior unsecured debt in December 2010.

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
Income tax benefit (expense)	\$ 59	\$ (308)	NM <sup>(1)</sup>

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

For the year ended December 31, 2011, our income tax expense, which was primarily related to \$69 million and \$50 million in U.S. federal and foreign income tax provision, respectively, was offset by a release of

**Table of Contents**

\$182 million in valuation allowance against our deferred tax assets related to U.S. federal foreign tax credits resulting in an overall tax benefit. Based on our consideration of all positive and negative evidence available, we believe that it is more likely than not that we will be able to realize our U.S. federal foreign tax credits. Our income tax expense for the year ended December 31, 2010 was primarily a result of \$147 million related to our U.S. federal income tax provision and \$185 million in provision for uncertain tax positions.

**Segment Results**

We evaluate our business segment operating performance using segment revenue and segment Adjusted EBITDA, as described in Note 22: Business Segments in our audited consolidated financial statements included elsewhere in this prospectus. Refer to those financial statements for a reconciliation of Adjusted EBITDA, a non-GAAP financial measure, to net income attributable to Hilton stockholder. For a discussion of our definition of EBITDA and Adjusted EBITDA, how we use it and material limitation 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, for the years ended December 31, 2011 and 2010:

	<b>Year ended December 31,</b>		<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>		
<b>Revenues</b>			
Ownership	\$ 3,926	\$ 3,684	6.6
Management and franchise	1,095	933	17.4
Timeshare	944	863	9.4
Segment revenues	5,965	5,480	8.9
Other revenues from managed and franchised properties	2,927	2,637	11.0
Other	58	59	(1.7)
Intersegment fees elimination <sup>(1)(2)(3)</sup>	(167)	(108)	54.6
	<b>\$ 8,783</b>	<b>\$ 8,068</b>	<b>8.9</b>
<b>Adjusted EBITDA:</b>			
Ownership <sup>(1)(4)</sup>	\$ 725	\$ 688	5.4
Management and franchise <sup>(2)</sup>	1,095	927	18.1
Timeshare	207	212	(2.4)
Corporate and other <sup>(3)</sup>	(274)	(263)	4.2
	<b>\$ 1,753</b>	<b>\$ 1,564</b>	<b>12.1</b>

- (1) Includes charges to our timeshare segment by our ownership segment for rental fees and fees for other amenities, which are eliminated in our consolidated financial statements. These charges totaled \$27 million and \$17 million for the years ended December 31, 2011 and 2010, respectively. While the net impact is zero, our measure of segment Adjusted EBITDA includes these fees as a benefit to ownership Adjusted EBITDA and a cost to the

timeshare segment.

- (2) Includes management, royalty, and intellectual property fees of \$88 million and \$82 million for the years ended December 31, 2011 and 2010, respectively. These fees are charged to consolidated owned and leased properties and are eliminated in our consolidated financial statements. Effective January 1, 2011, management and franchise began charging a licensing fee to our timeshare segment, which is also eliminated in our consolidated financial statements. This fee was \$43 million for the year ended December 31, 2011. While the net impact is zero, our measure of segment Adjusted EBITDA includes these fees as a benefit to management and franchise Adjusted EBITDA and a cost to the ownership and timeshare segments.

## **Table of Contents**

- (3) Includes charges to consolidated owned and leased properties for services provided by our wholly-owned laundry business of \$9 million for the years ended December 31, 2011 and 2010. These charges are eliminated in our consolidated financial statements.
- (4) Includes unconsolidated affiliate Adjusted EBITDA.

### *Ownership*

Ownership segment revenues increased primarily due to an improvement in RevPAR of 4.3 percent at our comparable owned and leased hotels. Refer to *Revenues Owned and leased hotels* within this section for further discussion on the increase in revenues from our comparable owned and leased hotels. Our ownership segment's Adjusted EBITDA increased primarily as a result of the increase in ownership segment revenues of \$242 million offset by an increase in operating expenses of \$204 million at our owned and leased hotels. Refer to *Operating Expenses Owned and leased hotels* within this section for further discussion on the increase in operating expenses at our owned and leased hotels.

### *Management and franchise*

Management and franchise segment revenues increased primarily as a result of increases in RevPAR of 4.9 percent and 6.8 percent at our comparable managed and franchised properties, respectively, \$24 million in termination fees recognized in 2011 and the net addition of hotels added to our managed and franchised system. Refer to

*Revenues Management and franchise fees and other* within this section for further discussion on the increase in revenues from our comparable managed and franchised properties and the termination fees recognized in 2011. Our management and franchise segment's Adjusted EBITDA increased as a result of the increase in management and franchise segment revenues.

### *Timeshare*

Refer to *Revenues Timeshare* within this section for a discussion of the increase in revenues from our timeshare segment. Our timeshare segment's Adjusted EBITDA remained relatively flat as a result of the \$81 million increase in revenues from our timeshare segment being offset by a \$34 million increase in timeshare operating expenses. Refer to

*Operating Expenses Timeshare* within this section for a discussion of the increase in operating expenses from our timeshare segment. The increase in revenues from our timeshare segment was further offset by a \$43 million licensing fee charged to our timeshare segment by our management and franchise segment, which was effective on January 1, 2011.

## **Liquidity and Capital Resources**

### *Overview*

As of September 30, 2013, we had total cash and cash equivalents of \$1,226 million, including both restricted and unrestricted cash balances. Unrestricted cash and cash equivalents totaled \$724 million as of September 30, 2013. Our restricted cash and cash equivalents totaled \$502 million as of September 30, 2013. 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.

**Table of Contents**

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.

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

	<b>As of and for the nine months ended September 30,</b>		<b>Percent Change 2013 vs. 2012</b>
	<b>2013</b>	<b>2012</b>	
	<b>(in millions)</b>		
Net cash provided by operating activities	\$ 1,024	\$ 750	36.5
Net cash used in investing activities	(252)	(413)	(39.0)
Net cash used in financing activities	(789)	(236)	NM <sup>(1)</sup>
Working capital surplus <sup>(2)</sup>	407	821	(50.4)

	<b>As of and for the year ended December 31,</b>			<b>Percent Change</b>	
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012 vs. 2011</b>	<b>2011 vs. 2010</b>
	<b>(in millions)</b>				
Net cash provided by operating activities	\$ 1,110	\$ 1,167	\$ 833	(4.9)	40.1
Net cash used in investing activities	(558)	(463)	(68)	20.5	NM <sup>(1)</sup>
Net cash used in financing activities	(576)	(714)	(703)	(19.3)	1.6
Working capital surplus <sup>(2)</sup>	478	826	1,093	(42.1)	(24.4)

(1) Fluctuation in terms of percentage change is not meaningful.

(2) Total current assets less total current liabilities.

Our ratio of current assets to current liabilities was 1.17, 1.20, and 1.37 as of September 30, 2013, December 31, 2012 and 2011, respectively.

**Operating Activities**

Cash flow from operating activities is primarily generated from management and franchise revenues, operating income from our owned and leased hotels and resorts and sales of timeshare units. In a recessionary market, we may experience significant declines in travel and, thus, declines in demand for our hotel and resort rooms and timeshare units. A decline in demand could have a material impact on our cash flow from operating activities.

Net cash provided by operating activities was \$1,024 million for the nine months ended September 30, 2013, compared to \$750 million for the nine months ended September 30, 2012. The \$274 million increase was primarily due to an increase in operating income of \$176 million and an improvement in our working capital surplus.

The net \$57 million decrease in cash provided by operating activities during the year ended December 31, 2012, compared to the year ended December 31, 2011, was primarily due to changes in various working capital components and an increase in the change in restricted cash and cash equivalents of \$65 million, which were partially offset by an increase in operating income of \$125 million.

The net \$334 million increase in cash provided by operating activities during the year ended December 31, 2011, compared to the year ended December 31, 2010, was primarily due to an increase in operating income of \$422 million, changes in various working capital components, and a decrease in the change in restricted cash and cash equivalents of \$39 million.



---

**Table of Contents*****Investing Activities***

Net cash used in investing activities during the nine months ended September 30, 2013 was \$252 million, compared to \$413 million during the nine months ended September 30, 2012. The \$161 million decrease in cash used in investing activities was primarily attributable to a decrease in capital expenditures for property and equipment of \$169 million and a decrease in software capitalization costs of \$25 million. The decrease in capital expenditures was a result of the completion of renovations at a number of properties in 2012. The decrease in software capitalization costs was a result of corporate software projects that were completed in 2012. These decreases were offset by an increase in acquisitions of \$30 million, primarily due to the acquisition of a parcel of land that we previously held under a long-term ground lease for \$28 million. For the nine months ended September 30, 2013 and 2012, we capitalized labor costs relating to our investing activities, including capital expenditures and software development, of \$10 million in both periods.

The \$95 million increase in net cash used in investing activities during the year ended December 31, 2012, compared to the year ended December 31, 2011, was primarily attributable to an increase in capital expenditures for property and equipment of \$44 million, a decrease in proceeds from asset dispositions of \$80 million, and a decrease in contract acquisition costs of \$22 million. The majority of the increase in capital expenditures related to improvements at existing hotel properties. The decrease in proceeds from asset dispositions was a result of proceeds of \$8 million related to the sale of our interest in an investment accounted for under the equity method in 2012, compared to proceeds of \$23 million and \$65 million, respectively, from the sales of our interest in a hotel development joint venture and our former corporate headquarters office building in 2011. For the years ended December 31, 2012 and 2011, we capitalized labor costs relating to our investing activities, including capital expenditures and software development, of \$14 million for both years.

The \$395 million increase in net cash used in investing activities during the year ended December 31, 2011, compared to the year ended December 31, 2010, was primarily due to increases in capital expenditures for property and equipment of \$241 million, contract acquisition costs of \$47 million, and software capitalization costs of \$73 million, offset by decreases in acquisition costs of \$204 million, proceeds from asset dispositions of \$88 million, and proceeds from the settlement of our foreign currency exchange derivative portfolio of \$324 million. The majority of the increase in capital expenditures related to improvements at existing hotel properties. The decrease in acquisition costs was a result of the purchase of the Hilton Orlando Lake Buena Vista for a cash payment of \$216 million in 2010, compared to acquisition costs of \$12 million for the purchase of the remaining ownership interest in two hotels in 2011. For the years ended December 31, 2011 and 2010, we capitalized labor costs relating to our investing activities, including capital expenditures and software development, of \$14 million and \$3 million, respectively. The increase in the capitalization of labor was due to increased capital expenditures and increased software capitalization costs in 2011 compared to 2010.

***Financing Activities***

Net cash used in financing activities during the nine months ended September 30, 2013 was \$789 million, compared to \$236 million during the nine months ended September 30, 2012. The \$553 million increase in cash used in financing activities was primarily attributable to an increase in net repayments of debt of \$638 million primarily due to an increase in unscheduled, voluntary debt repayments.

Net cash used in financing activities during the year ended December 31, 2012, decreased \$138 million compared to the year ended December 31, 2011, due to an increase in borrowings of \$56 million, primarily related to our consolidated VIEs and a change in restricted cash and cash equivalents that increased cash available for financing activities by \$212 million. The change in restricted cash and cash equivalents was primarily due to a decrease of \$174 million in our prefunded cash reserves, which was a result of using the reserves for capital expenditures. These

increases in cash provided by financing activities were partially offset by an increase in our debt repayments of \$128 million, which primarily related to an increase in non-recourse debt repayments related to our consolidated VIEs of \$90 million.

## **Table of Contents**

Net cash used in financing activities during the year ended December 31, 2011 was \$714 million compared to net cash used in financing activities during the year ended December 31, 2010 of \$703 million, an increase of \$11 million. During the year ended December 31, 2010, we had financing activities that resulted in \$185 million of net cash used in financing activities that did not recur during the year ended December 31, 2011, primarily due to \$111 million in net cash used in our debt restructuring that occurred in April 2010 (see Note 13: Debt in our audited consolidated financial statements included elsewhere in this prospectus for further discussion) and the acquisition of noncontrolling interests in two hotels for \$107 million, offset by \$33 million in contributions from noncontrolling interests.

The remaining increase in net cash used in financing activities during the year ended December 31, 2011 compared to the year ended December 31, 2010 was primarily a result of \$448 million in additional repayment of debt offset by a smaller change in our restricted cash and cash equivalents of \$224 million, both associated with requirements arising from our debt restructuring that occurred in April 2010.

### ***Capital Expenditures***

Our capital expenditures primarily include expenditures related to the renovation of existing owned and leased properties and our corporate facilities, as well as software capitalization costs related to various systems initiatives for the benefit of our hotel owners and our overall corporate operations. As of September 30, 2013, we had outstanding commitments under construction contracts of approximately \$65 million for capital expenditures at certain owned and leased properties, including our consolidated VIEs. 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.

### ***Debt***

As of September 30, 2013, our total indebtedness, excluding \$309 million of our share of debt of our investments in affiliates, was approximately \$15.0 billion, including \$706 million of non-recourse debt. For further information on our total indebtedness, refer to Note 8: Debt in our unaudited condensed consolidated financial statements included elsewhere in this prospectus. In October 2013, prior to the Refinancing Transactions, we made an unscheduled, voluntary debt repayment of \$450 million on our secured mezzanine loans.

Substantially all of our consolidated assets in which we hold an ownership interest are encumbered or have been pledged as collateral for our Secured Debt. Our debt contains certain restrictions on us incurring any additional indebtedness relating to secured assets, including the prohibition of us incurring indebtedness in the form of borrowed money and/or evidenced by bonds, debentures, notes or other similar instruments without prior approval from our creditors. Further, as a condition to permitting certain events under the Secured Debt, such as a release of certain assets as collateral for the loan or change of control of the Company, we must satisfy certain debt yield tests. We were able to satisfy all of the debt yield tests as of our most recent testing date.

As a result of our investment strategy, combined with our discipline for managing costs, we have increased our cash flow from operations from \$833 million in 2010 to over \$1.1 billion in 2012. As a result, we have taken steps to reduce our long-term debt by almost \$2.4 billion between December 31, 2010 and September 30, 2013. The reduction in long-term debt has reduced our interest expense from approximately \$946 million for the year ended December 31, 2010 to \$569 million for the year ended December 31, 2012.

### ***Debt Refinancing***

In October 2013, we completed a refinancing of our existing indebtedness, which consisted of the issuance of the following:

\$1.0 billion senior secured revolving credit facility (with no amounts drawn at closing);

\$7.6 billion senior secured term loan facility, of which \$100 million was voluntarily prepaid in November 2013;

**Table of Contents**

\$1.5 billion of 5.625% senior notes due in 2021;

\$3.5 billion commercial mortgage-backed securities loan secured by 23 of our U.S. owned real estate assets;  
and

\$525 million mortgage loan secured by our Waldorf Astoria New York property.

We also entered into four interest rate swaps totaling \$1.45 billion which swap floating three-month LIBOR to a fixed rate of 1.87 percent. We used the net proceeds of these transactions, additional borrowings of \$300 million under our Timeshare Facility, cash proceeds from the Hilton HHonors point sales and available cash to repay our outstanding Secured Debt and plan to redeem our other unsecured notes due 2031 at a price equal to 100 percent of the principal amount of \$96 million plus accrued interest. As of September 30, 2013, after giving pro forma effect to the debt refinancing, our long-term debt, including current maturities, would have been \$13,255 million and our non-recourse debt, including current maturities would have been \$1,006 million. Additionally, the contractual maturities of our long-term debt and non-recourse debt as of September 30, 2013 would have been as follows:

<b>Year</b>	<b>(in millions)</b>
2013 (remaining)	\$ 40
2014	126
2015	149
2016	698
2017	171
Thereafter	13,115
	14,299
Less: Discount	(38)
<b>Total long-term debt and non-recourse debt</b>	<b>\$ 14,261</b>

**Contractual Obligations**

The following table summarizes our significant contractual obligations as of December 31, 2012:

	<b>Total</b>	<b>Payments Due By Period</b>			<b>More than 5 years</b>
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	
		<b>(in millions)</b>			
<b>Debt</b>					
Recourse <sup>(1)(3)</sup>	\$ 18,019	\$ 971	\$ 16,273	\$ 82	\$ 693
Non-recourse <sup>(2)(3)</sup>	49	5	29		15
Mortgage notes	134	32		102	
Capital lease obligations <sup>(3)</sup>					

Edgar Filing: Hilton Worldwide Holdings Inc. - Form S-1/A

Recourse	194	8	27	13	146
Non-recourse <sup>(2)</sup>	593	34	76	78	405
Operating leases	3,528	265	492	456	2,315
Contract acquisition costs	49	24	23	2	
Purchase commitments	92	23	46	23	
<b>Total contractual obligations</b>	<b>\$ 22,658</b>	<b>\$ 1,362</b>	<b>\$ 16,966</b>	<b>\$ 756</b>	<b>\$ 3,574</b>

- (1) The Secured Debt has five one-year extensions solely at our option that effectively extends the maturity date to November 12, 2015. We have assumed all extensions herein, including an extension fee equal to 50 basis points.

---

## **Table of Contents**

- (2) Non-recourse debt and capital lease obligations are related to our consolidated VIEs.
- (3) Includes principal as well as interest payments. We have assumed a constant 30-day LIBOR rate of 0.21 percent as of December 31, 2012 for our Secured Debt.

The total amount of unrecognized tax benefits as of December 31, 2012 was \$469 million. These amounts are excluded from the table above because they are uncertain and subject to the findings of the taxing authorities in the jurisdictions in which we are subject to tax. It is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. Refer to Note 18: *Income Taxes* in our audited consolidated financial statements included elsewhere in this prospectus for further discussion of our liability for unrecognized tax benefits.

In addition to the purchase commitments in the table above, in the normal course of business we enter into purchase commitments for which we are reimbursed by the owners of our managed and franchised hotels. These obligations have minimal or no impact on our net income and cash flow.

## **Off-Balance Sheet Arrangements**

Our off-balance sheet arrangements as of September 30, 2013 included guarantees of \$27 million for debt and obligations of third parties and performance guarantees with possible cash outlays totaling approximately \$189 million, of which we have accrued for estimated probable exposure of up to \$61 million as of September 30, 2013. Further, we had outstanding construction contract commitments of approximately \$65 million for capital expenditures at certain owned and leased properties as of September 30, 2013. Additionally, during 2010, in conjunction with a lawsuit settlement, our owner entered into service contracts with the plaintiff. As part of the settlement, we entered into a guarantee with the plaintiff to pay any shortfall that our owner does not fund related to those service contracts. The remaining potential exposure under this guarantee as of September 30, 2013 was approximately \$50 million. See Note 16: *Commitments and Contingencies* in our unaudited condensed consolidated financial statements included elsewhere in this prospectus for further discussion.

## **Critical Accounting Policies and Estimates**

The preparation of our financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods and the related disclosures in the consolidated financial statements and accompanying footnotes. We believe that of our significant accounting policies, which are described in Note 2: *Basis of Presentation and Summary of Significant Accounting Policies* in our audited consolidated financial statements included elsewhere in this prospectus, the following accounting policies are critical because they involve a higher degree of judgment, and the estimates required to be made were based on assumptions that are inherently uncertain. As a result, these accounting policies could materially affect our financial position, results of operations, and related disclosures. On an ongoing basis, we evaluate these estimates and judgments based on historical experiences and various other factors that are believed to reflect the current circumstances. While we believe our estimates, assumptions and judgments are reasonable, they are based on information presently available. Actual results may differ significantly from these estimates due to changes in judgments, assumptions and conditions as a result of unforeseen events or otherwise, which could have a material impact on financial position or results of operations.

Management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of the board of directors.

## ***Property and Equipment and Intangible Assets with Finite Lives***

We evaluate the carrying value of our property and equipment and intangible assets with finite lives by comparing the expected undiscounted future cash flows to the net book value of the assets if we determine there are indicators of potential impairment. If it is determined that the expected undiscounted future cash flows are



## **Table of Contents**

less than the net book value of the assets, the excess of the net book value over the estimated fair value is recorded in our consolidated statements of operations as impairment losses.

As part of the process described above, we exercise judgment to:

determine if there are indicators of impairment present. Factors we consider when making this determination include assessing the overall impact of trends in the hospitality industry and the general economy, historical experience, capital costs, and other asset-specific information;

determine the projected undiscounted future cash flows when indicators of impairment are present. Judgment is required when developing projections of future revenues and expenses based on estimated growth rates over the expected useful life of the asset group. These estimated growth rates are based on historical operating results, as well as various internal projections and external sources; and

determine the asset fair value when required. In determining the fair value, we often use internally-developed discounted cash flow models. Assumptions used in the discounted cash flow models include estimating cash flows, which may require us to adjust for specific market conditions, as well as capitalization rates, which are based on location, property or asset type, market-specific dynamics, and overall economic performance. The discount rate takes into account our weighted average cost of capital according to our capital structure and other market specific considerations.

We had \$9,071 million of property and equipment, net and \$2,190 million of intangible assets with finite lives as of September 30, 2013. Changes in estimates and assumptions used in our impairment testing of property and equipment could result in future impairment losses, which could be material.

In conjunction with our regular assessment of impairment, we did not identify any property and equipment with indicators of impairment for which a 10% reduction in our estimate of undiscounted future cash flows would result in additional impairment losses.

## ***Investments in Affiliates***

We evaluate our investments in affiliates for impairment when there are indicators that the fair value of our investment may be less than our carrying value. We record an impairment loss when we determine there has been an other-than-temporary decline in the investment's fair value. If an identified event or change in circumstances requires an evaluation to determine if the value of an investment may have an other-than-temporary decline, we assess the fair value of the investment based on the accepted valuation methods, which include discounted cash flows, estimates of sales proceeds, and external appraisals. If an investment's fair value is below its carrying value and the decline is considered to be other-than-temporary, we will recognize an impairment loss in equity in earnings (losses) from unconsolidated affiliates for equity method investments or impairment losses for cost method investments in our consolidated statements of operations.

Our investments in affiliates consist primarily of our interests in entities that own and/or operate hotels. As such, the factors we consider when determining if there are indicators of potential impairment are similar to property and equipment discussed above. If there are indicators of potential impairment, we estimate the fair value of our equity method and cost method investments by internally developed discounted cash flow models. The principal factors used

in our discounted cash flow models that require judgment are the same as the items discussed in property and equipment above.

We had \$268 million of investments in affiliates as of September 30, 2013. Changes in the estimates and assumptions used in our investments in affiliates impairment testing can result in additional impairment expense, which can materially change our consolidated financial statements.

In conjunction with our regular assessment of impairment, we did not identify any investments in affiliates with indicators of impairment for which a 10% change in our projected future operating cash flows, capitalization rates and discount rates used to determine fair value would result in impairment losses.

## **Table of Contents**

### ***Goodwill***

We review the carrying value of our goodwill by comparing the carrying value of our reporting units to their fair value. Our reporting units are the same as our operating segments as described in Note 22: Business Segments in our audited consolidated financial statements included elsewhere in this prospectus. We perform this evaluation annually or at an interim date if indicators of impairment exist. In any given year we may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If we cannot determine qualitatively that the fair value is in excess of the carrying value, or we decide to bypass the qualitative assessment, we proceed to the two-step quantitative process. In the first step, we evaluate the fair value of our reporting units quantitatively. When determining fair value, we utilize discounted future cash flow models, as well as market conditions relative to the operations of our reporting units. Under the discounted cash flow approach, we utilize various assumptions that require judgment, including projections of revenues and expenses based on estimated long-term growth rates, and discount rates based on weighted average cost of capital. Our estimates of long-term growth and costs are based on historical data, as well as various internal projections and external sources. The weighted average cost of capital is estimated based on each reporting unit's cost of debt and equity and a selected capital structure. The selected capital structure for each reporting unit is based on consideration of capital structures of comparable publicly traded companies operating in the business of that reporting unit. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step must be performed. In the second step, we estimate the implied fair value of goodwill, which is determined by taking the fair value of the reporting unit and allocating it to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination.

We had \$6,205 million of goodwill as of September 30, 2013. Changes in the estimates and assumptions used in our goodwill impairment testing could result in future impairment losses, which could be material. A 10% change in our estimates of projected future operating cash flows, discount rates, and terminal growth rates used in our discounted cash flow calculations of the fair values of reporting units would not result in an impairment of any of our reporting units.

### ***Brands***

We evaluate our brand intangible assets for impairment on an annual basis or at other times during the year if events or circumstances indicate that it is more likely than not that the fair value of the brand is below the carrying value. When determining fair value, we utilize discounted future cash flow models for hotels in which we have an ownership interest or a management or franchise contract. Under the discounted cash flow approach, we utilize various assumptions that require judgment, including projections of revenues and expenses based on estimated long-term growth rates and discount rates based on weighted average cost of capital. Our estimates of long-term growth and costs are based on historical data, as well as various internal estimates that are developed. If a brand's estimated current fair value is less than its respective carrying value, the excess of the carrying value over the estimated fair value is recorded in our consolidated statements of operations within impairment losses.

We had \$5,012 million brand intangible assets as of September 30, 2013. Changes in the estimates and assumptions used in our brands impairment testing, most notably revenue growth rates and discount rates, could result in future impairment losses, which could be material. A 10% change in our estimates of projected future operating cash flows used in our discounted cash flow calculations of the fair values of our brands would not result in an impairment of any of the brand intangible assets.

### ***Hilton HHonors***

Hilton HHonors defers revenue received from participating hotels and program partners in an amount equal to the estimated cost per point of the future redemption obligation. We engage outside actuaries to assist in determining the fair value of the future award redemption obligation using statistical formulas that project future point redemptions based on factors that require judgment, including an estimate of breakage (points that will

## **Table of Contents**

never be redeemed), an estimate of the points that will eventually be redeemed, and the cost of the points to be redeemed. The cost of the points to be redeemed includes further estimates of available room nights, occupancy rates, room rates, and any devaluation or appreciation of points based on changes in reward prices or changes in points earned per stay.

We had \$822 million of guest loyalty liability as of September 30, 2013. Changes in the estimates used in developing our breakage rate could result in a material change to our loyalty liability. Currently, a 10% decrease to the breakage estimate used in determining future award redemption obligations would increase our loyalty liability by approximately \$29 million.

### ***Allowance for Loan Losses***

The allowance for loan losses is related to the receivables generated by our financing of timeshare interval sales, which are secured by the underlying timeshare properties. We determine our timeshare notes receivable to be past due based on the contractual terms of the individual mortgage loans. We use a technique referred to as static pool analysis as the basis for determining our general reserve requirements on our timeshare notes receivable. The adequacy of the related allowance is determined by management through analysis of several factors requiring judgment, such as current economic conditions and industry trends, as well as the specific risk characteristics of the portfolio, including assumed default rates.

We had \$94 million of allowance for loan losses as of September 30, 2013. Changes in the estimates used in developing our default rates could result in a material change to our allowance. Currently, a 10% increase to our default rates used in the allowance calculation would increase our allowance for loan losses by approximately \$34 million.

### ***Income Taxes***

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using currently enacted tax rates. We regularly review our deferred tax assets to assess their potential realization and establish a valuation allowance for portions of such assets that we believe will not be ultimately realized. In performing this review, we make estimates and assumptions regarding projected future taxable income, the expected timing of reversals of existing temporary differences and the implementation of tax planning strategies. A change in these assumptions may increase or decrease our valuation allowance resulting in an increase or decrease in our effective tax rate, which could materially affect our consolidated financial statements.

We use a prescribed more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return if there is uncertainty in income taxes recognized in the financial statements. Assumptions and estimates are used to determine the more-likely-than-not designation. Changes to these assumptions and estimates can lead to an additional income tax expense (benefit), which can materially change our consolidated financial statements.

### ***Legal Contingencies***

We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. An estimated loss from a loss contingency should be accrued by a charge to income if it is probable and the amount of the loss can be reasonably estimated. Significant judgment is required when we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Changes in these factors could materially impact our consolidated financial statements.

## **Table of Contents**

### ***Consolidations***

We use judgment evaluating whether we have a controlling financial interest in our partnership and other investments, including the assessment of the importance of rights and privileges of the partners based on voting rights, as well as financial interests that are not controllable through voting interests. If the entity is considered to be a VIE, we use judgment determining whether we are the primary beneficiary, and then consolidate those VIEs for which we have determined we are the primary beneficiary. If the entity in which we hold an interest does not meet the definition of a VIE, we evaluate whether we have a controlling financial interest through our voting interests in the entity. We consolidate entities when we own more than 50 percent of the voting shares of a company or have a controlling general partner interest of a partnership, assuming the absence of other factors determining control, including the ability of minority owners to participate in or block certain decisions. Changes to judgments used in evaluating our partnership and other investments could materially impact our consolidated financial statements.

### ***Share-based Compensation***

Certain members of our senior management team were offered the opportunity to participate in an executive compensation plan (the Promote plan). The Promote plan provides for the grant of a Tier I liability award, or an alternative cash payment in lieu thereof, and a Tier II equity award, representing Class B Units in BH Hotels Holdco, LLC (our Ultimate Parent). The awards vest based on service and performance conditions. Compensation expense associated with the Promote plan is recognized in general, administrative, and other expenses in our consolidated statements of operations. No compensation expense has been recognized to date related to the awards containing performance conditions. We estimate fair value of the Tier II equity awards using a lattice-based binomial model that requires the use of subjective assumptions, including share price volatility, the expected life of the award, risk free interest rate, and expected dividend yield. In developing our assumptions we take into account the following:

As a result of our status as a private company for the last several years, we do not have sufficient history to estimate the volatility of our common share price. Our expected volatility is based on selected reasonably similar publicly traded companies for which historical information is available. We plan to continue to use the guideline peer group volatility information until the historical volatility of our common shares is relevant to measure expected volatility for future award grants;

We estimate the average expected life of the awards based on the projected liquidity event;

We determine the risk free interest rate by reference to implied yield available from United States Treasury securities with a remaining term equal to the expected life assumed at the grant date; and

Our dividend yield is based on our historical dividends paid. We have not historically paid dividends and have no current plans to pay dividends on our common stock.

For further discussion of the Promote plan, including the assumptions used in estimating fair value of the awards, refer to our audited consolidated financial statements included elsewhere within this prospectus.

The following table presents the grant dates, the number of units granted and the estimated value for the Tier II equity awards granted to employees that were outstanding as of September 30, 2013:

<b>Date of Grant</b>	<b>Number of Units Granted</b>	<b>Estimated Fair Value per Class B Unit at Grant Date</b>	<b>Total Estimated Value of Class B Units at Grant Date (in millions)</b>
December 3, 2010	210,059,544	\$ 1.16	\$ 244
June 27, 2011	5,176,830	\$ 1.15	\$ 6
March 3, 2013	8,628,050	\$ 1.33	\$ 11



**Table of Contents**

In connection with this offering, the Tier I liability awards that remain outstanding at the time of the pricing of the offering will vest as of the pricing date of this offering and will be paid in cash no later than 30 days following the pricing of this offering. Additionally, the Tier II equity awards that remain outstanding at the time of the pricing of the offering will be exchanged for restricted stock in the Company of equivalent economic value that will vest as follows:

40% of each award will vest as of the pricing date with respect to this offering;

40% of each award will vest on the first anniversary of the pricing date with respect to this offering, contingent upon continued employment through that date; and

20% of each award will vest on the date that our Sponsor and its affiliates cease to own 50% or more of the shares of the Company, contingent upon continued employment through that date.

Upon the pricing date with respect to this offering, based on an initial public offering price of \$19.50 per share, which is the midpoint of the price range indicated on the cover of this prospectus, we expect to record incremental compensation expense of approximately \$293 million as a result of modifying the vesting conditions of the Tier I liability award, as well as the exchange of the Tier II awards for restricted shares. The incremental compensation expense is a result of accelerating the recognition of the remaining amount of the Tier I liability award as of the effective date, the recognition of compensation expense for the full value of the restricted stock that will vest as of the effective date of this offering, and recognition of the proportionate value of the restricted stock that will vest on the first anniversary of the pricing date with respect to this offering based upon the portion of each employees' requisite service that has been provided as of the effective date. The amount of compensation expense to be recognized for each of the awards will be based on the fair value of the awards as of the date of the initial public offering. Additionally, we expect to record additional compensation expense of approximately \$22 million through the first anniversary of the pricing date with respect to this offering for the restricted stock awards that will vest on that date, representing the remaining vesting of these awards. No compensation expense will be recognized for the restricted stock that will vest on the date that our Sponsor and its affiliates cease to own 50% or more of the shares of the Company, as this performance condition has been determined to be not probable of occurring for accounting purposes.

The method applied to determine the fair value of the restricted stock awards will be substantially the same as that of the Tier II equity awards. The following table sets forth the value of the 2013 Tier II equity awards at grant date and at the time of the offering based on the mid-point of the anticipated price range of \$18.00 to \$21.00 per share.

<b>Date of Grant</b>	<b>Estimated Fair Value of Class B Units at Grant Date (in millions)</b>	<b>Assumed Value at Initial Public Offering (in millions)</b>
March 3, 2013	\$ 11	\$ 14

The increase in value between the value at the grant date and the value at the initial public offering is a result of improved operating results and reducing our outstanding indebtedness, including through the Refinancing Transactions.

### **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 impact future income, cash flows, and 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.

**Table of Contents****Interest Rate Risk**

We are exposed to interest rate risk on our floating rate debt. Interest rates on our floating rate debt discussed below are based on 30-day LIBOR, so we are most vulnerable to changes in this rate. The 30-day LIBOR rate decreased from 0.28 percent per annum as of December 31, 2011, to 0.21 percent per annum as of December 31, 2012. Changes in interest rates also affect the fair value of our fixed rate debt and our fixed rate financing receivables.

Under the terms of our Secured Debt, we are required to hedge interest rate risk using derivative instruments with an aggregate notional amount equal to the principal amount of the Secured Debt. As of December 31, 2012, we held ten interest rate caps with an aggregate notional amount of \$15.2 billion that caps the floating portion of the interest rate on our Secured Debt at 6.5 percent. The caps were executed in August 2012 to replace the previous portfolio of interest rate caps that expired in November 2012 and expire in November 2013. We have elected not to designate any of the ten interest rate caps as effective hedging instruments. The fair values of our interest rate caps were immaterial to our consolidated balance sheet as of December 31, 2012. During the year ended December 31, 2012, we recorded a loss of \$1 million in other gain, net in our consolidated statement of operations, which represented the premiums paid on these interest rate caps. No other gain or loss related to the ten undesignated interest rate caps in our current portfolio or previous portfolio that expired in November 2012 were recorded for the year ended December 31, 2012 as changes in the fair values of our interest rate caps were immaterial.

The following table sets forth the scheduled maturities and the total fair value as of December 31, 2012 for our financial instruments that are materially affected by interest rate risks (in millions, excluding average interest rates):

	Maturities by Period						Carrying Value	Fair Value
	2013	2014	2015	2016	2017	Thereafter		
Fixed rate timeshare financing receivables	\$ 131	\$ 113	\$ 113	\$ 115	\$ 115	\$ 397	\$ 984	\$ 987
Average interest rate <sup>(1)</sup>							12.27%	
Fixed rate debt <sup>(2)</sup>	\$ 33	\$	\$	\$ 102	\$ 53	\$ 96	\$ 284	\$ 297
Average interest rate <sup>(1)</sup>							7.02%	
Floating rate Secured Debt	\$ 357	\$ 383	\$ 14,468	\$	\$	\$	\$ 15,208	\$ 15,571
Average interest rate <sup>(1)</sup>							3.36%	

(1) Average interest rate as of December 31, 2012.

(2) Excludes capital lease obligations.

Refer to our Note 16: Fair Value Measurements in our audited consolidated financial statements included elsewhere in this prospectus for further discussion of the fair value measurements of our financial assets and liabilities.

**Table of Contents**

***Foreign Currency Exchange Rate Risk***

We conduct business in various foreign currencies and are exposed to earnings and cash flow volatility associated with changes in foreign currency exchange rates. This exposure is primarily related to our international assets and liabilities, whose value could change materially in reference to our U.S. dollar (USD) reporting currency. The most significant impact of changes to foreign currency values include certain intercompany loans not deemed to be permanently invested and to transactions for management and franchise fee revenues earned in foreign currencies.

Our most significant foreign currency exposure relates to fluctuations in the foreign exchange rate between USD and the British Pound Sterling (GBP) and Euro (EUR). Historically, we used foreign exchange currency option agreements to hedge our exposure to changes in foreign exchange rates on certain of our foreign investments. Under the terms of these currency option contracts, we paid a premium to a counterparty for the right to sell a specified amount of foreign currency at a specified strike rate at the maturity date of the option. During 2010, we settled our remaining foreign currency options, and we have not held any foreign currency options since that time.

**Table of Contents****INDUSTRY****Global Hotel Industry**

The global hotel industry generated approximately \$384 billion of room revenues during 2012, with approximately 157,000 hotels and 14.6 million hotel rooms as of September 2013, according to STR data. Since 2001, global hotel revenues have increased at a CAGR of 4.9%. While the top 10 hotel companies in the U.S. control 58% of U.S. hotel rooms, the industry is significantly more fragmented in markets outside the U.S., where no company controls more than 5% of global hotel rooms.

The following chart sets forth the number of rooms and relative market share for the top 10 global and U.S. hotel companies.

<b>Top 10 Global Hotel Companies</b>	<b>Rooms (thousands)</b>	<b>% of Global</b>	<b>Top 10 U.S. Hotel Companies</b>	<b>Rooms (thousands)</b>	<b>% of U.S.</b>
Hilton Worldwide	666	5%	Hilton Worldwide	517	10%
Intercontinental Hotels Group	658	5%	Marriott International	506	10%
Marriott International	652	4%	Wyndham Worldwide	448	9%
Wyndham Worldwide	629	4%	Choice Hotels International	396	8%
Choice Hotels International	502	3%	Intercontinental Hotels Group	371	8%
Accor Company	438	3%	Best Western Company	162	3%
Starwood Hotels & Resorts	340	2%	Starwood Hotels & Resorts	155	3%
Best Western Company	315	2%	G6 Hospitality	106	2%
Carlson Hospitality Company	167	1%	Hyatt	95	2%
Hyatt	141	1%	LQ Management LLC	83	2%
<b>Top 10</b>	<b>4,508</b>	<b>31%</b>	<b>Top 10</b>	<b>2,839</b>	<b>58%</b>
Other	10,097	69%	Other	2,088	42%
<b>Global Total</b>	<b>14,605</b>		<b>U.S. Total</b>	<b>4,927</b>	

*Source: STR Global Census, October 2013 (adjusted to September 2013), other than Hilton Worldwide room information which is based on internal room counts and excludes timeshare properties.*

Hotel market performance generally is measured by three metrics: (1) average daily rate (ADR); (2) occupancy; and (3) revenue per available room (RevPAR). ADR represents hotel room revenue divided by total number of rooms sold in a given period, measuring average room price attained by a hotel. Occupancy represents the total number of rooms sold divided by the total number of rooms available at a hotel or group of hotels, measuring the utilization of hotels available capacity. RevPAR is calculated by dividing hotel room revenue by room nights available to guests for the period. Because RevPAR combines two key drivers of operations at hotels, ADR and occupancy, it is commonly used to measure performance over comparable periods.

According to STR data, during the past three years, global hotel demand has grown at a CAGR of 5.3%, whereas global hotel supply has grown at a CAGR of just 1.6%, which has driven positive RevPAR growth during the period.

We believe this supply-demand imbalance provides a favorable operating environment for existing hotels, and this trend should continue for the next several years.

Hotel industry fundamentals can vary by region, largely driven by economic trends. Globally, according to STR data, the hotel industry has been in a period of recovery over the past three years despite headwinds in Europe and parts of the Middle East and Africa. In the Americas, RevPAR has increased at a CAGR of 6.9% over the past three years and demand has returned to pre-economic crisis levels. The Asia Pacific region also has experienced high RevPAR growth during the last three years, primarily fueled by China and to a lesser degree Southeast Asia. Weaker economic conditions in Europe dampened RevPAR growth, but recent trends show improvement. The Middle East and Africa region recovered in 2012 with strong growth in key countries,

## **Table of Contents**

such as Egypt, the United Arab Emirates, and Saudi Arabia, but concerns remain over political unrest in this region. Third-party forecasts indicate that global GDP growth should improve from approximately 2% in 2013 to greater than 3% annually over the next three years. We believe that stronger global economic growth should in turn drive stronger hotel demand and RevPAR growth.

### **U.S. Hotel Industry**

The U.S. has a greater share of global hotel revenues than any other country, with \$115 billion in room revenues during 2012, according to STR data. As of September 2013, the U.S. hotel sector comprised approximately 53,000 hotels with 4.9 million hotel rooms, of which 69% were affiliated with a brand. Over the past 25 years, the sector revenue has grown at a CAGR of 4.8%.

According to data provided by STR, U.S. hotel demand has improved with the economic recovery in recent years, experiencing a CAGR of 4.9% over the last three years, while hotel supply growth has experienced a CAGR of 0.9%. This recent demand growth has exceeded the 25-year CAGR of 1.8%, while supply growth has trended lower than the 25-year CAGR of 2.0%. According to PKF-HR, room supply is expected to grow at relatively low rates of 0.8% and 1.1% in 2013 and 2014 respectively, while demand is expected to continue to outpace supply growth, growing at 2.4% and 3.1% in 2013 and 2014, respectively. This imbalance of low supply and high demand growth is expected by analysts to continue at least through 2015, which should drive strong RevPAR growth.

The following graph illustrates historical and projected U.S. supply, demand and RevPAR growth. The trends are derived from historical data provided by STR and projections provided by PKF-HR. Forecasts for RevPAR remain positive for the next several years as the hotel industry is expected to continue to benefit from a supply and demand imbalance, with RevPAR in the U.S. projected to grow at a CAGR of 7% over the next three years, according to PKF-HR, compared to a CAGR of 2% from 2005 to 2012 according to STR data.

#### **Historical and Projected U.S. Supply, Demand and RevPAR Growth**

*Sources: STR (2005-2012), PKF-HR (2013-2015).*

**Table of Contents**

**BUSINESS**

Hilton Worldwide is one of the largest and fastest growing hospitality companies in the world, with 4,080 hotels, resorts and timeshare properties comprising 671,926 rooms in 90 countries and territories. In the nearly 100 years since our founding, we have defined the hospitality industry and established a portfolio of 10 world-class brands. Our flagship full-service Hilton Hotels & Resorts brand is the most recognized hotel brand in the world. Our premier brand portfolio also includes our luxury hotel brands, Waldorf Astoria Hotels & Resorts and Conrad Hotels & Resorts, our full-service hotel brands, DoubleTree by Hilton and Embassy Suites Hotels, our focused-service hotel brands, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton and Home2 Suites by Hilton, and our timeshare brand, Hilton Grand Vacations. We own or lease interests in 156 hotels, many of which are located in global gateway cities, including iconic properties such as The Waldorf Astoria New York, the Hilton Hawaiian Village, and the London Hilton on Park Lane. More than 311,000 team members proudly serve in our properties and corporate offices around the world, and we have approximately 39 million members in our award-winning customer loyalty program, Hilton HHonors.

We operate our business through three segments: (1) management and franchise; (2) ownership; and (3) timeshare. These complementary business segments enable us to capitalize on our strong brands, global market presence and significant operational scale. Through our management and franchise segment, which consists of 3,883 hotels with 603,271 rooms, we manage hotels, resorts and timeshare properties owned by third parties and we license our brands to franchisees. Our management and franchise segment generates high margins and long-term recurring cash flow, and has grown by 40% in terms of number of rooms since June 30, 2007, representing 98% of our overall room growth, with virtually no capital investment by us. Our ownership segment consists of 156 hotels with 62,251 rooms that we own or lease. Through our timeshare segment, which consists of 41 properties comprising 6,404 units, we market and sell timeshare intervals, operate timeshare resorts and a timeshare membership club and provide consumer financing.

In October 2007 we were acquired by affiliates of The Blackstone Group L.P. and assembled a new management team led by Christopher J. Nassetta, our President and Chief Executive Officer. Under our new leadership, we have transformed our business, creating a globally aligned organization and establishing a performance-driven culture. As part of our transformation, we focused on both top- and bottom-line operating performance, strengthening and expanding our brands and commercial services platform, and enhancing our growth rate, particularly in markets outside the U.S. where our brands historically had been underrepresented.

As a result of the transformation of our business, despite the sharp downturn in our industry, between June 30, 2007 and September 30, 2013, we have:

increased the number of open rooms in our system by 36%, or 176,248 rooms, which represents the highest growth rate of any major lodging company;

grown the number of rooms in our development pipeline by 60% to an industry-leading 185,699 rooms, over 99% of which are within our higher-margin, capital light management and franchise segment;

increased our total number of rooms under construction by 133%, to an industry-leading 97,520 rooms, over 99% of which are within our management and franchise segment;



increased the geographic diversity of our pipeline, with rooms in the development pipeline outside the U.S. increasing from less than 20% to more than 60%, and rooms under construction outside the U.S. increasing from less than 15% to nearly 80%;

significantly enhanced our presence in key segments, brands and geographies; for example:

in the luxury segment, the number of hotels in our system and in our development pipeline is more than triple the number of luxury hotels in our system as of June 2007;

the number of DoubleTree by Hilton hotels has grown 97% since December 31, 2007, with 77% of the gr