Hilton Worldwide Holdings Inc.
Form 10-Q
October 26, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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

N/A
(Former name, former address and former fiscal year, if changed since last report)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 ¨
Emerging growth company ¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of October 19, 2017 was 319,951,424.

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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, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 670	$ 1,062
Restricted cash and cash equivalents	126	121
Accounts receivable, net of allowance for doubtful accounts of $26 and $27	928	755
Prepaid expenses	130	89
Income taxes receivable	5	13
Other	46	39
Current assets of discontinued operations	—	1,478
Total current assets (variable interest entities - $93 and $167)	1,905	3,557
Intangibles and Other Assets:		
Goodwill	5,183	5,218
Brands	4,887	4,848
Management and franchise contracts, net	924	963
Other intangible assets, net	428	447
Property and equipment, net	346	341
Deferred income tax assets	82	82
Other	468	408
Non-current assets of discontinued operations	—	10,347
Total intangibles and other assets (variable interest entities - $168 and $569)	12,318	22,654
TOTAL ASSETS	$ 14,223	$ 26,211
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other	$ 1,911	$ 1,821
Current maturities of long-term debt	49	33
Income taxes payable	73	56
Current liabilities of discontinued operations	—	774
Total current liabilities (variable interest entities - $60 and $124)	2,033	2,684
Long-term debt	6,564	6,583
Deferred revenues	95	42
Deferred income tax liabilities	1,650	1,778
Liability for guest loyalty program	879	889
Other	1,554	1,492
Non-current liabilities of discontinued operations	—	6,894
Total liabilities (variable interest entities - $275 and $766)	12,775	20,362
Commitments and contingencies - see Note 14		
Equity:		
Preferred stock, $0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of September 30, 2017 and December 31, 2016	—	—

Common stock[(1)], $0.01 par value; 10,000,000,000 authorized shares, 330,923,170 issued and 320,920,423 outstanding as of September 30, 2017 and 329,351,581 issued and 329,341,992 outstanding as of December 31, 2016	3	3
Treasury stock, at cost; 10,002,747 shares as of September 30, 2017 and 9,589 shares as of December 31, 2016	(625)	—
Additional paid-in capital[(1)]	10,273	10,220
Accumulated deficit	(7,384)	(3,323)
Accumulated other comprehensive loss	(820)	(1,001)
Total Hilton stockholders' equity	1,447	5,899
Noncontrolling interests	1	(50)
Total equity	1,448	5,849
TOTAL LIABILITIES AND EQUITY	$ 14,223	$ 26,211

(1) Balance as of December 31, 2016 was adjusted to reflect the 1-for-3 reverse stock split that occurred on January 3, 2017. See Note 1: "Organization and Basis of Presentation" for additional information.

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,	
	2017	2016	2017	2016
Revenues				
Franchise fees	$373	$314	$1,039	$878
Base and other management fees	87	59	255	179
Incentive management fees	52	34	160	103
Owned and leased hotels	388	372	1,065	1,089
Other revenues	21	18	78	53
	921	797	2,597	2,302
Other revenues from managed and franchised properties	1,433	1,070	4,264	3,241
Total revenues	2,354	1,867	6,861	5,543
Expenses				
Owned and leased hotels	345	325	947	981
Depreciation and amortization	83	90	259	273
Impairment loss	—	—	—	15
General and administrative	104	107	326	287
Other expenses	7	10	41	39
	539	532	1,573	1,595
Other expenses from managed and franchised properties	1,433	1,070	4,264	3,241
Total expenses	1,972	1,602	5,837	4,836
Gain on sales of assets, net	—	—	—	1
Operating income	382	265	1,024	708
Interest expense	(100)	(97)	(304)	(286)
Gain (loss) on foreign currency transactions	2	(10)	3	(36)
Loss on debt extinguishment	—	—	(60)	—
Other non-operating income, net	5	—	11	5
Income from continuing operations before income taxes	289	158	674	391
Income tax expense	(108)	(69)	(251)	(11)
Income from continuing operations, net of taxes	181	89	423	380
Income from discontinued operations, net of taxes	—	103	—	366
Net income	181	192	423	746
Net income attributable to noncontrolling interests	(2)	(5)	(4)	(11)
Net income attributable to Hilton stockholders	$179	$187	$419	$735

Earnings per share[(1)]

Basic:				
Net income from continuing operations per share	$0.56	$0.27	$1.29	$1.14
Net income from discontinued operations per share	—	0.30	—	1.09
Net income per share	$0.56	$0.57	$1.29	$2.23
Diluted:				
Net income from continuing operations per share	$0.55	$0.27	$1.28	$1.14
Net income from discontinued operations per share	—	0.30	—	1.09
Net income per share	$0.55	$0.57	$1.28	$2.23
Cash dividends declared per share[1]	$0.15	$0.21	$0.45	$0.63

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(1) Weighted average shares outstanding used in the computation of basic and diluted earnings per share and cash dividends declared per share for the three and nine months ended September 30, 2016 were adjusted to reflect the 1-for-3 reverse stock split that occurred on January 3, 2017. See Note 1: "Organization and Basis of Presentation" for additional information.

See notes to condensed consolidated financial statements.

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HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$181	$192	$423	$746
Other comprehensive income (loss), net of tax benefit (expense):				
Currency translation adjustment, net of tax of $—, $1, $1 and $(14)	43	(2)	117	(42)
Pension liability adjustment, net of tax of $(1), $(1), $(2) and $(2)	—	—	4	2
Cash flow hedge adjustment, net of tax of $(2), $(1), $2 and $3	3	3	(4)	(3)
Total other comprehensive income (loss)	46	1	117	(43)
Comprehensive income	227	193	540	703
Comprehensive income attributable to noncontrolling interests	(1)	(6)	(3)	(10)
Comprehensive income attributable to Hilton stockholders	$226	$187	$537	$693

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,	
	2017	2016
Operating Activities:		
Net income	$423	$746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	259	509
Impairment loss	—	15
Gain on sales of assets, net	—	(2)
Loss (gain) on foreign currency transactions	(3)	33
Loss on debt extinguishment	60	—
Share-based compensation	56	50
Deferred income taxes	(123)	(147)
Working capital changes and other	(26)	(235)
Net cash provided by operating activities	646	969
Investing Activities:		
Capital expenditures for property and equipment	(36)	(227)
Proceeds from asset dispositions	—	1
Contract acquisition costs	(51)	(35)
Capitalized software costs	(45)	(56)
Other	(14)	(29)
Net cash used in investing activities	(146)	(346)
Financing Activities:		
Borrowings	1,823	1,000
Repayment of debt	(1,848)	(1,094)
Debt issuance costs and redemption premium	(69)	(35)
Dividends paid	(147)	(207)
Cash transferred in spin-offs of Park and HGV	(501)	—
Repurchases of common stock	(625)	—
Distributions to noncontrolling interests	(1)	(6)
Tax withholdings on share-based compensation	(28)	(13)
Net cash used in financing activities	(1,396)	(355)
Effect of exchange rate changes on cash, restricted cash and cash equivalents	8	7
Net increase (decrease) in cash, restricted cash and cash equivalents	(888)	275
Cash, restricted cash and cash equivalents from continuing operations, beginning of period	1,183	633
Cash, restricted cash and cash equivalents from discontinued operations, beginning of period	501	223
Cash, restricted cash and cash equivalents, beginning of period	1,684	856
Cash, restricted cash and cash equivalents from continuing operations, end of period	796	609
Cash, restricted cash and cash equivalents from discontinued operations, end of period	—	522
Cash, restricted cash and cash equivalents, end of period	$796	$1,131

Supplemental Disclosures:
Cash paid during the year:

Interest	$225	$341
Income taxes, net of refunds	377	476
Non-cash investing activities:		
Conversion of Park's property and equipment to timeshare inventory of HGV	$—	$(79)
Non-cash financing activities:		
Spin-offs of Park and HGV	$29	$—

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 and is engaged in managing, franchising, owning and leasing hotels and resorts, including timeshare properties. As of September 30, 2017, we managed, franchised, owned or leased 5,168 hotels and resorts, totaling 837,692 rooms in 103 countries and territories.

In March 2017, HNA Tourism Group Co., Ltd. and certain of its affiliates (together, "HNA") acquired 82.5 million shares of Hilton common stock from affiliates of The Blackstone Group L.P. ("Blackstone"). As of September 30, 2017, HNA and Blackstone beneficially owned approximately 25.7 percent and 10.2 percent of our common stock, respectively. See Note 16: Subsequent Events for the reduction of Blackstone's beneficial ownership in Hilton following their offering of Hilton common stock in October 2017.

Spin-offs

On January 3, 2017, we completed the spin-offs of a portfolio of hotels and resorts, as well as our timeshare business, into two independent, publicly traded companies: Park Hotels & Resorts Inc. ("Park") and Hilton Grand Vacations Inc. ("HGV"), respectively, (the "spin-offs"). See Note 3: "Discontinued Operations" for additional information.

Reverse Stock Split

On January 3, 2017, we completed a 1-for-3 reverse stock split of Hilton's outstanding common stock (the "Reverse Stock Split"). All share and share-related information presented for periods prior to January 3, 2017 have been retrospectively adjusted to reflect the decreased number of shares resulting from the Reverse Stock Split. The retrospective adjustments resulted in the reclassification of $7 million from common stock to additional paid-in capital in the condensed consolidated balance sheets for all periods presented prior to the date of the Reverse Stock Split.

Basis of Presentation

The accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2017 and 2016 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 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 incorporated by reference in Item 8.01 of our Current Report on Form 8-K dated July 26, 2017.

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

These condensed consolidated financial statements present the condensed consolidated financial position of Hilton as of September 30, 2017 and December 31, 2016 and the results of operations of Hilton for the three and nine months ended September 30, 2017 and 2016 giving effect to the spin-offs, with the historical financial results of Park and HGV reflected as discontinued operations. Unless otherwise indicated, the information in the notes to the condensed consolidated financial statements refer only to Hilton's continuing operations and do not include discussion of balances or activity of Park or HGV.

Principles of Consolidation

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.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the presentation following the spin-offs, which includes the reclassification of the financial position and results of operations of Park and HGV as discontinued operations as of December 31, 2016 and for the three and nine months ended September 30, 2016. Additionally, certain line items in the condensed consolidated statements of operations have been revised to reflect the operating structure of Hilton subsequent to the spin-offs. The primary change to the condensed consolidated statements of operations is the disaggregation of management and franchise fee revenues.

Note 2: Recently Issued Accounting Pronouncements

Adopted Accounting Standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04 ("ASU 2017-04"), Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the subsequent measurement of goodwill by removing Step 2 from the goodwill impairment test. We elected, as permitted by the standard, to early adopt ASU 2017-04 on a prospective basis as of January 1, 2017. The adoption did not have a material effect on our condensed consolidated financial statements.

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 withholding requirements, as well as to clarify the classification in the statement of cash flows. We adopted ASU 2016-09 as of January 1, 2017. One of the provisions of this ASU requires entities to make an accounting policy election with respect to forfeitures of share-based payment awards, and we elected to account for forfeitures as they occur and adopted this provision of ASU 2016-09 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of January 1, 2017 of approximately $1 million. Additionally, we have applied the provisions of this ASU on a retrospective basis in our condensed consolidated statements of cash flows, which includes presenting: (i) excess tax benefits as an operating activity, which were previously presented as a financing activity; and (ii) cash payments to tax authorities for employee taxes when shares are withheld to meet statutory withholding requirements as a financing activity, which were previously presented as an operating activity.

Accounting Standards Not Yet Adopted

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, but we expect this ASU to have a material effect on our consolidated balance sheet.

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 when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. Subsequent to ASU 2014-09, the FASB issued several related ASUs to clarify the application of the new revenue recognition standard. The provisions of ASU 2014-09 and the related ASUs are effective for reporting periods beginning after December 15, 2017; early adoption is permitted. ASU 2014-09 permits two transition approaches:

retrospective or modified retrospective. We currently expect to implement this ASU using the retrospective approach.

We anticipate that ASU 2014-09 and the related ASUs will have a material effect on our consolidated financial statements. However, revenue recognition related to our accounting for ongoing royalty and management fee revenues, direct reimbursable fees from our management and franchise agreements and hotel guest transactions at our owned and leased hotels will remain substantially unchanged.

While we are continuing to assess all other potential effects of the standard, we currently believe the provisions of ASU 2014-09 and the related ASUs will affect revenue recognition as follows: (i) application and initiation fees for new hotels entering the system will be recognized over the term of the franchise agreement, rather than upon execution of the agreement; (ii) certain contract acquisition costs related to our management and franchise agreements will be recognized over the term of the agreements as a reduction to revenue, instead of as amortization expense; (iii) incentive management fees will be recognized to the extent that it is probable that a significant reversal will not occur as a result of future hotel profits or cash flows, as opposed to recognizing amounts that would be due if the management agreement was terminated at the end of the reporting period; (iv) revenue related to our guest loyalty program will be deferred as points are awarded and recognized upon point redemption, net of any reward reimbursement paid to a third party, as opposed to recognized on a gross basis at the time points are issued in conjunction with the accrual of the expected future cost of the reward reimbursement; and (v) indirect reimbursable fees related to our management and franchise agreements will be recognized as they are earned. We do not expect the changes in revenue recognition for contract acquisition costs to affect the Company's net income, nor do we expect incentive management fees to affect the Company’s net income for any full year period. We continue to update our assessment of the effect that ASU 2014-09 and the related ASUs will have on our consolidated financial statements, and we will disclose further material effects, if any, in our Annual Report on From 10-K for the fiscal year ended December 31, 2017.

Note 3: Discontinued Operations

On January 3, 2017, we completed the spin-offs of Park and HGV via a pro rata distribution to each of Hilton's stockholders of record, as of close of business on December 15, 2016, of 100 percent of the outstanding common stock of each of Park and HGV (the "Distribution"). Each Hilton stockholder of record received one share of Park common stock for every five shares of Hilton common stock and one share of HGV common stock for every ten shares of Hilton common stock. Following the spin-offs, Hilton did not retain any ownership interest in Park or HGV. Both Park and HGV have their common stock listed on the New York Stock Exchange under the symbols "PK" and "HGV," respectively.

In connection with the spin-offs, on January 2, 2017, Hilton entered into several agreements with Park and HGV that govern Hilton’s relationship with them following the Distribution including: (i) a Distribution Agreement; (ii) an Employee Matters Agreement; (iii) a Tax Matters Agreement; (iv) a Transition Services Agreement ("TSA"); (v) a License Agreement with HGV; (vi) a Tax Stockholders Agreement; and (vii) management and franchise agreements with Park.

Under the TSA with Park and HGV, Hilton or one of its affiliates provides Park and HGV certain services for a period of two years from the date of the TSA to facilitate an orderly transition following the Distribution. The services that Hilton agreed to provide under the TSA include: finance; information technology; human resources and compensation; facilities; legal and compliance; and other services. The entity providing the services is compensated for any such services at agreed amounts as set forth in the TSA.

The License Agreement with HGV granted HGV the exclusive right, for an initial term of 100 years, to use certain Hilton marks and intellectual property in its timeshare business, subject to the terms and conditions of the agreement. HGV pays a royalty fee of five percent of gross revenues, as defined in the agreement, to Hilton quarterly in arrears, as well as specified additional fees and reimbursements. Additionally, during the term of the License Agreement, HGV will participate in Hilton’s guest loyalty program, Hilton Honors.

Under the management and franchise agreements with Park, Park pays agreed upon fees for various services that Hilton provides to support the operations of their hotels, as well as royalty fees for the licensing of Hilton's hotel brands. The terms of the management agreements generally include a base management fee, calculated as three percent of gross hotel revenues or receipts, and an incentive management fee, calculated as six percent of a specified measure of hotel earnings as determined in accordance with the applicable management agreement. Additionally, payroll and related costs, certain other operating costs, marketing expenses and other expenses associated with Hilton's brands and shared services are directly reimbursed to Hilton by Park pursuant to the terms of the management and franchise agreements.

Financial Information

During the three and nine months ended September 30, 2017, we recognized $37 million and $119 million, respectively, of management and franchise fees for properties that were transferred to Park upon completion of the spin-offs and $22 million and $65 million, respectively, of license fees from HGV.

Prior to the spin-offs, the results of Park were reported in our ownership segment and the results of HGV were reported in our timeshare segment. Following the spin-offs, we no longer report a timeshare segment, as we no longer have timeshare operations.

The following table presents the assets and liabilities of Park and HGV that were included in discontinued operations in our condensed consolidated balance sheet:

	December 31, 2016 (in millions)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 341
Restricted cash and cash equivalents	160
Accounts receivable, net	250
Prepaid expenses	48
Inventories	527
Current portion of financing receivables, net	136
Other	16
Total current assets of discontinued operations (variable interest entities - $92)	1,478
Intangibles and Other Assets:	
Goodwill	604
Management and franchise contracts, net	56
Other intangible assets, net	60
Property and equipment, net	8,589
Deferred income tax assets	35
Financing receivables, net	895
Investments in affiliates	81
Other	27
Total intangibles and other assets of discontinued operations (variable interest entities - $405)	10,347
TOTAL ASSETS OF DISCONTINUED OPERATIONS	$ 11,825
LIABILITIES	
Current Liabilities:	
Accounts payable, accrued expenses and other	$ 632
Current maturities of long-term debt	65
Current maturities of timeshare debt	73
Income taxes payable	4
Total current liabilities of discontinued operations (variable interest entities - $81)	774
Long-term debt	3,437
Timeshare debt	621
Deferred revenues	22
Deferred income tax liabilities	2,797
Other	17
TOTAL LIABILITIES OF DISCONTINUED OPERATIONS (variable interest entities - $506)	$ 7,668

The following table presents the results of operations of Park and HGV that were included in discontinued operations in our condensed consolidated statements of operations:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
	(in millions)	
Total revenues from discontinued operations	$1,075	$ 3,200
Expenses		
Owned and leased hotels	446	1,354
Timeshare	257	697
Depreciation and amortization	79	236
Other	65	167
Total expenses from discontinued operations	847	2,454
Gain on sales of assets, net	—	1
Operating income from discontinued operations	228	747
Non-operating loss, net	(49)	(137)
Income from discontinued operations before income taxes	179	610
Income tax expense	(76)	(244)
Income from discontinued operations, net of taxes	103	366
Income from discontinued operations attributable to noncontrolling interests, net of taxes	(3)	(6)
Income from discontinued operations attributable to Hilton stockholders, net of taxes	$100	$ 360

The following table presents selected financial information of Park and HGV that was included in our condensed consolidated statement of cash flows:

	Nine Months Ended September 30, 2016
	(in millions)
Non-cash items included in net income:	
Depreciation and amortization	$ 236
Gain on sales of assets, net	(1)
Investing activities:	
Capital expenditures for property and equipment	$ (185)

Note 4: Consolidated Variable Interest Entities

As of September 30, 2017 and December 31, 2016, we consolidated three variable interest entities ("VIEs"): two entities that leased hotel properties and one management company. We are the primary beneficiaries of these consolidated 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 the respective entities. Our condensed consolidated balance sheets included the assets and liabilities of these entities, which primarily comprised the following:

	September 30, 2017	December 31, 2016
	(in millions)	
Cash and cash equivalents	$ 71	$ 57
Accounts receivable, net	13	14
Property and equipment, net	52	52
Deferred income tax assets	60	58
Other non-current assets	56	53
Accounts payable, accrued expenses and other	41	33
Long-term debt[(1)]	218	212

(1) Includes capital lease obligations of $197 million and $191 million as of September 30, 2017 and December 31, 2016, respectively.

During the nine months ended September 30, 2017 and 2016, 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.

Note 5: Goodwill and Intangible Assets

Goodwill

Our goodwill balances, by reporting unit, were as follows:

	Ownership[(1)]	Management and Franchise[(2)]	Total
	(in millions)		
Balance as of December 31, 2016	$ 184	$ 5,034	$ 5,218
Spin-off of Park	(91)	—	(91)
Foreign currency translation	10	46	56
Balance as of September 30, 2017	$ 103	$ 5,080	$ 5,183

(1) The balance as of December 31, 2016 excludes goodwill of $2,706 million and accumulated impairment losses of $2,102 million that were attributable to Park and included in non-current assets of discontinued operations in our condensed consolidated balance sheet. Amounts for the ownership reporting unit include the following gross carrying values and accumulated impairment losses for the periods presented:

	Gross Carrying Value	Accumulated Impairment Losses	Net Carrying Value

	(in millions)		
Balance as of December 31, 2016	$856	$ (672)	$ 184
Spin-off of Park	(423)	332	(91)
Foreign currency translation	10	—	10
Balance as of September 30, 2017	$443	$ (340)	$ 103

(2) There were no accumulated impairment losses for the management and franchise reporting unit as of September 30, 2017 and December 31, 2016.

Intangible Assets

Intangible assets were as follows:

	September 30, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in millions)		
Amortizing Intangible Assets:			
Management and franchise contracts:			
Management and franchise contracts recorded at merger[1]	$2,240	$ (1,672)	$ 568
Contract acquisition costs and other	431	(75)	356
	$2,671	$ (1,747)	$ 924
Other intangible assets:			
Leases[1]	$298	$ (148)	$ 150
Capitalized software	555	(411)	144
Hilton Honors[1]	340	(211)	129
Other	38	(33)	5
	$1,231	$ (803)	$ 428
Non-amortizing Intangible Assets:			
Brands[1][2]	$4,887	$ —	$ 4,887

	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in millions)		
Amortizing Intangible Assets:			
Management and franchise contracts:			
Management and franchise contracts recorded at merger[1]	$2,221	$ (1,534)	$ 687
Contract acquisition costs and other	343	(67)	276
	$2,564	$ (1,601)	$ 963
Other intangible assets:			
Leases[1]	$276	$ (126)	$ 150
Capitalized software	510	(362)	148
Hilton Honors[1]	335	(192)	143
Other	37	(31)	6
	$1,158	$ (711)	$ 447
Non-amortizing Intangible Assets:			
Brands[1][2]	$4,848	$ —	$ 4,848

(1) Represents intangible assets that were initially recorded at their fair value as part of the October 24, 2007 transaction whereby we became a wholly owned subsidiary of an affiliate of Blackstone.

(2) Changes to our brands intangible assets from December 31, 2016 to September 30, 2017 were due to foreign currency translations.

We recorded amortization expense for our amortizing intangible assets of $69 million and $79 million for the three months ended September 30, 2017 and 2016, respectively, and $214 million and $234 million for the nine months ended September 30, 2017 and 2016, respectively.

We estimated our future amortization expense for our amortizing intangible assets as of September 30, 2017 to be as follows:

Year	(in millions)
2017 (remaining)	$ 70
2018	275
2019	260
2020	212
2021	82
Thereafter	453
	$ 1,352

Note 6: Debt

Long-term Debt

Long-term debt balances, including obligations for capital leases, and associated interest rates as of September 30, 2017, were as follows:

	September 30, 2017	December 31, 2016
	(in millions)	
Senior notes due 2021	$—	$ 1,500
Senior notes with a rate of 4.250%, due 2024	1,000	1,000
Senior notes with a rate of 4.625%, due 2025	900	—
Senior notes with a rate of 4.875%, due 2027	600	—
Senior secured term loan facility due 2020	—	750
Senior secured term loan facility with a rate of 3.24%, due 2023	3,939	3,209
Capital lease obligations with an average rate of 6.34%, due 2021 to 2030	237	227
Other debt with an average rate of 2.65%, due 2018 to 2026	21	20
	6,697	6,706
Less: unamortized deferred financing costs and discount	(84)	(90)
Less: current maturities of long-term debt[1]	(49)	(33)
	$6,564	$ 6,583

(1) Net of unamortized deferred financing costs and discount attributable to current maturities of long-term debt.

Senior Notes

In March 2017, we issued $900 million aggregate principal amount of 4.625% Senior Notes due 2025 (the "2025 Senior Notes") and $600 million aggregate principal amount of 4.875% Senior Notes due 2027 (the "2027 Senior Notes"), and incurred $21 million of debt issuance costs. Interest on the 2025 Senior Notes and the 2027 Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year, beginning in October 2017. We used the net proceeds of the 2025 Senior Notes and the 2027 Senior Notes, along with available cash, to redeem in full our $1.5 billion 5.625% Senior Notes due 2021 (the "2021 Senior Notes"), plus accrued and unpaid interest. In connection with the repayment, we paid a redemption premium of $42 million and accelerated the recognition of $18 million of unamortized debt issuance costs, which were included in loss on debt extinguishment in our condensed consolidated statement of operations for the nine months ended September 30, 2017.

The 4.25% Senior Notes due 2024 (the "2024 Senior Notes"), the 2025 Senior Notes and the 2027 Senior Notes are guaranteed on a senior unsecured basis by Hilton and certain of its wholly owned subsidiaries. See Note 15: "Condensed Consolidating Guarantor Financial Information" for additional details.

Senior Secured Credit Facility

Our senior secured credit facility consists of a $1.0 billion senior secured revolving credit facility (the "Revolving Credit Facility") and a senior secured term loan facility (the "Term Loans"). In March 2017, we amended the Term Loans pursuant to which $750 million of outstanding Term Loans due in 2020 were extended, aligning their maturity with the $3,209 million tranche of Term Loans due 2023. Additionally, concurrent with the extension, the entire balance of the Term Loans was repriced with an interest rate of LIBOR plus 200 basis points. In connection with the refinancing and modification of the Term Loans, we incurred $3 million of debt issuance costs, which were included in other non-operating income, net, in our condensed consolidated statement of operations for the nine months ended September 30, 2017. As of September 30, 2017, we had $18 million of letters of credit outstanding under our Revolving Credit Facility and a borrowing capacity of $982 million.

Debt Maturities

The contractual maturities of our long-term debt as of September 30, 2017 were as follows:

Year	(in millions)
2017 (remaining)	$ 12
2018	59
2019	55
2020	56
2021	57
Thereafter	6,458
	$ 6,697

Note 7: Derivative Instruments and Hedging Activities

During the nine months ended September 30, 2017 and 2016, derivatives were used to hedge the interest rate risk associated with variable-rate debt, as well as foreign exchange risk associated with certain foreign currency denominated cash balances. During the nine months ended September 30, 2017, derivatives were also used to hedge the foreign exchange risk associated with management and franchise fees.

Cash Flow Hedges

In May 2017, we began hedging foreign exchange-based cash flow variability in certain of our foreign currency denominated management and franchise fees using forward contracts (the "Fee Forward Contracts"). We elected to designate these Fee Forward Contracts as cash flow hedges for accounting purposes, and we record the change in fair value of the effective portions of these contracts in other comprehensive income (loss) until an individual contract matures. The effective portion of the hedges are reclassified from accumulated other comprehensive loss to earnings in our condensed consolidated statement of operations in the same period that the fee revenue is earned. As of September 30, 2017, the Fee Forward Contracts had an aggregate notional amount of $22 million and maturities of 24 months or less.

In March 2017, we entered into two interest rate swap agreements with notional amounts of $1.6 billion and $750 million, which swap one-month LIBOR on the Term Loans to fixed rates of 1.98 percent and 2.02 percent, respectively, and expire in March 2022. We elected to designate these interest rate swaps as cash flow hedges for accounting purposes.

Non-designated Hedges

As of September 30, 2017, we held short-term forward contracts with an aggregate notional amount of $284 million to offset exposure to fluctuations in certain of our foreign currency denominated cash balances. We elected not to designate these forward contracts as hedging instruments.

In August and September 2016, we dedesignated four interest rate swaps (the "2013 Interest Rate Swaps") that were previously designated as cash flow hedges as they no longer met the criteria for hedge accounting. These interest rate swaps, which had an aggregate notional amount of $1.45 billion and swapped three-month LIBOR on the Term Loans to a fixed rate of 1.87 percent, were settled in March 2017.

Fair Value of Derivative Instruments

We measure our derivative instruments at fair value, which is estimated using a discounted cash flow analysis, and we consider the inputs used to measure the fair value as Level 2 within the fair value hierarchy. The discounted cash flow analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs of similar instruments, including interest rate curves and spot and forward rates, as applicable, as well as option volatility. The fair values of our derivative instruments in our condensed consolidated balance sheets were as follows:

	Balance Sheet Classification	September 30, 2017	December 31, 2016
		(in millions)	
Cash Flow Hedges[1]:			
Interest rate swaps	Other liabilities	$ 13	N/A
Non-designated Hedges:			
Interest rate swaps	Other liabilities	N/A	$ 12
Forward contracts	Other current assets	1	3
Forward contracts	Accounts payable, accrued expenses and other	1	4

[1] The fair value of the Fee Forward Contracts as of September 30, 2017 was less than $1 million.

Earnings Effect of Derivative Instruments

The gains and losses recognized in our condensed consolidated statements of operations and condensed consolidated statements of comprehensive income before any effect for income taxes were as follows:

	Classification of Gain (Loss) Recognized	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
		(in millions)			
Cash Flow Hedges[1][2]:					
Interest rate swaps	Other comprehensive income (loss)	$3	$ 3	$(13)	$(7)
Forward contracts	Other comprehensive income (loss)	(1)	N/A	(1)	N/A
Non-designated Hedges:					
Interest rate swaps	Other non-operating income, net	—	(1)	2	(1)
Interest rate swaps[3]	Interest expense	(3)	(1)	(8)	(1)
Forward contracts	Gain (loss) on foreign currency transactions	3	4	10	7

(1) There were no amounts recognized in earnings related to hedge ineffectiveness or amounts excluded from hedge effectiveness testing during the three and nine months ended September 30, 2017 and 2016.

(2) The earnings effect of the Fee Forward Contracts on fee revenues for the three and nine months ended September 30, 2017 was less than $1 million.

(3) These amounts are related to the dedesignation of the 2013 Interest Rate Swaps as cash flow hedges and were reclassified from accumulated other comprehensive loss as the underlying transactions occurred.

Note 8: Fair Value Measurements

We did not elect the fair value measurement option for any of our financial assets or liabilities. The fair values of certain financial instruments and the hierarchy level we used to estimate the fair values are shown below, see Note 7: "Derivative Instruments and Hedging Activities" for the fair value information of our derivatives:

	September 30, 2017			
		Hierarchy Level		
	Carrying Value	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Cash equivalents	$283	$—	$283	$—
Restricted cash equivalents	12	—	12	—
Liabilities:				
Long-term debt[1]	6,355	2,576	—	3,959

	December 31, 2016			
		Hierarchy Level		
	Carrying Value	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Cash equivalents	$782	$—	$782	$—
Restricted cash equivalents	11	—	11	—
Liabilities:				
Long-term debt[1]	6,369	2,516	—	4,006

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(1) The carrying values include unamortized deferred financing costs and discount. The carrying values and fair values exclude capital lease obligations and other debt.

The fair values of financial instruments not included in these tables are estimated to be equal to their carrying values as of September 30, 2017 and December 31, 2016. 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 and time deposits. The estimated fair values were based on available market pricing information of similar financial instruments.

The estimated fair values of our Level 1 long-term debt were based on prices in active debt markets. The estimated fair values of our Level 3 long-term debt were based on indicative quotes received for similar issuances.

Note 9: Income Taxes

At the end of each quarter, we estimate the effective income 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.

Our total unrecognized tax benefits as of September 30, 2017 were $165 million. We accrued approximately $33 million for the payment of interest and penalties as of September 30, 2017. Included in the balance of unrecognized tax benefits as of September 30, 2017 was $161 million associated with positions that, if favorably resolved, would provide a benefit to our effective income tax rate.

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: (i) 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; (ii) in calculating the amount of U.S. taxable income resulting from our Hilton Honors 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 (iii) certain foreign currency denominated loans issued by one of our Luxembourg subsidiaries whose functional currency is the 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 Hilton Honors 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, based on continuing appeals process discussions with the IRS, we believe that it is more likely than not that we will not recognize the full benefit related to certain of the issues being appealed. Accordingly, we have recorded $48 million of unrecognized tax benefits related to these issues.

We file income tax returns, including returns for our subsidiaries, with federal, state, local and foreign tax 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 federal, state, local and foreign tax jurisdictions or from the resolution of various proceedings between the U.S. and foreign tax authorities. We are no longer subject to U.S. federal income tax examination for years through 2004. As of September 30, 2017, we remain subject to federal examinations from 2005 through 2015, state examinations from 2005 through 2016 and foreign examinations of our income tax returns for the years 1996 through 2016.

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 10: Share-Based Compensation

During the nine months ended September 30, 2017, we issued time-vesting restricted stock units and restricted stock (collectively, "RSUs"), nonqualified stock options ("options") and performance-vesting restricted stock units and restricted stock (collectively, "performance shares") to our employees and deferred share units ("DSUs") to members of our board of directors under our 2013 and 2017 Omnibus Incentive Plans. We recognized share-based compensation expense of $32 million and $23 million during the three months ended September 30, 2017 and 2016, respectively, and $91 million and $62 million during the nine months ended September 30, 2017 and 2016, respectively, which included amounts reimbursed by hotel owners. As of September 30, 2017, unrecognized compensation costs for unvested awards was approximately $135 million, which are expected to be recognized over a weighted-average period of 1.9 years on a straight-line basis. As of September 30, 2017, there were 17,970,113 shares of common stock available for future issuance under our 2017 Omnibus Incentive Plan, plus any shares subject to awards outstanding under our 2013 Omnibus Incentive Plan, which will become available for issuance under our 2017 Omnibus Incentive Plan as a result of such outstanding awards expiring or terminating or being canceled or forfeited.

All share and share-related information presented for periods prior to January 3, 2017 have been adjusted to reflect the Reverse Stock Split. See Note 1: "Organization and Basis of Presentation" for additional information.

Effect of the Spin-offs on Equity Awards

In connection with the spin-offs, the outstanding share-based compensation awards held by employees transferring to Park and HGV were converted to equity awards in Park and HGV common stock, respectively.

Share-based compensation awards of employees remaining at Hilton were adjusted using a conversion factor in accordance with the anti-dilution provisions of the 2013 Omnibus Incentive Plan with the intent to preserve the intrinsic value of the original awards (the "Conversion Factor"). The adjustments were determined by comparing the fair value of such awards immediately prior to the spin-offs to the fair value of such awards immediately after the spin-offs. The comparison resulted in no incremental compensation expense. Equity awards that were adjusted generally remain subject to the same vesting, expiration and other terms and conditions as applied to the awards immediately prior to the spin-offs.

RSUs

The following table summarizes the activity of our RSUs during the nine months ended September 30, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of December 31, 2016	1,624,541	$ 65.24
Conversion from performance shares upon completion of the spin-offs[1]	671,604	72.42
Effect of the spin-offs[2]	439,113	57.60
Granted	1,467,396	58.80
Vested[2]	(881,070)	47.26
Forfeited[2]	(136,810)	50.27
Outstanding as of September 30, 2017[2]	3,184,774	52.67

(1) Represents all performance shares outstanding as of December 31, 2016.
(2) The weighted average grant date fair value was adjusted to reflect the Conversion Factor.

The RSUs granted during the nine months ended September 30, 2017 generally vest in equal annual installments over two or three years from the date of grant.

Options

The following table summarizes the activity of our options during the nine months ended September 30, 2017:

	Number of Options	Weighted Average Exercise Price per Share
Outstanding as of December 31, 2016	1,076,031	$ 66.83
Effect of the spin-offs[1]	251,145	57.60
Granted	748,965	58.40
Exercised[1]	(44,336)	46.12
Forfeited or expired[1]	(20,799)	53.47
Outstanding as of September 30, 2017[1]	2,011,006	51.22
Exercisable as of September 30, 2017[1]	759,350	48.32

(1) The weighted average exercise price was adjusted to reflect the Conversion Factor.

The options granted during the nine months ended September 30, 2017 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 under certain circumstances.

The weighted average grant date fair value of the options granted during the nine months ended September 30, 2017 was $13.96, which was determined using the Black-Scholes-Merton option-pricing model with the following assumptions:

Expected volatility[1]	24.00	%
Dividend yield[2]	0.92 - 1.03%	
Risk-free rate[3]	1.93 - 2.03%	
Expected term (in years)[4]	6.0	

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(1) Estimated using historical movement of Hilton's stock price and, due to limited trading history, historical volatility of our peer group over a time period consistent with our expected term assumption.

(2) Estimated based on the expected annualized dividend payment at the date of grant.

(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.

Performance Shares

As of December 31, 2016, we had outstanding performance awards 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 based on the Company’s earnings before interest expense, income taxes and depreciation and amortization ("EBITDA") compound annual growth rate ("CAGR"). Upon completion of the spin-offs, we converted all 671,604 outstanding performance shares to RSUs based on a 100 percent achievement percentage with the same vesting periods as the original awards.

During the nine months ended September 30, 2017, we issued performance shares with 50 percent of the shares subject to achievement based on the Company's EBITDA CAGR and the other 50 percent of the shares subject to achievement based on the Company’s free cash flow ("FCF") per share CAGR ("FCF CAGR"). The performance shares are settled at the end of the three-year performance period. We determined that the performance condition for these awards is probable of achievement and, as of September 30, 2017, we recognized compensation expense based on the anticipated achievement percentage of 200 percent and 100 percent for the performance awards based on EBITDA CAGR and FCF CAGR, respectively. As of September 30, 2017, there were no outstanding performance shares based on relative shareholder return.

The following table summarizes the activity of our performance shares during the nine months ended September 30, 2017:

	EBITDA CAGR		FCF CAGR	
	Number of Shares	Weighted Average Grant Date Fair Value per Share	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding as of December 31, 2016	335,802	$ 68.09	—	N/A
Conversion to RSUs upon completion of the spin-offs	(335,802)	68.09	—	N/A
Granted	179,006	58.40	178,975	$ 58.40
Forfeited	(2,915)	58.02	(2,914)	58.02
Outstanding as of September 30, 2017	176,091	58.41	176,061	58.41

DSUs

During the nine months ended September 30, 2017, we issued to our independent directors 15,288 DSUs with a weighted average grant date fair value of $65.39, 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 11: Stockholders' Equity and Accumulated Other Comprehensive Loss

The changes in the components of stockholders' equity were as follows:

	Equity Attributable to Hilton Stockholders							
	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests[(1)]	Total
	(in millions)							

Balance as of December 31, 2016[(2)]	329	$ 3	$ —	$ 10,220	$ (3,323)	$ (1,001)	$ (50)	$ 5,849
Share-based compensation	2	—	—	52	—	—	—	52
Repurchases of common stock	(10)	—	(625)	—	—	—	—	(625)
Net income	—	—	—	—	419	—	4	423
Other comprehensive income (loss)	—	—	—	—	—	118	(1)	117
Dividends	—	—	—	—	(148)	—	—	(148)
Spin-offs of Park and HGV	—	—	—	—	(4,331)	63	49	(4,219)
Cumulative effect of the adoption of ASU 2016-09	—	—	—	1	(1)	—	—	—
Distributions	—	—	—	—	—	—	(1)	(1)
Balance as of September 30, 2017	321	$ 3	$ (625)	$ 10,273	$ (7,384)	$ (820)	$ 1	$ 1,448

	Equity Attributable to Hilton Stockholders						
	Common Stock Shares (in millions)	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests[1]	Total
Balance as of December 31, 2015[2]	329	$ 3	$ 10,158	$ (3,392)	$ (784)	$ (34)	$ 5,951
Share-based compensation	1	—	47	—	—	—	47
Net income	—	—	—	735	—	11	746
Other comprehensive loss	—	—	—	—	(42)	(1)	(43)
Dividends	—	—	—	(209)	—	—	(209)
Cumulative effect of the adoption of ASU 2015-02	—	—	—	—	—	5	5
Distributions	—	—	—	—	—	(6)	(6)
Balance as of September 30, 2016[2]	330	$ 3	$ 10,205	$ (2,866)	$ (826)	$ (25)	$ 6,491

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(1) Other comprehensive loss for the nine months ended September 30, 2017 and 2016 was related to a pension liability adjustment and a currency translation adjustment, respectively.

(2) Common stock and additional paid-in capital were adjusted to reflect the Reverse Stock Split. See Note 1: "Organization and Basis of Presentation" for additional information.

In February 2017, our board of directors authorized a stock repurchase program of up to $1.0 billion of the Company's common stock. During the nine months ended September 30, 2017, we repurchased 9,993,158 shares of common stock under the program at a total cost of $625 million, including the June 2017 repurchase of 1,500,000 shares from Blackstone for a total cost of $99 million. As of September 30, 2017, $375 million remained available for share repurchases under the program. See Note 16: Subsequent Events for the repurchase of additional shares from Blackstone in October 2017.

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

	Currency Translation Adjustment[(1)]	Pension Liability Adjustment[(2)]	Cash Flow Hedge Adjustment[(3)]	Total
	(in millions)			
Balance as of December 31, 2016	$(738)	$ (251)	$ (12)	$(1,001)
Other comprehensive income (loss) before reclassifications	116	(1)	(9)	106
Amounts reclassified from accumulated other comprehensive loss	1	6	5	12
Net current period other comprehensive income (loss)	117	5	(4)	118
Spin-offs of Park and HGV	63	—	—	63
Balance as of September 30, 2017	$(558)	$ (246)	$ (16)	$(820)

	Currency Translation Adjustment[(1)]	Pension Liability Adjustment[(2)]	Cash Flow Hedge Adjustment[(3)]	Total
	(in millions)			
Balance as of December 31, 2015	$(580)	$ (194)	$ (10)	$(784)
Other comprehensive loss before reclassifications	(40)	(2)	(4)	(46)
Amounts reclassified from accumulated other comprehensive loss	(1)	4	1	4
Net current period other comprehensive income (loss)	(41)	2	(3)	(42)
Balance as of September 30, 2016	$(621)	$ (192)	$ (13)	$(826)

(1) Includes net investment hedges and intra-entity foreign currency transactions that are of a long-term investment nature. Amounts reclassified relate to gains on net investment hedges and, for the nine months ended September 30, 2017, also the release of currency translation adjustments due to the termination of a lease contract. The reclassifications were recognized in gain (loss) on foreign currency transactions in our condensed consolidated statements of operations and are presented net of a less than $1 million tax benefit and expense for the nine months ended September 30, 2017 and 2016, respectively.

(2) Amounts reclassified include the amortization of prior service cost and the amortization of net loss that were included in our computation of net periodic pension cost. They were recognized in general and administrative expenses in our condensed consolidated statements of operations and are presented net of a $2 million and $3 million tax benefit for the nine months ended September 30, 2017 and 2016, respectively.

(3) Amounts reclassified relate to the 2013 Interest Rate Swaps, were recognized in interest expense in our condensed consolidated statements of operations and are presented net of a tax benefit of $3 million and less than $1 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 12: Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share ("EPS"). All historical share and per share amounts have been adjusted to reflect the Reverse Stock Split. See Note 1: "Organization and Basis of Presentation" for additional information.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions, except per share amounts)			
Basic EPS:				
Numerator:				
Net income from continuing operations attributable to Hilton stockholders	$179	$87	$419	$375
Denominator:				
Weighted average shares outstanding	322	329	326	329
Basic EPS	$0.56	$0.27	$1.29	$1.14
Diluted EPS:				
Numerator:				
Net income from continuing operations attributable to Hilton stockholders	$179	$87	$419	$375
Denominator:				
Weighted average shares outstanding	325	331	328	330
Diluted EPS	$0.55	$0.27	$1.28	$1.14

Approximately 1 million share-based compensation awards were excluded from the weighted average shares outstanding used in the computation of diluted EPS for the three and nine months ended September 30, 2017 and 2016 because their effect would have been anti-dilutive under the treasury stock method.

Note 13: Business Segments

We are a hospitality company with operations organized in two distinct operating segments following the spin-offs: (i) management and franchise; and (ii) ownership. These segments are managed and reported separately because of their distinct economic characteristics.

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 September 30, 2017, this segment included 639 managed hotels and 4,408 franchised hotels consisting of 807,387 total rooms, which includes 67 hotels with 35,406 rooms that were previously owned or leased by Hilton or unconsolidated affiliates of Hilton and, upon completion of the spin-offs, were owned or leased by Park or unconsolidated affiliates of Park. This segment also earns fees for managing properties in our ownership segment and, effective upon completion of the spin-offs, a license fee from HGV for the exclusive right to use certain Hilton marks and intellectual property in HGV's timeshare business.

As of September 30, 2017, the ownership segment included 73 properties totaling 22,204 rooms, comprising 64 hotels that we wholly owned or leased, one hotel leased by a consolidated non-wholly owned entity, two hotels leased by consolidated VIEs and six hotels owned or leased by unconsolidated affiliates.

Prior to the spin-offs, the performance of our operating segments was evaluated primarily on Adjusted EBITDA. Following the spin-offs, the performance of our operating segments is evaluated primarily on operating income, without allocating corporate and other revenues and other expenses or general and administrative expenses, since we have simplified our operating segments and certain adjustments included in Adjusted EBITDA on a segment basis are no longer applicable.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Management and franchise[1]	$524	$418	$1,483	$1,191
Ownership	388	372	1,065	1,089
Segment revenues	912	790	2,548	2,280
Other revenues	21	18	78	53
Other revenues from managed and franchised properties	1,433	1,070	4,264	3,241
Intersegment fees elimination[1]	(12)	(11)	(29)	(31)
Total revenues	$2,354	$1,867	$6,861	$5,543

(1) Includes management, royalty and intellectual property fees charged to our ownership segment, which were eliminated in our condensed consolidated statements of operations.

The following table presents operating income for our reportable segments, reconciled to consolidated income from continuing operations before income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Management and franchise[1]	$524	$418	$1,483	$1,191
Ownership[1]	31	36	89	77
Segment operating income	555	454	1,572	1,268
Other revenues, less other expenses	14	8	37	14
Depreciation and amortization	(83)	(90)		