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Hilton Worldwide Holdings Inc.

Form 10-Q

October 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission File Number 001-36243

Hilton Worldwide Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-4384691

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

7930 Jones Branch Drive, Suite 1100, McLean, VA 22102

(Address of Principal Executive Offices)

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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



HILTON WORLDWIDE HOLDINGS INC.  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

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

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

See notes to condensed consolidated financial statements.

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

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

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Cash dividends declared per share	\$0.07	\$—	\$0.07	\$—
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See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.



HILTON WORLDWIDE HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

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

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

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

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

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

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interest entities

Balance as of September 30, 2014	985	\$10	\$10,000	\$(4,816	) \$(404	) \$(40	) \$4,750
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See notes to condensed consolidated financial statements.

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

Note 1: Organization and Basis of Presentation

Organization

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

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

Basis of Presentation and Use of Estimates

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

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

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

Note 2: Recently Issued Accounting Pronouncements

Accounting Standards Not Yet Adopted

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

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

In April 2015, the FASB issued ASU No. 2015-05 ("ASU 2015-05"), Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides a

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basis for evaluating whether a cloud computing arrangement includes a software license, whereby if an arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses, and if it does not, the customer should account for the arrangement as a service contract. The provisions of ASU 2015-05 are effective for reporting periods beginning after December 15, 2015; early adoption is permitted. The adoption is not expected to have a material effect on our consolidated financial position or results of operations.

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

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

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

### Note 3: Acquisitions

#### Tax Deferred Exchange

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

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

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

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

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



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

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

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

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

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

#### Equity Investments Exchange

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

#### Note 4: Disposals

##### Hilton Sydney

In July 2015, we completed the sale of the Hilton Sydney for a purchase price of 442 million Australian Dollars ("AUD") (equivalent to \$340 million as of the closing date). As a result of the sale, we recognized a pre-tax gain of \$163 million included in gain on sales of assets, net in our condensed consolidated statements of operations for the three and nine months ended September 30, 2015. The pre-tax gain was net of transaction costs, a goodwill reduction of \$36 million and reclassification of a currency translation adjustment of \$25 million from accumulated other comprehensive loss into earnings concurrent with the disposition. The goodwill reduction was due to our

consideration of the Hilton Sydney property as a business within our ownership segment; therefore, we reduced the carrying amount of our goodwill by the amount representing the fair value of the business disposed relative to the fair value of the portion of our ownership reporting unit goodwill that was retained.

### Waldorf Astoria New York

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

### Sale of Other Property and Equipment

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

### Note 5: Property and Equipment

Property and equipment were as follows:

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

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

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

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

## Note 6: Financing Receivables

Financing receivables were as follows:

	September 30, 2015			Total
	Securitized Timeshare (in millions)	Unsecuritized Timeshare <sup>(1)</sup>	Other	
Financing receivables	\$337	\$582	\$36	\$955
Less: allowance	(16	) (74	) —	(90
	321	508	36	865
Current portion of financing receivables	59	75	2	136
Less: allowance	(3	) (9	) —	(12
	56	66	2	124
Total financing receivables	\$377	\$574	\$38	\$989
	December 31, 2014			
	Securitized Timeshare (in millions)	Unsecuritized Timeshare <sup>(1)</sup>	Other	Total
Financing receivables	\$430	\$454	\$22	\$906
Less: allowance	(24	) (58	) (2	) (84
	406	396	20	822
Current portion of financing receivables	66	74	2	142
Less: allowance	(4	) (10	) —	(14
	62	64	2	128
Total financing receivables	\$468	\$460	\$22	\$950

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

## Timeshare Financing Receivables

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

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

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

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

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

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

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

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

#### Note 7: Investments in Affiliates

Investments in affiliates were as follows:

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

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

Note 8: Consolidated Variable Interest Entities

As of September 30, 2015 and December 31, 2014, we consolidated five variable interest entities ("VIEs"); two lease hotels from unconsolidated affiliates in Japan,