Hilton Worldwide Holdings Inc.
Form 10-Q
July 27, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer x		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of July 22, 2016 was 989,776,458.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 810	$ 609
Restricted cash and cash equivalents	271	247
Accounts receivable, net of allowance for doubtful accounts of $33 and $30	1,005	876
Inventories	459	442
Current portion of financing receivables, net	129	129
Prepaid expenses	186	147
Income taxes receivable	18	97
Other	52	38
Total current assets (variable interest entities - $171 and $141)	2,930	2,585
Property, Intangibles and Other Assets:		
Property and equipment, net	9,107	9,119
Financing receivables, net	905	887
Investments in affiliates	129	138
Goodwill	5,862	5,887
Brands	4,911	4,919
Management and franchise contracts, net	1,077	1,149
Other intangible assets, net	543	586
Deferred income tax assets	76	78
Other	313	274
Total property, intangibles and other assets (variable interest entities - $637 and $481)	22,923	23,037
TOTAL ASSETS	$ 25,853	$ 25,622
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other	$ 2,370	$ 2,206
Current maturities of long-term debt	98	94
Current maturities of timeshare debt	88	110
Income taxes payable	107	33
Total current liabilities (variable interest entities - $253 and $157)	2,663	2,443
Long-term debt	9,900	9,857
Timeshare debt	357	392
Deferred revenues	161	283
Deferred income tax liabilities	4,533	4,630
Liability for guest loyalty program	833	784
Other	1,060	1,282
Total liabilities (variable interest entities - $803 and $627)	19,507	19,671
Commitments and contingencies - see Note 18		
Equity:		
	—	—

Preferred stock, $0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of June 30, 2016 and December 31, 2015		
Common stock, $0.01 par value; 30,000,000,000 authorized shares, 989,805,225 issued and 989,776,458 outstanding as of June 30, 2016 and 987,487,127 issued and 987,458,360 outstanding as of December 31, 2015	10	10
Additional paid-in capital	10,175	10,151
Accumulated deficit	(2,984)	(3,392)
Accumulated other comprehensive loss	(826)	(784)
Total Hilton stockholders' equity	6,375	5,985
Noncontrolling interests	(29)	(34)
Total equity	6,346	5,951
TOTAL LIABILITIES AND EQUITY	$ 25,853	$ 25,622

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Owned and leased hotels	$1,105	$1,135	$2,072	$2,092
Management and franchise fees and other	444	407	830	778
Timeshare	336	319	662	640
	1,885	1,861	3,564	3,510
Other revenues from managed and franchised properties	1,166	1,061	2,237	2,011
Total revenues	3,051	2,922	5,801	5,521
Expenses				
Owned and leased hotels	808	817	1,564	1,585
Timeshare	223	220	440	454
Depreciation and amortization	171	173	340	348
Impairment loss	—	—	15	—
General, administrative and other	132	221	245	348
	1,334	1,431	2,604	2,735
Other expenses from managed and franchised properties	1,166	1,061	2,237	2,011
Total expenses	2,500	2,492	4,841	4,746
Gain (loss) on sales of assets, net	2	(3)	2	142
Operating income	553	427	962	917
Interest income	4	2	7	8
Interest expense	(147)	(149)	(286)	(293)
Equity in earnings from unconsolidated affiliates	8	9	11	13
Gain (loss) on foreign currency transactions	(13)	5	(25)	(13)
Other gain (loss), net	(5)	18	(5)	(7)
Income before income taxes	400	312	664	625
Income tax expense	(156)	(145)	(110)	(308)
Net income	244	167	554	317
Net income attributable to noncontrolling interests	(5)	(6)	(6)	(6)
Net income attributable to Hilton stockholders	$239	$161	$548	$311
Earnings per share				
Basic	$0.24	$0.16	$0.56	$0.32
Diluted	$0.24	$0.16	$0.55	$0.31

Cash dividends declared per share	$0.07	$—	$0.14	$—

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$244	$167	$554	$317
Other comprehensive income (loss), net of tax benefit (expense):				
Currency translation adjustment, net of tax of $(12), $121, $(15) and $30	(53)	192	(40)	(42)
Pension liability adjustment, net of tax of $—, $—, $(1) and $(1)	1	1	2	2
Cash flow hedge adjustment, net of tax of $—, $(1), $4 and $3	—	2	(6)	(5)
Total other comprehensive income (loss)	(52)	195	(44)	(45)
Comprehensive income	192	362	510	272
Comprehensive income attributable to noncontrolling interests	(5)	(6)	(4)	(6)
Comprehensive income attributable to Hilton stockholders	$187	$356	$506	$266

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income	$554	$317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	340	348
Impairment loss	15	—
Gain on sales of assets, net	(2)	(142)
Equity in earnings from unconsolidated affiliates	(11)	(13)
Loss on foreign currency transactions	25	13
Other loss, net	5	7
Share-based compensation	27	100
Distributions from unconsolidated affiliates	11	20
Deferred income taxes	(100)	10
Change in restricted cash and cash equivalents	(6)	(9)
Working capital changes and other	(203)	(3)
Net cash provided by operating activities	655	648
Investing Activities		
Capital expenditures for property and equipment	(169)	(159)
Acquisitions, net of cash acquired	—	(1,410)
Payments received on other financing receivables	1	2
Issuance of other financing receivables	(18)	(6)
Investments in affiliates	—	(5)
Distributions from unconsolidated affiliates	2	9
Proceeds from asset dispositions	1	1,869
Change in restricted cash and cash equivalents	14	—
Contract acquisition costs	(18)	(19)
Capitalized software costs	(35)	(23)
Net cash provided by (used in) investing activities	(222)	258
Financing Activities		
Borrowings	—	34
Repayment of debt	(64)	(961)
Change in restricted cash and cash equivalents	(32)	(29)
Dividends paid	(138)	—
Distributions to noncontrolling interests	(4)	(4)
Excess tax benefits from share-based compensation	—	8
Net cash used in financing activities	(238)	(952)
Effect of exchange rate changes on cash and cash equivalents	6	(9)
Net increase (decrease) in cash and cash equivalents	201	(55)
Cash and cash equivalents, beginning of period	609	566

Cash and cash equivalents, end of period	$810	$511
Supplemental Disclosures		
Cash paid during the year:		
Interest	$225	$231
Income taxes, net of refunds	242	197
Non-cash investing activities:		
Conversion of property and equipment to timeshare inventory	(22)	—
Long-term debt assumed	—	(450)
Non-cash financing activities:		
Long-term debt assumed	—	450
Capital lease restructuring	—	(24)

See notes to condensed consolidated financial statements.

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

	Equity Attributable to Hilton Stockholders						
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance as of December 31, 2015	987	$ 10	$ 10,151	$ (3,392)	$ (784)	$ (34)	$ 5,951
Share-based compensation	3	—	24	—	—	—	24
Net income	—	—	—	548	—	6	554
Other comprehensive income (loss), net of tax:							
Currency translation adjustment	—	—	—	—	(38)	(2)	(40)
Pension liability adjustment	—	—	—	—	2	—	2
Cash flow hedge adjustment	—	—	—	—	(6)	—	(6)
Other comprehensive loss	—	—	—	—	(42)	(2)	(44)
Dividends	—	—	—	(140)	—	—	(140)
Cumulative effect of the adoption of ASU 2015-02	—	—	—	—	—	5	5
Distributions	—	—	—	—	—	(4)	(4)
Balance as of June 30, 2016	990	$ 10	$ 10,175	$ (2,984)	$ (826)	$ (29)	$ 6,346

	Equity Attributable to Hilton Stockholders						
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount					
Balance as of December 31, 2014	985	$ 10	$ 10,028	$ (4,658)	$ (628)	$ (38)	$ 4,714
Share-based compensation	2	—	87	—	—	—	87
Net income	—	—	—	311	—	6	317
Other comprehensive income (loss), net of tax:							
Currency translation adjustment	—	—	—	—	(42)	—	(42)
Pension liability adjustment	—	—	—	—	2	—	2
Cash flow hedge adjustment	—	—	—	—	(5)	—	(5)
Other comprehensive loss	—	—	—	—	(45)	—	(45)
Distributions	—	—	—	—	—	(4)	(4)
Balance as of June 30, 2015	987	$ 10	$ 10,115	$ (4,347)	$ (673)	$ (36)	$ 5,069

See notes to condensed consolidated financial statements.

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

Note 1: Organization and Basis of Presentation

Organization

Hilton Worldwide Holdings Inc. (the "Parent," or together with its subsidiaries, "Hilton," "we," "us," "our" or the "Company"), a Delaware corporation, is one of the largest hospitality companies in the world based upon the number of hotel rooms and timeshare units. We are engaged in owning, leasing, managing and franchising hotels, resorts and timeshare properties. As of June 30, 2016, we owned, leased, managed or franchised 4,680 hotel and resort properties, totaling 768,221 rooms in 104 countries and territories, as well as 47 timeshare properties comprising 7,645 units.

As of June 30, 2016, affiliates of The Blackstone Group L.P. ("Blackstone") beneficially owned approximately 45.8 percent of our common stock.

Spin-off

In June 2016, Hilton Grand Vacations Inc. and Park Hotels & Resorts Inc. filed initial Registration Statements on Form 10 with the U.S. Securities and Exchange Commission ("SEC") in which they disclosed financial and other details of our previously announced spin-off transactions of a substantial portion of our ownership business, consisting primarily of our owned hotels located in the U.S., as well as our timeshare business resulting in two additional publicly traded companies. Completion of the spin-offs is subject to several conditions, including the SEC declaring effective the registration statements and final approval of the transactions by our board of directors.

Basis of Presentation

The accompanying condensed consolidated financial statements for the three and six months ended June 30, 2016 and 2015 have been prepared in accordance with United States of America ("U.S.") generally accepted accounting principles ("GAAP") and are unaudited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP. Although we believe the disclosures made are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

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

Note 2: Recently Issued Accounting Pronouncements

Adopted Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03 ("ASU 2015-03"), Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset, which is consistent with the presentation of debt discounts and premiums. In August 2015, the FASB issued ASU No. 2015-15 ("ASU 2015-15"), Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,which clarifies that absent authoritative guidance in ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the staff of the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We adopted ASU 2015-03 and ASU 2015-15 retrospectively as of January 1, 2016. As a result, approximately $94 million of debt issuance costs that were previously presented in other long-term assets as of December 31, 2015 are now included within long-term debt and timeshare debt. We elected to continue presenting the debt issuance costs related to our line-of-credit arrangements within other long-term assets.

In February 2015, the FASB issued ASU No. 2015-02 ("ASU 2015-02"), Consolidation (Topic 810) - Amendments to the Consolidation Analysis. This ASU modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. We elected, as permitted by the standard, to adopt ASU 2015-02 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of January 1, 2016 of approximately $5 million. Additionally, certain consolidated entities that were not previously considered variable interest entities ("VIEs") prior to the adoption of ASU 2015-02 were considered to be VIEs for which we are the primary beneficiary and continue to be consolidated following adoption; prior period VIE disclosures do not include the balances or activity associated with these VIEs.

Accounting Standards Not Yet Adopted

In March 2016, the FASB issued ASU No. 2016-09 ("ASU 2016-09"), Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The provisions of ASU 2016-09 are effective for reporting periods beginning after December 15, 2016; early adoption is permitted. The provisions of this ASU contain specific transition guidance for each amendment. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases (Topic 842), which supersedes existing guidance on accounting for leases in Leases (Topic 840) and generally requires all leases, including operating leases, to be recognized in the statement of financial position as right-of-use assets and lease liabilities by lessees. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach and are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. We are currently evaluating the effect that this ASU will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to ASU 2014-09, the FASB has issued several related ASUs. The provisions of ASU 2014-09 and the related ASUs are to be applied retrospectively or using a modified retrospective approach. We are currently evaluating our method of adoption and the effect that this ASU will have on our consolidated financial statements.

Note 3: Acquisitions

Tax Deferred Exchange

During the six months ended June 30, 2015, we used proceeds from the sale of the Waldorf Astoria New York (see Note 4: "Disposals") to acquire, as part of a tax deferred exchange of real property, the following properties from sellers affiliated with Blackstone and an unrelated third party, for a total purchase price of $1.87 billion:

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

- the Casa Marina Resort in Key West, Florida;
- the Reach Resort in Key West, Florida;
- the Parc 55 in San Francisco, California; and
- the Juniper Hotel Cupertino in Cupertino, California.

We incurred transaction costs of $7 million and $26 million recognized in other gain (loss), net in our condensed consolidated statements of operations for the three and six months ended June 30, 2015, respectively.

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

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
	(in millions)	
Total revenues	$89	$ 144
Income before income taxes	19	34

Note 4: Disposals

In February 2015, we completed the sale of the Waldorf Astoria New York for a purchase price of $1.95 billion, and we repaid in full the existing mortgage loan secured by the Waldorf Astoria New York property (the "Waldorf Astoria Loan") of approximately $525 million. As a result of the sale, we recognized a gain of $144 million included in gain (loss) on sales of assets, net in our condensed consolidated statement of operations for the six months ended June 30, 2015. The gain was net of transaction costs and a goodwill reduction of $185 million. The goodwill reduction was due to our consideration of the Waldorf Astoria New York property as a business within our ownership segment; therefore, we reduced the carrying amount of our goodwill by the amount representing the fair value of the business disposed relative to the fair value of the portion of our ownership reporting unit goodwill that was retained. Additionally, we recognized a loss of $6 million in other gain (loss), net in our condensed consolidated statement of operations for the six months ended June 30, 2015 related to the reduction of the Waldorf Astoria Loan's remaining carrying amount of debt issuance costs.

Note 5: Property and Equipment

Property and equipment were as follows:

	June 30, 2016	December 31, 2015
	(in millions)	
Land	$3,473	$ 3,486
Buildings and leasehold improvements	6,476	6,410
Furniture and equipment	1,321	1,263
Construction-in-progress	137	80
	11,407	11,239
Accumulated depreciation	(2,300)	(2,120)
	$9,107	$ 9,119

Depreciation of property and equipment, including assets recorded for capital lease assets, was $90 million and $89 million during the three months ended June 30, 2016 and 2015, respectively, and $177 million and $172 million during the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016 and December 31, 2015, property and equipment included approximately $155 million and $144 million, respectively, of capital lease assets primarily consisting of buildings and leasehold improvements, net of $82 million and $71 million, respectively, of accumulated depreciation.

Note 6: Financing Receivables

Financing receivables were as follows:

June 30, 2016

	Securitized Timeshare	Unsecuritized Timeshare(1)	Other	Total
	(in millions)			
Financing receivables	$254	$ 699	$ 51	$1,004
Less: allowance for loan loss	(11)	(88)	—	(99)
	243	611	51	905
Current portion of financing receivables	53	87	2	142
Less: allowance for loan loss	(2)	(11)	—	(13)
	51	76	2	129
Total financing receivables	$294	$ 687	$ 53	$1,034

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	December 31, 2015			
	Securitized Timeshare	Unsecuritized Timeshare[1]	Other	Total
	(in millions)			
Financing receivables	$309	$ 632	$ 39	$980
Less: allowance for loan loss	(14)	(79)	—	(93)
	295	553	39	887
Current portion of financing receivables	58	83	1	142
Less: allowance for loan loss	(3)	(10)	—	(13)
	55	73	1	129
Total financing receivables	$350	$ 626	$ 40	$1,016

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(1) Included in this balance, we had $164 million and $163 million of gross timeshare financing receivables securing our revolving non-recourse timeshare financing receivables credit facility (the "Timeshare Facility"), as of June 30, 2016 and December 31, 2015, respectively.

Timeshare Financing Receivables

As of June 30, 2016, our timeshare financing receivables had interest rates ranging from 5.15 percent to 20.50 percent, a weighted average interest rate of 11.88 percent, a weighted average remaining term of 7.7 years and maturities through 2026.

Our timeshare financing receivables as of June 30, 2016 mature as follows:

	Securitized Timeshare	Unsecuritized Timeshare
Year	(in millions)	
2016 (remaining)	$26	$ 51
2017	54	74
2018	53	78
2019	50	80
2020	45	83
Thereafter	79	420
	307	786
Less: allowance for loan loss	(13)	(99)
	$294	$ 687

As of June 30, 2016 and December 31, 2015, we had ceased accruing interest on timeshare financing receivables with an aggregate principal balance of $34 million and $32 million, respectively. The following table details an aged analysis of our gross timeshare financing receivables balance:

	June 30, 2016	December 31, 2015
	(in millions)	
Current	$1,046	$ 1,035
30 - 89 days past due	13	15
90 - 119 days past due	4	4

120 days and greater past due	30	28
	$1,093	$ 1,082

The changes in our allowance for loan loss were as follows:

	Six Months Ended June 30,	
	2016	2015
	(in millions)	
Beginning balance	$106	$96
Write-offs	(17)	(15)
Provision for loan loss	23	17
Ending balance	$112	$98

Note 7: Investments in Affiliates

Investments in affiliates were as follows:

	June 30,	December 31,
	2016	2015
	(in millions)	
Equity investments	$120	$ 129
Other investments	9	9
	$129	$ 138

We maintain investments in affiliates accounted for under the equity method, which are primarily investments in entities that owned or leased 15 and 16 hotels as of June 30, 2016 and December 31, 2015, respectively. These entities had total debt of approximately $956 million and $959 million as of June 30, 2016 and December 31, 2015, respectively. Substantially all of the debt is secured solely by the affiliates' assets or is guaranteed by other partners without recourse to us.

Note 8: Consolidated Variable Interest Entities

As of June 30, 2016, we consolidated nine VIEs: six that own or lease hotel properties; two that are associated with our timeshare financing receivables securitization transactions that both issued debt (collectively, the "Securitized Timeshare Debt"); and one management company. As of December 31, 2015 and prior to adoption of ASU 2015-02, we consolidated three VIEs that owned or leased hotel properties and two that issued our securitized timeshare debt. Of the four additional entities considered to be VIEs following the adoption of ASU 2015-02, two were previously consolidated by us and two were unconsolidated investments in affiliates.

We are the primary beneficiaries of these VIEs as we have the power to direct the activities that most significantly affect their economic performance. Additionally, we have the obligation to absorb their losses and the right to receive benefits that could be significant to them. The assets of our VIEs are only available to settle the obligations of these entities. As of June 30, 2016 and December 31, 2015, our condensed consolidated balance sheets included the assets and liabilities of the nine and five VIEs, respectively, which primarily comprised the following:

	June 30,	December 31,
	2016	2015
	(in millions)	
Cash and cash equivalents	$68	$ 46
Restricted cash and cash equivalents	23	15

Accounts receivable, net	18	19
Property and equipment, net	264	72
Financing receivables, net	294	350
Deferred income tax assets	68	62
Other non-current assets	61	52
Accounts payable, accrued expenses and other	49	35
Long-term debt	391	219
Timeshare debt	295	353

During the six months ended June 30, 2016 and 2015, we did not provide any financial or other support to any VIEs that we were not previously contractually required to provide, nor do we intend to provide such support in the future.

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

Note 9: Debt

Long-term Debt

Long-term debt balances, including obligations for capital leases, and associated interest rates as of June 30, 2016, were as follows:

	June 30, 2016	December 31, 2015
	(in millions)	
Senior secured term loan facility with a rate of 3.50%, due 2020	$4,225	$ 4,225
Senior notes with a rate of 5.625%, due 2021	1,500	1,500
Commercial mortgage-backed securities loan with an average rate of 4.15%, due 2018[(1)]	3,418	3,418
Mortgage loans and other property debt with an average rate of 4.22%, due 2016 to 2022[(2)]	622	616
Other unsecured notes with a rate of 7.50%, due 2017	54	54
Capital lease obligations with an average rate of 6.38%, due 2018 to 2097	274	245
	10,093	10,058
Less: current maturities of long-term debt[(3)]	(98)	(94)
Less: unamortized deferred financing costs and discount	(95)	(107)
	$9,900	$ 9,857

(1) The current maturity date of the variable-rate component of this borrowing is November 1, 2016. We assumed all extensions, which are solely at our option, were exercised.
(2) For mortgage loans with maturity date extensions that are solely at our option, we assumed they were exercised.
(3) Net of unamortized deferred financing costs expected to be amortized in the next twelve months.

As of June 30, 2016, we had $45 million of letters of credit outstanding under our $1.0 billion senior secured revolving credit facility (the "Revolving Credit Facility"), and a borrowing capacity of $955 million.

In February 2015, we repaid the $525 million Waldorf Astoria Loan concurrent with the sale of the Waldorf Astoria New York. See Note 4: "Disposals" for further information on the transaction. We also assumed a $450 million mortgage loan secured by the Bonnet Creek Resort (the "Bonnet Creek Loan") as a result of an acquisition. See Note 3: "Acquisitions" for further information on the transaction.

Our commercial mortgage-backed securities loan secured by 22 of our U.S. owned real estate assets (the "CMBS Loan") and other mortgage loans require us to deposit with the lenders certain cash reserves for restricted uses. As of June 30, 2016 and December 31, 2015, our condensed consolidated balance sheets included $80 million and $49 million, respectively, of restricted cash and cash equivalents related to these loans.

Timeshare Debt

Timeshare debt, and associated interest rates as of June 30, 2016, were as follows:

	June 30,	December 31,

	2016	2015
	(in millions)	
Timeshare Facility with a rate of 1.44%, due 2017	$150	$ 150
Securitized Timeshare Debt with an average rate of 1.97%, due 2026	298	356
	448	506
Less: current maturities of timeshare debt[1]	(88)	(110)
Less: unamortized deferred financing costs	(3)	(4)
	$357	$ 392

(1) Net of unamortized deferred financing costs expected to be amortized in the next twelve months.

We are required to deposit payments received from customers on the pledged timeshare financing receivables and securitized timeshare financing receivables related to the Timeshare Facility and Securitized Timeshare Debt, respectively, into a depository account maintained by a third party. On a monthly basis, the depository account will be used to make any required principal, interest and other payments due with respect to the Timeshare Facility and Securitized Timeshare Debt. The balance in the depository account, totaling $17 million as of June 30, 2016 and December 31, 2015, was included in restricted cash and cash equivalents in our condensed consolidated balance sheets.

Debt Maturities

The contractual maturities of our debt as of June 30, 2016 were as follows:

Year	Long-term Debt	Timeshare Debt
	(in millions)	
2016 (remaining)	$112	$ 48
2017	71	225
2018[(1)]	3,451	52
2019[(1)]	445	38
2020	4,255	28
Thereafter[(1)]	1,759	57
	$10,093	$ 448

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

Note 10: Derivative Instruments and Hedging Activities

During the six months ended June 30, 2016 and 2015, derivatives were used to hedge the interest rate risk associated with variable-rate debt as required by certain loan agreements, as well as foreign exchange risk associated with certain foreign currency denominated cash balances.

Cash Flow Hedges

As of June 30, 2016, we held four interest rate swaps with an aggregate notional amount of $1.45 billion, which swap three-month LIBOR on the senior secured term loan facility (the "Term Loans") to a fixed rate of 1.87 percent and expire in October 2018. We elected to designate these interest rate swaps as cash flow hedges for accounting purposes.

Non-designated Hedges

As of June 30, 2016, we also held one interest rate cap in the notional amount of $862 million, for the variable-rate component of the CMBS Loan, that expires in November 2016 and caps one-month LIBOR at 6.9 percent, and one interest rate cap in the notional amount of $337 million that expires in May 2017 and caps one-month LIBOR at 3.0 percent on the Bonnet Creek Loan. We did not elect to designate any of these interest rate caps as hedging instruments.

As of June 30, 2016, we held 63 short-term foreign exchange forward contracts with an aggregate notional amount of $340 million to offset exposure to fluctuations in our foreign currency denominated cash balances. We elected not to designate these foreign exchange forward contracts as hedging instruments.

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Fair Value of Derivative Instruments

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

	Balance Sheet Classification	Fair Value June 30, 2016	Fair Value December 31, 2015
		(in millions)	
Cash Flow Hedges:			
Interest rate swaps	Other liabilities	$ 25	$ 15
Non-designated Hedges:			
Interest rate caps[1]	Other assets	—	—
Forward contracts	Other assets	7	1
Forward contracts	Accounts payable, accrued expenses and other	3	1

[1] The fair values of our interest rate caps were less than $1 million as of June 30, 2016 and December 31, 2015.

Earnings Effect of Derivative Instruments

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

	Classification of Gain (Loss) Recognized	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
		(in millions)			
Cash Flow Hedges:					
Interest rate swaps[1]	Other comprehensive income (loss)	$ —	$ 3	$ (10)	$ (8)
Non-designated Hedges:					
Forward contracts	Gain (loss) on foreign currency transactions	2	8	3	6

[1] There were no amounts recognized in earnings related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing during the three and six months ended June 30, 2016 and 2015.

Note 11: Fair Value Measurements

We did not elect the fair value measurement option for any of our financial assets or liabilities. The fair value of certain financial instruments and the hierarchy level we used to estimate fair values are shown below:

	June 30, 2016 Carrying Amount	Hierarchy Level Level 1	Level 2	Level 3
	(in millions)			
Assets:				

Cash equivalents	$488	$—	$488	$ —
Restricted cash equivalents	20	—	20	—
Timeshare financing receivables[1]	981	—	—	1,092
Liabilities:				
Long-term debt[2][3]	9,685	1,616	—	8,290
Timeshare debt[3]	445	—	—	448
Interest rate swaps	25	—	25	—

	December 31, 2015			
		Hierarchy Level		
	Carrying Amount	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Cash equivalents	$327	$ —	$327	$ —
Restricted cash equivalents	18	—	18	—
Timeshare financing receivables[1]	976	—	—	1,080
Liabilities:				
Long-term debt[2][3]	9,673	1,619	—	8,267
Timeshare debt[3]	502	—	—	506
Interest rate swaps	15	—	15	—

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(1) Carrying amount includes allowance for loan loss.

(2) Excludes capital lease obligations with a carrying value of $274 million and $245 million as of June 30, 2016 and December 31, 2015, respectively, and debt of consolidated VIEs with a carrying value of $39 million and $32 million, respectively.

(3) Carrying amount includes unamortized deferred financing costs and discount.

The fair values of financial instruments not included in this table are estimated to be equal to their carrying amounts as of June 30, 2016 and December 31, 2015. Our estimates of the fair values were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop the estimated fair values.

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

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

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

The estimated fair values of our Level 3 timeshare debt were based on the carrying values, excluding unamortized deferred financing costs, as the interest rates approximated current market rates.

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

Note 12: Income Taxes

At the end of each quarter we estimate the effective tax rate expected to be applied for the full year. The effective income tax rate is determined by the level and composition of pre-tax income or loss, which is subject to federal, foreign, state and local income taxes. The lower effective tax rate, as compared to our statutory tax rate, for the six months ended June 30, 2016, was primarily attributable to changes in our uncertain tax positions.

Our total unrecognized tax benefits as of June 30, 2016 and December 31, 2015 were $252 million and $407 million, respectively. During the six months ended June 30, 2016, we released $218 million of reserves related to unrecognized tax benefits that we have either settled or determined that we are more likely than not to receive the full benefit for.

In April 2014, we received 30-day Letters from the Internal Revenue Service ("IRS") and the Revenue Agents Report ("RAR") for the 2006 and October 2007 tax years. We disagreed with several of the proposed adjustments in the RAR, filed a formal appeals protest with the IRS and did not make any tax payments related to this audit. The issues being protested in appeals relate to assertions by the IRS that: (1) certain foreign currency denominated intercompany loans from our foreign subsidiaries to certain U.S. subsidiaries should be recharacterized as equity for U.S. federal income tax purposes and constitute deemed dividends from such foreign subsidiaries to our U.S. subsidiaries; (2) in calculating the amount of U.S. taxable income resulting from our Hilton HHonors guest loyalty program, we should not reduce gross income by the estimated costs of future redemptions, but rather such costs would be deductible at the time the points are redeemed; and (3) certain foreign currency denominated loans issued by one of our Luxembourg subsidiaries whose functional currency is U.S. dollar ("USD"), should instead be treated as issued by one of our Belgian subsidiaries whose functional currency is the euro, and thus foreign currency gains and losses with respect to such loans should have been measured in euros, instead of USD. Additionally, in January 2016, we received a 30-day Letter from the IRS and the RAR for the December 2007 through 2010 tax years. The RAR includes the proposed adjustments for tax years December 2007 through 2010 which reflect the carryover effect of the three protested issues from 2006 through October 2007. These proposed adjustments will also be protested in appeals and formal appeals protests have been submitted. In total, the proposed adjustments sought by the IRS would result in additional U.S. federal tax owed of approximately $874 million, excluding interest and penalties and potential state income taxes. The portion of this amount related to our Hilton HHonors guest loyalty program would result in a decrease to our future tax liability when the points are redeemed. We disagree with the IRS's position on each of these assertions and intend to vigorously contest them. However, as a result of recent developments related to the appeals process discussions that have taken place during 2016, we have determined based on on-going discussions with the IRS, it is more likely than not that we will not recognize the full benefit related to certain of the issues being appealed. Accordingly, as of June 30, 2016, we have recognized a $46 million unrecognized tax benefit.

We recognize interest and penalties accrued related to uncertain tax positions in income tax expense. We had accrued approximately $27 million for the payment of interest and penalties as of June 30, 2016 and December 31, 2015. As a result of the expected resolution of examination issues with federal, state and foreign tax authorities, we believe it is reasonably possible that during the next 12 months the amount of unrecognized tax benefits will decrease up to $1 million. Included in the balance of unrecognized tax benefits as of June 30, 2016 and December 31, 2015 were $209 million and $377 million, respectively, associated with positions that, if favorably resolved, would provide a benefit to our effective tax rate.

We file income tax returns, including returns for our subsidiaries, with federal, state and foreign jurisdictions. We are under regular and recurring audit by the IRS and other taxing authorities on open tax positions. The timing of the resolution of tax audits is highly uncertain, as are the amounts, if any, that may ultimately be paid upon such resolution. Changes may result from the conclusion of ongoing audits, appeals or litigation in state, local, federal and foreign tax jurisdictions or from the resolution of various proceedings between the U.S. and foreign tax authorities. We are no longer subject to U.S. federal income tax examination for years through 2004. As of June 30, 2016, we remain subject to federal examinations from 2005-2014, state examinations from 1999-2014 and foreign examinations of our income tax returns for the years 1996 through 2015.

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

Note 13: Employee Benefit Plans

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

We have a noncontributory retirement plan in the U.S., which covers certain employees not earning union benefits. This plan was frozen for participant benefit accruals in 1996. We also have multiple employee benefit plans that cover many of our international employees. These include a plan that covers workers in the United Kingdom, which was frozen to further accruals in November 2013, and a number of smaller plans that cover workers in various other countries around the world. The net periodic pension cost for our employee benefit plans was $2 million and $3 million for the three months ended June 30, 2016 and 2015, respectively, and $3 million and $6 million for the six months ended June 30, 2016 and 2015, respectively.

Note 14: Share-Based Compensation

We issue time-vesting restricted stock units ("RSUs"), nonqualified stock options ("options"), performance-vesting restricted stock units and restricted stock (collectively, "performance shares") and deferred share units ("DSUs"). We recognized share-based compensation expense of $26 million and $91 million during the three months ended June 30, 2016 and 2015, respectively, and $44 million and $121 million during the six months ended June 30, 2016 and 2015, respectively, which included amounts reimbursed by hotel owners. Share-based compensation expense for the three and six months ended June 30, 2015 included $64 million of compensation expense that was recognized when certain remaining awards granted in connection with our initial public offering vested in May 2015. As of June 30, 2016, unrecognized compensation costs for unvested awards was approximately $143 million, which is expected to be recognized over a weighted-average period of 2.0 years on a straight-line basis. As of June 30, 2016, there were 62,117,847 shares of common stock available for future issuance.

RSUs

During the six months ended June 30, 2016, we issued 3,508,885 RSUs with a weighted average grant date fair value of $19.91, which generally vest in equal annual installments over two or three years from the date of grant.

Options

During the six months ended June 30, 2016, we issued 1,509,451 options with an exercise price of $19.61, which vest over three years from the date of grant and terminate 10 years from the date of grant or earlier if the individual's service terminates in certain circumstances.

The grant date fair value of these options was $5.47, which was determined using the Black-Scholes-Merton option-pricing model with the following assumptions:

Expected volatility(1)	32.00	%
Dividend yield(2)	1.43	%
Risk-free rate(3)	1.36	%
Expected term (in years)(4)	6.0	

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

(2) Estimated based on the expected annualized dividend payment.

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

(4) Estimated using the average of the vesting periods and the contractual term of the options.

As of June 30, 2016, 885,644 options outstanding were exercisable.

Performance Shares

During the six months ended June 30, 2016, we issued 1,804,706 performance shares. The performance shares are settled at the end of the three-year performance period with 50 percent of the shares subject to achievement based on a measure of the Company's total shareholder return relative to the total shareholder returns of members of a peer company group ("relative shareholder return") and the other 50 percent of the shares subject to achievement based on the Company's earnings before interest expense, taxes and depreciation and amortization ("EBITDA") compound annual growth rate ("EBITDA CAGR").

The grant date fair value of these performance shares based on relative shareholder return was $20.81, which was determined using a Monte Carlo simulation valuation model with the following assumptions:

Expected volatility(1)	31.00	%
Dividend yield(2)	—	%
Risk-free rate(3)	0.92	%
Expected term (in years)(4)	2.8	

(1)

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

(2) As dividends are assumed to be reinvested in shares of common stock and dividends will not be paid to the participants of the performance shares unless the shares vest, we utilized a dividend yield of zero percent.

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

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

The grant date fair value of these performance shares based on our EBITDA CAGR was $19.61. For these shares, we determined that the performance condition is probable of achievement and as of June 30, 2016, we recognized compensation expense based on the anticipated achievement percentage as follows:

	Achievement Percentage
2014 grants	125%
2015 grants	88%
2016 grants	63%

DSUs

During the six months ended June 30, 2016, we issued to our independent directors 34,099 DSUs with a grant date fair value of $22.04, which are fully vested and non-forfeitable on the grant date. DSUs are settled for shares of our common stock and deliverable upon the earlier of termination of the individual's service on our board of directors or a change in control.

Note 15: Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(in millions, except per share amounts)			
Basic EPS:				
Numerator:				
Net income attributable to Hilton stockholders	$239	$161	$548	$311
Denominator:				
Weighted average shares outstanding	988	987	988	986
Basic EPS	$0.24	$0.16	$0.56	$0.32
Diluted EPS:				
Numerator:				
Net income attributable to Hilton stockholders	$239	$161	$548	$311
Denominator:				
Weighted average shares outstanding	991	989	990	989
Diluted EPS	$0.24	$0.16	$0.55	$0.31

Approximately 3 million and 4 million share-based compensation awards were excluded from the computation of diluted EPS for the three and six months ended June 30, 2016, respectively, and 2 million and 1 million awards were excluded for the three and six months ended June 30, 2015, respectively, because their effect would have been anti-dilutive under the treasury stock method.

Note 16: Accumulated Other Comprehensive Loss

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

	Currency Translation	Pension Liability	Cash Flow Hedge	Total

	Adjustment	Adjustment[(1)]	Adjustment	
	(in millions)			
Balance as of December 31, 2015	$(580)	$ (194)	$ (10)	$(784)
Other comprehensive loss before reclassifications	(37)	(1)	(6)	(44)
Amounts reclassified from accumulated other comprehensive loss	(1)	3	—	2
Net current period other comprehensive income (loss)	(38)	2	(6)	(42)
Balance as of June 30, 2016	$(618)	$ (192)	$ (16)	$(826)

	Currency Translation Adjustment(1)	Pension Liability Adjustment	Cash Flow Hedge Adjustment	Total
	(in millions)			
Balance as of December 31, 2014	$(446)	$ (179)	$ (3)	$(628)
Other comprehensive loss before reclassifications	(42)	(2)	(5)	(49)
Amounts reclassified from accumulated other comprehensive loss	—	4	—	4
Net current period other comprehensive income (loss)	(42)	2	(5)	(45)
Balance as of June 30, 2015	$(488)	$ (177)	$ (8)	$(673)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Currency translation adjustment:				
Gains on net investment hedges[1]	1	—	1	—
Tax benefit[2][3]	—	—	—	—
Total currency translation adjustment reclassifications for the period, net of taxes	1	—	1	—
Pension liability adjustment:				
Amortization of prior service cost[4]	$(1)	$(1)	$(2)	$(2)
Amortization of net loss[4]	(2)	(2)	(3)	(4)
Tax benefit[2]	1	1	2	2
Total pension liability adjustment reclassifications for the period, net of taxes	(2)	(2)	(3)	(4)
Total reclassifications for the period, net of tax	$(1)	$(2)	$(2)	$(4)

(1) Reclassified out of accumulated other comprehensive loss to other gain (loss), net in our condensed consolidated statements of operations.

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

(3) The tax benefit was less than $1 million for the three and six months ended June 30, 2016.

(4) Reclassified out of accumulated other comprehensive loss to general, administrative and other in our condensed consolidated statements of operations. These amounts were included in the computation of net periodic pension cost (credit).

Note 17: Business Segments

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

The ownership segment included 143 properties totaling 57,996 rooms, comprising 121 hotels that we wholly owned or leased, one hotel owned by a consolidated non-wholly owned entity, six hotels owned or leased by consolidated VIEs and 15 hotels that are owned or leased by unconsolidated investments in affiliates, as of June 30, 2016. While we do not include equity in earnings (losses) from unconsolidated affiliates in our measures of segment revenues, we manage these investments in our ownership segment and the results are included in our measure of segment profit.

The management and franchise segment includes all of the hotels we manage for third-party owners, as well as all franchised hotels operated or managed by someone other than us. As of June 30, 2016, this segment included 537 managed hotels and 4,000 franchised hotels totaling 4,537 hotels consisting of 710,225 rooms. This segment also earns fees for managing properties in our ownership and timeshare segments.

The timeshare segment includes the development of vacation ownership clubs and resorts, marketing and selling of timeshare intervals, providing timeshare customer financing and resort operations. This segment also provides assistance to third-party developers in selling their timeshare inventory. As of June 30, 2016, this segment included 47 timeshare properties totaling 7,645 units.

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

The performance of our operating segments is evaluated primarily based on Adjusted EBITDA. We define Adjusted EBITDA as EBITDA, further adjusted to exclude certain items, including, but not limited to, gains, losses and expenses in connection with: (i) asset dispositions for both consolidated and unconsolidated investments; (ii) foreign currency transactions; (iii) debt restructurings/retirements; (iv) non-cash impairment losses; (v) furniture, fixtures and equipment ("FF&E") replacement reserves required under certain lease agreements; (vi) reorganization costs; (vii) share-based compensation expense; (viii) severance, relocation and other expenses; and (ix) other items.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Revenues				
Ownership	$1,114	$1,141	$2,088	$2,105
Management and franchise	471	434	880	825
Timeshare	336	319	662	640
Segment revenues	1,921	1,894	3,630	3,570
Other revenues from managed and franchised properties	1,166	1,061	2,237	2,011
Other revenues	23	21	45	42
Intersegment fees elimination[1]	(59)	(54)	(111)	(102)
Total revenues	$3,051	$2,922	$5,801	$5,521

[1]Included the following intercompany charges that were eliminated in our condensed consolidated financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Rental and other fees[a]	$7	$5	$13	$11
Management, royalty and intellectual property fees[b]	38	36	71	66
Licensing fee[c]	11	11	21	20
Laundry services[d]	1	1	3	3
Other[e]	2	1	3	2
Intersegment fees elimination	$59	$54	$111	$102

[a] Represents charges to our timeshare segment by our ownership segment.

[b] Represents fees charged to our ownership segment by our management and franchise segment.

[c] Represents fees charged to our timeshare segment by our management and franchise segment.

[d] Represents charges to our ownership segment for services provided by our wholly owned laundry business. Revenues from our laundry business are included in other revenues.

[e] Represents other intercompany charges, which are a benefit to the ownership segment and a cost to corporate and other.

The table below provides a reconciliation of segment Adjusted EBITDA to consolidated net income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Ownership[1][2]	$299	$318	$506	$508
Management and franchise[2]	471	434	880	825
Timeshare[2]	98	86	193	160
Segment Adjusted EBITDA	868	838	1,579	1,493
Corporate and other[2]	(62)	(61)	(120)	(117)
Interest expense	(147)	(149)	(286)	(293)
Income tax expense	(156)	(145)	(110)	(308)
Depreciation and amortization	(171)	(173)	(340)	(348)
Interest expense, income tax and depreciation and amortization included in equity in earnings from unconsolidated affiliates	(7)	(7)	(15)	(14)
Gain (loss) on sales of assets, net	2	(3)	2	142
Gain (loss) on foreign currency transactions	(13)	5	(25)	(13)
FF&E replacement reserve	(16)	(14)	(29)	(27)
Share-based compensation expense	(26)	(92)	(44)	(122)
Impairment loss	—	—	(15)	—
Other gain (loss), net	(5)	18	(5)	(7)
Other adjustment items	(23)	(50)	(38)	(69)
Net income	$244	$167	$554	$317

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(1) Includes unconsolidated affiliate Adjusted EBITDA.

(2) Our measures of Adjusted EBITDA included intercompany charges that were eliminated in our condensed consolidated financial statements. Refer to the footnote to the segment revenues table above for the detail of the intercompany charges.

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

	June 30, 2016	December 31, 2015
	(in millions)	
Ownership	$11,346	$ 11,269
Management and franchise	10,327	10,392
Timeshare	2,067	1,935
Corporate and other	2,113	2,026
	$25,853	$ 25,622

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

	Six Months Ended June 30,	
	2016	2015

	(in millions)	
Ownership	$153	$148
Timeshare	11	5
Corporate and other	5	6
	$169	$159

Note 18: Commitments and Contingencies

As of June 30, 2016, we had outstanding guarantees of $25 million, with remaining terms ranging from four years to seven years, for debt and other obligations of third parties. We have one letter of credit for $25 million that has been pledged as collateral for one of these guarantees. Although we believe it is unlikely that material payments will be required under these guarantees or letters of credit, there can be no assurance that this will be the case.

We have also provided performance guarantees to certain owners of hotels that we operate under management contracts. Most of these guarantees allow us to terminate the contract, rather than fund shortfalls, if specified performance levels are not achieved. However, in limited cases, we are obligated to fund performance shortfalls. As of June 30, 2016, we had seven contracts containing performance guarantees, with expirations ranging from 2019 to 2030, and possible cash outlays totaling approximately $89 million. Our obligations in future periods depend on the operating performance levels of these hotels over the remaining terms of the performance guarantees. We do not have any letters of credit pledged as collateral against these guarantees. As of June 30, 2016 and December 31, 2015, we recorded current liabilities of approximately $8 million and non-current liabilities of approximately $22 million and $25 million, respectively, in our condensed consolidated balance sheets for outstanding performance guarantees that are related to certain VIEs for which we are not the primary beneficiary.

As of June 30, 2016, we had outstanding commitments under third-party contracts of approximately $84 million for capital expenditures at certain owned and leased properties. Our contracts contain clauses that allow us to cancel all or some portion of the work. If cancellation of a contract occurs, our commitment would be any costs incurred up to the cancellation date, in addition to any costs associated with the discharge of the contract.

We have entered into an agreement with an affiliate of the owner of a hotel whereby we have agreed to provide a $60 million junior mezzanine loan to finance the construction of a new hotel that we will manage. The junior mezzanine loan will be subordinated to a senior mortgage loan and senior mezzanine loan provided by third parties unaffiliated with us and will be funded on a pro rata basis with these loans as the construction costs are incurred. During the six months ended June 30, 2016 and 2015, we funded $17 million and $6 million of this commitment, respectively, and we currently expect to fund the remainder of our commitment as follows: $21 million in the remainder of 2016 and $5 million in 2017.

We have entered into certain arrangements with developers whereby we have committed to purchase timeshare units at a future date to be marketed and sold under our Hilton Grand Vacations brand. As of June 30, 2016, we are committed to purchase approximately $195 million of inventory over a period of four years. The ultimate amount and timing of the acquisitions is subject to change pursuant to the terms of the respective arrangements, which could also allow for cancellation in certain circumstances. During the six months ended June 30, 2016 and 2015, we purchased $11 million and $17 million, respectively, of inventory as required under our commitments. As of June 30, 2016, our remaining contractual obligations pursuant to these arrangements was expected to be incurred as follows: $5 million in the remainder of 2016; $8 million in 2017; zero in 2018; and $182 million in 2019.

In 2010, an affiliate of Blackstone settled a $75 million liability on our behalf in conjunction with a lawsuit settlement by entering into service contracts with the plaintiff. As part of the settlement, we entered into a guarantee with the plaintiff to pay any shortfall that this affiliate does not fund related to those service contracts up to the value of the settlement amount made by the affiliate. The remaining potential exposure as of June 30, 2016 was approximately $17 million. We have not accrued a liability for this guarantee as we believe the likelihood of any material funding to be remote.

We are involved in other litigation arising in the normal course of business, some of which includes claims for substantial sums. While the ultimate results of claims and litigation cannot be predicted with certainty, we expect that the ultimate resolution of all pending or threatened claims and litigation as of June 30, 2016 will not have a material effect on our condensed consolidated results of operations, financial position or cash flows.

Note 19: Condensed Consolidating Guarantor Financial Information

In October 2013, Hilton Worldwide Finance LLC and Hilton Worldwide Finance Corp. (the "Subsidiary Issuers"), entities formed in August 2013 that are 100 percent owned by the Parent, issued $1.5 billion of 5.625% senior notes due in 2021 (the "Senior Notes"). The obligations of the Subsidiary Issuers are guaranteed jointly and severally on a senior unsecured basis by the Parent and certain of the Parent's 100 percent owned domestic restricted subsidiaries (the "Guarantors"). The indenture that governs the Senior Notes provides that any subsidiary of the Company that provides a guarantee of a senior secured credit facility consisting of the Revolving Credit Facility and the Term Loans (the "Senior Secured Credit Facility") will guarantee the Senior Notes. None of our foreign subsidiaries or U.S. subsidiaries owned by foreign subsidiaries or conducting foreign operations; our non-wholly owned subsidiaries; our subsidiaries that secure the CMBS Loan and $448 million in mortgage loans; or certain of our special purpose subsidiaries formed in connection with our Timeshare Facility and Securitized Timeshare Debt guarantee the Senior Notes (collectively, the "Non-Guarantors").

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

The following schedules present the condensed consolidating financial information as of June 30, 2016 and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015, for the Parent, Subsidiary Issuers, Guarantors and Non-Guarantors.

	June 30, 2016					
	Parent	Subsidiary Issuers	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)					
ASSETS						
Current Assets:						
Cash and cash equivalents	$—	$—	$ 294	$ 516	$—	$810
Restricted cash and cash equivalents	—	—	154	117	—	271
Accounts receivable, net	—	—	598	407	—	1,005
Intercompany receivables	—	—	67	—	(67)	—
Inventories	—	—	437	22	—	459
Current portion of financing receivables, net	—	—	59	70	—	129
Prepaid expenses	—	—	80	112	(6)	186
Income taxes receivable	—	—	18	—	—	18
Other	—	—	9	43	—	52
Total current assets	—	—	1,716	1,287	(73)	2,930
Property, Intangibles and Other Assets:						
Property and equipment, net	—	—	356	8,772	(21)	9,107
Financing receivables, net	—	—	522	383	—	905
Investments in affiliates	—	—	82	47	—	129
Investments in subsidiaries	6,364	12,069	5,260	—	(23,693)	—
Goodwill	—	—	3,851	2,011	—	5,862
Brands	—	—	4,405	506	—	4,911
Management and franchise contracts, net	—	—	820	257	—	1,077
Other intangible assets, net	—	—	378	165	—	543
Deferred income tax assets	11	6	—	76	(17)	76
Other	—	8	187	118	—	313
Total property, intangibles and other assets	6,375	12,083	15,861	12,335	(23,731)	22,923
TOTAL ASSETS	$6,375	$12,083	$ 17,577	$ 13,622	$ (23,804)	$25,853
LIABILITIES AND EQUITY						
Current Liabilities:						
Accounts payable, accrued expenses and other	$—	$39	$ 1,647	$ 690	$ (6)	$2,370
Intercompany payables	—	—	—	74	(74)	—
Current maturities of long-term debt	—	(12)	—	110	—	98
Current maturities of timeshare debt	—	—	—	88	—	88
Income taxes payable	—	—	70	37	—	107
Total current liabilities	—	27	1,717	999	(80)	2,663
Long-term debt	—	5,666	55	4,179	—	9,900
Timeshare debt	—	—	—	357	—	357
Deferred revenues	—	—	160	1	—	161

Deferred income tax liabilities	—	—	1,953	2,597	(17)	4,533
Liability for guest loyalty program	—	—	833	—	—	833
Other	—	26	790	244	—	1,060
Total liabilities	—	5,719	5,508	8,377	(97)	19,507
Equity:						
Total Hilton stockholders' equity	6,375	6,364	12,069	5,274	(23,707)	6,375
Noncontrolling interests	—	—	—	(29)	—	(29)
Total equity	6,375	6,364	12,069	5,245	(23,707)	6,346
TOTAL LIABILITIES AND EQUITY	$6,375	$12,083	$ 17,577	$ 13,622	$ (23,804)	$25,853

	December 31, 2015					
	Parent	Subsidiary Issuers	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)					
ASSETS						
Current Assets:						
Cash and cash equivalents	$—	$—	$ 223	$ 386	$ —	$609
Restricted cash and cash equivalents	—	—	148	99	—	247
Accounts receivable, net	—	—	501	375	—	876
Intercompany receivables	—	—	89	—	(89)	—
Inventories	—	—	419	23	—	442
Current portion of financing receivables, net	—	—	55	74	—	129
Prepaid expenses	—	—	39	129	(21)	147
Income taxes receivable	—	—	120	—	(23)	97
Other	—	—	9	29	—	38
Total current assets	—	—	1,603	1,115	(133)	2,585
Property, Intangibles and Other Assets:						
Property and equipment, net	—	—	304	8,815	—	9,119
Financing receivables, net	—	—	451	436	—	887
Investments in affiliates	—	—	94	44	—	138
Investments in subsidiaries	6,166	11,854	5,232	—	(23,252)	—
Goodwill	—	—	3,851	2,036	—	5,887
Brands	—	—	4,405	514	—	4,919
Management and franchise contracts, net	—	—	877	272	—	1,149
Other intangible assets, net	—	—	402	184	—	586
Deferred income tax assets	24	3	—	78	(27)	78
Other	—	9	165	100	—	274
Total property, intangibles and other assets	6,190	11,866	15,781	12,479	(23,279)	23,037
TOTAL ASSETS	$6,190	$11,866	$ 17,384	$ 13,594	$ (23,412)	$25,622
LIABILITIES AND EQUITY						
Current Liabilities:						
Accounts payable, accrued expenses and other	$—	$39	$ 1,542	$ 646	$ (21)	$2,206
Intercompany payables	—	—	—	89	(89)	—
Current maturities of long-term debt	—	(12)	—	106	—	94
Current maturities of timeshare debt	—	—	—	110	—	110
Income taxes payable	—	—	6	50	(23)	33
Total current liabilities	—	27	1,548	1,001	(133)	2,443
Long-term debt	—	5,659	54	4,144	—	9,857
Timeshare debt	—	—	—	392	—	392
Deferred revenues	—	—	282	1	—	283
Deferred income tax liabilities	—	—	2,041	2,616	(27)	4,630
Liability for guest loyalty program	—	—	784	—	—	784
Other	205	14	821	242	—	1,282
Total liabilities	205	5,700	5,530	8,396	(160)	19,671
Equity:						
Total Hilton stockholders' equity	5,985	6,166	11,854	5,232	(23,252)	5,985

Noncontrolling interests	—	—	—	(34)	—	(34)
Total equity	5,985	6,166	11,854	5,198	(23,252)	5,951
TOTAL LIABILITIES AND EQUITY	$6,190	$11,866	$17,384	$13,594	$(23,412)	$25,622

	Three Months Ended June 30, 2016					
	Parent	Subsidiary Issuers	Guarantors	Non-Guarantors	Eliminations	Total
	(in millions)					
Revenues						
Owned and leased hotels	$ —	$ —	$ 62	$ 1,051	$ (8)	$ 1,105
Management and franchise fees and other	—	—	378	92	(26)	444
Timeshare	—	—	319	17	—	336
	—	—	759	1,160	(34)	1,885
Other revenues from managed and franchised properties	—	—	1,276	133	(243)	1,166
Total revenues	—	—	2,035	1,293	(277)	3,051
Expenses						