

Consolidated Financial Statements

Hilton Hotels Corporation and Subsidiaries

*Year ended December 31, 2006 and the Periods from January 1 through
October 23, 2007 and October 24 through December 31, 2007*

with Report of Independent Auditors

Hilton Hotels Corporation and Subsidiaries

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and October 24 through December 31, 2007

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Report of Independent Auditors

The Board of Directors and Stockholders of
Hilton Hotels Corporation

We have audited the accompanying consolidated balance sheet of Hilton Hotels Corporation and subsidiaries (the “Company” and “Successor”) as of December 31, 2007, and the consolidated balance sheet of the accounting predecessor (the “Predecessor”), as defined in Note 1, as of December 31, 2006 and the related consolidated statements of operations, stockholders’ equity and cash flow for the period from October 24, 2007 through December 31, 2007 (representing the Company), and the statements of operations, stockholders’ equity and cash flow for the period from January 1, 2007 through October 23, 2007 and the year ended December 31, 2006 (representing the Predecessor). These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s or the Predecessor’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hilton Hotels Corporation and subsidiaries at December 31, 2007 and the consolidated financial position of the Predecessor at December 31, 2006, and the consolidated results of their operations and their cash flow for the period from October 24, 2007 through December 31, 2007 (representing the Company), and for the period from January 1, 2007 through October 23, 2007 and the year ended December 31, 2006 (representing the Predecessor), in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Predecessor adopted Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Retirement Plans*, on December 31, 2006 and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007.



March 27, 2008

Hilton Hotels Corporation and Subsidiaries
Consolidated Statements of Operations
(in millions)

	Predecessor		Hilton Hotels Corporation
	Year ended December 31, 2006	Period from January 1 through October 23, 2007	Period from October 24 through December 31, 2007
Revenue			
Owned hotels	\$ 2,506	1,937	439
Leased hotels	1,641	1,645	413
Management and franchise fees	681	632	149
Timeshare and other income	767	592	154
	<u>5,595</u>	<u>4,806</u>	<u>1,155</u>
Other revenue from managed and franchised properties	1,843	1,748	381
	<u>7,438</u>	<u>6,554</u>	<u>1,536</u>
Expenses			
Owned hotels	1,771	1,369	296
Leased hotels	1,430	1,440	360
Timeshare and other operating expenses	546	431	122
Depreciation and amortization	426	349	101
Impairment loss and related costs	-	27	-
General and administrative expenses	311	292	82
Merger related expenses	-	295	4
	<u>4,484</u>	<u>4,203</u>	<u>965</u>
Other expenses from managed and franchised properties	1,832	1,739	378
	<u>6,316</u>	<u>5,942</u>	<u>1,343</u>
Operating income from unconsolidated affiliates	<u>57</u>	<u>45</u>	<u>6</u>
Operating Income	1,179	657	199
Interest and dividend income	27	19	17
Interest expense	(498)	(325)	(282)
Net interest from unconsolidated affiliates and non-controlled interest	(45)	(40)	(11)
Net gain (loss) on foreign currency transactions	34	(18)	2
Net other gain (loss)	72	(12)	17
Loss from early extinguishment of debt	-	(71)	(139)
Loss from non-operating affiliates	(16)	(12)	(4)
Income (Loss) Before Taxes and Minority and Non-Controlled Interests	753	198	(201)
Income tax (provision) benefit	(245)	(9)	79
Minority and non-controlled interests, net	(7)	(7)	(3)
Income (Loss) From Continuing Operations	501	182	(125)
Discontinued operations, net of tax	<u>71</u>	<u>64</u>	<u>-</u>
Net Income (Loss)	<u>\$ 572</u>	<u>246</u>	<u>(125)</u>

Hilton Hotels Corporation and Subsidiaries
Consolidated Balance Sheets
(in millions)

	Predecessor December 31, 2006	Hilton Hotels Corporation December 31, 2007
ASSETS		
Current Assets		
Cash and equivalents	\$ 107	341
Restricted cash	293	1,318
Accounts receivable, net	618	681
Inventories	425	666
Deferred income taxes	95	93
Current portion of notes receivable, net	55	67
Income tax receivable	52	314
Prepaid expenses and other	155	291
Discontinued operations	1,426	-
Total current assets	<u>3,226</u>	<u>3,771</u>
Investments, Property and Other Assets		
Investments and notes receivable, net	759	1,362
Property and equipment, net	4,818	9,914
Management and franchise contracts, net	1,174	2,425
Leases, net	310	448
Other identified amortizable intangible assets, net	-	388
Brands	2,486	6,474
Goodwill	2,948	12,233
Deferred income taxes	76	53
Other assets	684	800
Total investments, property and other assets	<u>13,255</u>	<u>34,097</u>
Total Assets	<u>\$ 16,481</u>	<u>37,868</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,705	2,576
Current maturities of long-term debt	412	61
Current maturities of non-recourse debt and capital lease obligations of non-controlled entities	110	112
Income taxes payable	40	88
Liabilities associated with discontinued operations	331	-
Total current liabilities	<u>2,598</u>	<u>2,837</u>
Long-term debt	6,556	21,177
Non-recourse debt and capital lease obligations of non-controlled entities	390	390
Deferred income taxes	1,950	7,445
Insurance reserves and other	1,260	821
Total liabilities	<u>12,754</u>	<u>32,670</u>
Commitments and Contingencies		
Stockholders' Equity		
Common stock, \$0.01 par value, 121 million shares outstanding	-	1
Predecessor's common stock, \$2.50 par value, 387 million shares outstanding	1,023	-
Additional paid-in capital	1,248	5,409
Retained earnings (accumulated deficit)	1,663	(125)
Accumulated other comprehensive income (loss)	262	(87)
	<u>4,196</u>	<u>5,198</u>
Less treasury stock, at cost	(469)	-
Total stockholders' equity	<u>3,727</u>	<u>5,198</u>
Total Liabilities and Stockholders' Equity	<u>\$ 16,481</u>	<u>37,868</u>

Hilton Hotels Corporation and Subsidiaries
Consolidated Statements of Cash Flow
(in millions)

	Predecessor		Hilton Hotels Corporation
	Year ended December 31, 2006	Period from January 1 through October 23, 2007	Period from October 24 through December 31, 2007
Operating Activities			
Net income (loss)	\$ 572	246	(125)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	441	354	101
Amortization of loan costs	17	16	12
Net other (gain) loss	(72)	(48)	(17)
Merger related expenses	-	295	4
Loss from early extinguishment of debt	-	71	139
Loss from non-operating affiliates	16	12	4
Impairment loss and related costs	-	27	-
Change in working capital components:			
Inventories	(163)	(120)	(45)
Accounts receivable	4	(2)	(78)
Other current assets	(69)	(312)	123
Accounts payable and accrued expenses	44	300	(322)
Income taxes payable	(119)	2	21
Restricted cash	(12)	(123)	(151)
Change in deferred income taxes	67	(226)	3
Change in other liabilities	93	95	(197)
Unconsolidated affiliates' distributions in excess of earnings	9	11	12
Change in timeshare notes receivable	(109)	(101)	(20)
Excess tax benefits from share-based payment arrangements	(12)	(107)	-
Other	(19)	(87)	(101)
Net cash provided by (used in) operating activities	<u>688</u>	<u>303</u>	<u>(637)</u>
Investing Activities			
Blackstone Transaction, net of cash acquired	-	-	(19,349)
Capital expenditures	(613)	(327)	(161)
Additional investments	(146)	(76)	(6)
Proceeds from asset dispositions	1,450	2,194	147
Payments received on notes and other	171	10	2
Acquisitions, net of cash acquired	(5,460)	-	(186)
Net cash (used in) provided by investing activities	<u>(4,598)</u>	<u>1,801</u>	<u>(19,553)</u>
Financing Activities			
Change in revolving loans, net of issuance costs	1,582	646	(2,294)
Long-term borrowings, net of issuance costs	2,626	-	20,871
Reduction of long-term debt and related costs	(1,303)	(2,629)	(2,486)
Change in restricted cash due to long-term debt	(67)	214	(965)
Capital contribution	-	-	5,660
Return of capital	-	-	(250)
Issuance of common stock	63	26	-
Cash dividends	(62)	(47)	-
Excess tax benefits from share-based payment arrangements	12	107	-
Net cash provided by (used in) financing activities	<u>2,851</u>	<u>(1,683)</u>	<u>20,536</u>
Exchange rate effect on Cash and Equivalents	12	20	(5)
(Decrease) Increase in Cash and Equivalents	(1,047)	441	341
Cash and Equivalents at Beginning of Period	<u>1,154</u>	<u>107</u>	<u>-</u>
Cash and Equivalents at End of Period	<u>\$ 107</u>	<u>548</u>	<u>341</u>

Hilton Hotels Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in millions)

	Predecessor		Hilton Hotels Corporation
	Year ended December 31, 2006	Period from January 1 through October 23, 2007	Period from October 24 through December 31, 2007
COMMON STOCK			
Balance at beginning of period	\$ 1,010	1,023	1,077
Blackstone Transaction	-	-	(1,077)
Issuance of common stock	1	49	1
Exercise of stock options	12	5	-
Balance at end of period	\$ 1,023	1,077	1
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	\$ 1,158	1,248	1,179
Blackstone Transaction	-	-	(1,179)
Issuance of common stock	(8)	(81)	5,659
Exercise of stock options	51	(183)	-
Deferred compensation	47	195	-
Return of capital	-	-	(250)
Balance at end of period	\$ 1,248	1,179	5,409
RETAINED EARNINGS			
Balance at beginning of period	\$ 1,125	1,663	2,186
Blackstone Transaction	-	-	(2,186)
Net income (loss)	572	246	(125)
Exercise of stock options	28	330	-
Common dividends (\$.16, \$.12 and \$.00 per share, respectively)	(62)	(47)	-
FIN 48 implementation	-	(6)	-
Balance at end of period	\$ 1,663	2,186	(125)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of period	\$ (11)	262	553
Blackstone Transaction	-	-	(553)
Derivative adjustments, net of deferred tax	-	(5)	(57)
Cumulative translation adjustment, net of deferred tax	251	271	(9)
Change in unrealized gain / loss on marketable securities, net of deferred tax	(10)	(1)	-
Minimum pension obligation adjustment, net of deferred tax	32	26	(21)
Balance at end of period	\$ 262	553	(87)
TREASURY STOCK, AT COST			
Balance at beginning of period	\$ (471)	(469)	(468)
Blackstone Transaction	-	-	468
Issuance of common stock	2	1	-
Balance at end of period	\$ (469)	(468)	-
TOTAL STOCKHOLDERS' EQUITY			
Balance at beginning of period	\$ 2,811	3,727	4,527
Blackstone Transaction	-	-	(4,527)
Net income (loss)	572	246	(125)
Derivative adjustments, net of deferred tax	-	(5)	(57)
Cumulative translation adjustment, net of deferred tax	251	271	(9)
Change in unrealized gain / loss on marketable securities, net of deferred tax	(10)	(1)	-
Minimum pension obligation adjustment, net of deferred tax	32	26	(21)
Comprehensive income	845	537	(212)
Issuance of common stock	(5)	(31)	5,660
Exercise of stock options	91	152	-
Deferred compensation	47	195	-
FIN 48 implementation	-	(6)	-
Return of capital	-	-	(250)
Common dividends (\$.16, \$.12 and \$.00 per share, respectively)	(62)	(47)	-
Balance at end of period	\$ 3,727	4,527	5,198

NOTE 1: BASIS OF PRESENTATION AND ORGANIZATION

Hilton Hotels Corporation is engaged, together with its subsidiaries, in the ownership, management and development of hotels, resorts and timeshare properties and the franchising of lodging properties. We operate in 77 countries and territories and believe that we are one of the largest lodging companies in the world.

On October 24, 2007, we completed our previously announced merger with an affiliate of The Blackstone Group's real estate and corporate private equity funds (the "Blackstone Transaction" or the "Merger"). Pursuant to the terms of the Merger Agreement, holders of our common stock received \$47.50 in cash for each share of common stock that they owned immediately prior to the effective time of the Merger. As a result of the Merger, our common stock was delisted from the New York Stock Exchange and we ceased to be a publicly held corporation (see "Note 3: The Blackstone Transaction").

The historical financial results for the periods prior to the completion of the Blackstone Transaction on October 24, 2007 relate to our accounting predecessor (the "Predecessor"). The terms "us," "we," "our," "Hilton Hotels Corporation" and the "Company" as used in these consolidated financial statements refer to Hilton Hotels Corporation and its subsidiaries subsequent to the Blackstone Transaction on October 24, 2007 and our Predecessor prior to that date. The consolidated financial statements for all predecessor periods have been prepared using the historical basis of accounting for the Company. As a result of the Merger and the associated purchase accounting, our consolidated financial statements are not comparable to periods preceding the Merger.

On February 23, 2006, we acquired the lodging assets of Hilton Group plc ("Hilton International" or "HI") in an all cash transaction (the "HI Acquisition"). Our consolidated financial statements for the year ended December 31, 2006 include the results of HI from the date of acquisition. In March 2007, we announced the exchange of contracts to sell our Scandic hotel brand and certain of our owned and leased hotels ("Scandic"). The sale was completed in April 2007. Scandic is presented as discontinued operations in our consolidated financial statements (see "Note 6: Discontinued Operations").

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Hilton Hotels Corporation, our wholly owned subsidiaries, variable interest entities where we are the primary beneficiary and entities in which we have a controlling financial interest. The determination of controlling financial interest is based upon the terms of individual joint venture agreements, including evaluation of rights held by other ownership interests. Entities in which we have a controlling financial interest are generally comprised of majority owned joint ventures. All material intercompany transactions are eliminated and net earnings are reduced by the portion of earnings of affiliates applicable to other ownership interests.

Cash and Equivalents

Cash and equivalents include all highly liquid investments with initial maturities of three months or less.

Restricted Cash

Restricted cash includes cash related to certain reserves required under our senior mortgage and secured mezzanine financing; cash related to certain consolidated hotels, the use of which is restricted for hotel purposes under the terms of collateralized borrowings; refundable deposits on the sale of timeshare intervals; and cash balances held by consolidated non-controlled entities.

Accounts Receivable

Accounts receivable are reflected net of allowance for uncollectible accounts of \$29 million and \$26 million as of December 31, 2006 and 2007, respectively.

Inventories

Inventories are valued at the lower of cost or estimated net realizable value. Included in inventories at December 31, 2006 and 2007, are unsold intervals at our timeshare properties of \$392 million and \$635 million, respectively. The capital expenditures associated with our non-lease timeshare products are reflected as inventory until the timeshare intervals are sold. We use the relative sales value method of costing our timeshare sales and relieving inventory in accordance with Statement of Financial Accounting Standard (“FAS”) 67, “Accounting for Costs and Initial Rental Operations of Real Estate Projects.”

Investments

We maintain investments in unconsolidated affiliates, primarily hotel joint ventures. Investments are accounted for using the equity method when we exercise significant influence over the venture but lack a controlling financial interest, which is determined based upon the terms of individual joint venture agreements, including evaluation of rights held by other ownership interests. Generally, we account for investments using the equity method when we own more than a minimal investment but have no more than a 50% ownership interest. When we have a controlling financial interest in the venture, which is generally when our ownership exceeds 50%, the balance sheet and results of operations are consolidated. We also consolidate variable interest entities when we are the primary beneficiary. Net earnings are reduced by the portion of earnings applicable to other ownership interests. All other investments in unconsolidated affiliates are generally accounted for under the cost method. The hotels in which we own a non-controlling financial interest are an integral component of our hotel operations and are strategically and operationally important to our results. Therefore, our operating income from unconsolidated affiliates is included as a component of consolidated operating income in the accompanying consolidated statements of operations.

Notes Receivable

Notes receivable are reflected net of an estimated allowance for uncollectible amounts. For timeshare notes receivable, this estimate is based primarily on historical experience and assumptions with respect to future payment trends. Allowances for uncollectible amounts of other notes receivable, which include notes from managed, franchised and unconsolidated joint venture properties, are estimated based primarily on historical trends and analysis of underlying real estate collateral. Assessment of collateral may include estimates of future cash flow from the underlying real estate. Total notes receivable, including timeshare, totaled \$479 million and \$609 million, net of allowances for uncollectible amounts of \$35 million and \$44 million as of December 31, 2006 and 2007, respectively.

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year-end exchange rates and the related gains and losses, net of applicable deferred income taxes, are reflected in stockholders' equity. Income and expense accounts are translated at the average exchange rate for the period. Gains and losses from foreign exchange rate changes related to intercompany receivables and payables of a long-term nature are generally included in other comprehensive income. Gains and losses from foreign exchange rate changes related to intercompany receivables and payables that are not of a long-term nature are reported currently in income and amounted to net gains of approximately \$16 million, \$4 million and \$1 million in the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and October 24 through December 31 2007, respectively. Gains and losses from foreign currency transactions are reported currently in income and amounted to a net gain of \$18 million in 2006, a net loss of \$22 million in the period from January 1 through October 23, 2007, and a net gain of \$1 million in the period from October 24 through December 31 2007.

Valuation of Long-Lived Assets

The carrying value of our long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on the lowest level of identifiable expected future cash flow, then a loss is recognized in the statement of operations using a fair value based model.

Property and Equipment

Property and equipment acquired in acquisitions that were accounted for as purchases are recorded at their estimated fair value as of the date acquired, less accumulated depreciation. Other property and equipment are stated at cost less accumulated depreciation. Interest incurred during construction of facilities is capitalized and depreciated over the life of the asset. Costs of improvements are capitalized. These capitalized costs may include structural costs, equipment, fixtures and floor and wall coverings. Costs of normal repairs and maintenance are charged to expense as incurred.

Depreciation is provided using the straight-line method over the estimated useful life of the assets. Leasehold improvements are depreciated over the shorter of the asset life or lease term. The estimated useful lives of assets are generally 40 years for buildings and three to eight years for building improvements and furniture and equipment. Depreciation expense, including depreciation of assets recorded under capital leases, for the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and October 24 through December 31 2007 was \$312 million, \$253 million and \$58 million, respectively.

Amortizable Intangible Assets

Management and franchise contracts acquired in acquisitions that were accounted for as purchases are recorded at the estimated present value of net cash flow expected to be received over the lives of the contracts. This value is amortized using the straight-line method over the weighted average remaining contract lives. Costs incurred to acquire individual management and franchise contracts are amortized using the straight-line method over the life of the respective contract. As a result of the Blackstone Transaction on October 24, 2007, all management and franchise contracts were recorded at estimated fair value and accumulated amortization was reset to zero. Accumulated amortization of management and franchise contracts totaled \$290 million and \$34 million at December 31, 2006 and 2007, respectively.

Leases acquired in acquisitions that were accounted for as purchases are recorded at the estimated present value of net cash flow expected to be received over the lives of the lease agreements. This value is amortized using the straight-line method over the remaining lease terms. As a result of the Blackstone Transaction, all leases were recorded at estimated fair value and accumulated amortization was reset to zero. Accumulated amortization of leases totaled \$39 million and \$4 million at December 31, 2006 and 2007, respectively.

Other amortizable intangible assets acquired in acquisitions that were accounted for as purchases consist of certain proprietary technology and our Hilton HHonors guest loyalty program. The proprietary technology was recorded at the estimated replacement cost and is amortized using the straight-line method over the remaining useful life of the technology. Hilton HHonors was recorded at the estimated present value of future cash flow expected to be generated from current HHonors members. This value is amortized using the straight-line method over the estimated period in which future cash flows are expected to be realized. Accumulated amortization of other amortizable intangible assets totaled \$5 million at December 31, 2007.

The estimated aggregate amortization expense for amortizable intangible assets is expected to be \$229 million annually for the years ended December 31, 2008 through 2012.

Brands

Brand names acquired in acquisitions that were accounted for as purchases are assigned a fair market value. To arrive at a value for each brand name, an estimation is made of the amount of royalty income that could be generated from the brand name if it was licensed to an independent third-party owner. The resulting cash flow is discounted back using the estimated weighted-average cost of capital for each respective brand name. We account for brands in accordance with FAS 142, "Goodwill and Other Intangible Assets," which requires that intangible assets with indefinite lives are not amortized, but are reviewed annually for impairment.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired. We account for goodwill in accordance with FAS 142, which requires that goodwill is not amortized, but is reviewed annually for impairment. As a result of the Merger, existing goodwill on the Predecessor was eliminated and \$12.2 billion of goodwill was recorded (see “Note 3: The Blackstone Transaction”). During the period from October 24 through December 31, 2007, goodwill increased by approximately \$8 million due to foreign exchange rate movements.

Derivative Instruments

In conjunction with the Blackstone Transaction, we entered into interest rate swaps that effectively convert the interest payable on approximately \$5.1 billion of debt from a variable rate to a fixed rate for a period of three years. These interest rate swaps qualify for hedge accounting as a cash flow hedge. The gains or losses on the change in the fair value of the derivatives are included in accumulated other comprehensive income as part of the cumulative translation adjustment to the extent that the instruments are effective as a hedge.

In November 2007, we entered into interest rate caps that effectively place an upper limit on the floating interest rate we pay on \$11.4 billion of our floating rate debt for a period of three years. These interest rate caps qualify for hedge accounting as a cash flow hedge and any gains or losses on the change in the fair value of the derivatives are included in accumulated other comprehensive income as part of the cumulative translation adjustment to the extent that the instruments are effective as a hedge.

In November and December 2007, we entered in various foreign currency options denominated in Euros, British Pound Sterling and Australian dollars with monthly expirations commencing December 2007 through November 2013. The purpose of these options is to mitigate foreign currency risk associated with our international operations. These options have a notional value of approximately \$1.3 billion. As of December 31, 2007 all changes in value of the options are included in earnings within net other gain (loss).

Several derivative instruments were settled or extinguished concurrent with the Blackstone Transaction, including:

- A swap agreement which qualified for hedge accounting as a cash flow hedge of a foreign currency denominated liability. The gain or loss on the change in fair value of the derivative was included in earnings to the extent it offset the earnings impact of changes in fair value of the hedged obligation. Any difference was deferred in accumulated other comprehensive income, a component of stockholders' equity.
- An interest rate swap on certain fixed rate senior notes which qualified as a fair value hedge. This derivative impacted earnings to the extent of increasing or decreasing actual interest expense on the hedged notes to simulate a floating interest rate. Changes in the fair value of the derivative were offset by an adjustment to the value of the hedged notes.
- Three tranches of long-term debt denominated in foreign currencies which qualified as hedges of the foreign currency exposure of our net investment in foreign operations acquired as part of the HI Acquisition. The gains or losses on the long-term debt were included in accumulated other comprehensive income as part of the cumulative translation adjustment to the extent that the instruments were effective as a hedge. The net loss included in accumulated other comprehensive income related to our net investment hedge totaled \$254 million at December 31, 2006.

All gains and losses recorded in accumulated other comprehensive income associated with the aforementioned derivatives were eliminated in purchase accounting in accordance with FAS 141, “Business Combinations” (see “Note 3: The Blackstone Transaction”).

We assess the effectiveness of our hedges in offsetting the variability in the cash flow or fair values of the hedged assets or obligations on a quarterly basis. There were no amounts recognized or reclassified into earnings for the year ended December 31, 2006, the period from January 1 through October 23, 2007, or the period from October 24 through December 31, 2007 due to hedge ineffectiveness or due to excluding from the assessment of effectiveness any component of the derivatives.

We enter into short-term foreign currency forward and swap agreements in the normal course of business to hedge certain of our cash flows from foreign operations. The gains or losses on the hedging instruments are largely offset by gains or losses on the underlying asset or liability. At December 31, 2006 and 2007, the notional amount of these foreign currency hedging instruments totaled approximately \$72 million and \$17 million, respectively. We do not enter into derivative financial instruments for trading or speculative purposes.

During 2007, we had short-term foreign currency forward agreements related to €800 million of the Scandic sales proceeds (see "Note 6: Discontinued Operations"). These agreements included a foreign currency forward contract covering approximately £210 million, which functioned as an economic hedge of our British Pound denominated debt that was repaid with a portion of the sale proceeds upon completion of the sale. This contract did not qualify as a cash flow hedge. As a result, net gains on the contract of approximately \$10 million are reflected in net other gain (loss) in our consolidated statements of operations for the period from January 1 through October 23, 2007. Net losses of approximately \$10 million related to the British Pound denominated debt are reflected in net (loss) gain on foreign currency transactions in our consolidated statements of operations for the period from January 1 through October 23, 2007.

Our other short-term foreign currency forward agreements related to the Scandic proceeds qualified for hedge accounting as cash flow hedges. In the second quarter of 2007, we recognized approximately \$27 million of cumulative translation adjustment losses in connection with the Scandic sale. These losses, which had been included in accumulated other comprehensive income, are reflected in net other gain (loss) in our consolidated statements of operations.

In January 2006 and December 2006, we entered into derivative contracts relating to our investment in a synthetic fuel facility effective for the calendar years ended December 31, 2006 and 2007, respectively. These contracts covered 1.85 million and 2.0 million barrels of oil, respectively. The contracts involved two call options that provided for net cash settlement at expiration based on the effective full year average trading price of oil in relation to the strike price of the options. The call prices of the options were \$68.50 and \$72.50 per barrel for 2006 and \$72 and \$76 per barrel for 2007. If the average price of oil in the effective year was less than the low call price per barrel, the derivative will yield no payment. If the average price of oil exceeds the low call price per barrel, the derivative yielded a payment equal to the excess of the average price over the low call price per barrel, up to a maximum price per barrel of the high call price per barrel. The purpose of these transactions was to provide economic protection against increases in oil prices that could limit or eliminate the amount of tax credits available under Section 45K of the Internal Revenue Code to the point of a negative return on our investment. The strike prices of the two options for each year are intended to approximate the price ranges under which the expected tax credits could be reduced to an amount which no longer covered our after-tax production costs for the respective calendar years. These agreements do not qualify for hedge accounting and, as a result, changes in the fair value of the derivative agreements are reflected in earnings. Results in the year ended December 31, 2006 and the period from October 24 through December 31, 2007 include pre-tax losses of \$3 million and \$1 million, respectively, resulting from changes in the market value of the derivative contracts. There were no gains or losses in the period from January 1 through October 23, 2007. These amounts are included in net other gain (loss) in the accompanying consolidated statements of operations.

Unamortized Loan Costs

Debt discount and issuance costs incurred in connection with the placement of long-term debt are capitalized and amortized to interest expense over the lives of the related debt using the effective interest method. These balances are included in other assets in our consolidated balance sheets.

Self-Insurance

We are self-insured for various levels of general liability, workers' compensation and employee medical and dental insurance coverage at our owned locations. Managed properties may be required to participate in certain of the programs where we are the employer of the employees at the hotel. Managed properties may also elect to participate in our self-insured liability insurance program. We purchase insurance coverage for claim amounts which exceed our self-insured retentions. Depending on the type of insurance, these self-insured retentions range from \$250,000 to \$500,000 per occurrence in the U.S. and approximately \$2,000 to \$500,000 internationally. Our self-insurance reserves are included in accounts payable and accrued expenses (current portion) and insurance reserves and other (long-term portion) in the accompanying consolidated

balance sheets. Our self-insurance reserves totaled \$156 million and \$150 million at December 31, 2006 and 2007, respectively.

Our insurance reserves are accrued based on estimates of the ultimate cost of claims expected to occur during the covered period. These estimates are prepared with the assistance of outside actuaries and consultants. Our actuaries periodically review the volume and amount of claims activity, and based upon their findings, we adjust our insurance reserves accordingly. The ultimate cost of claims for a covered period may differ from our original estimates.

Revenue Recognition

Revenue is generally recognized as services are performed. Owned and leased hotel revenue represents primarily room rentals and food and beverage sales from owned, majority owned and leased hotels.

Management fees represent fees earned from hotels managed by us, usually under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is generally based on a fixed or variable percent of hotel profits after a stated return threshold to the owner. We recognize base fees as revenue when earned in accordance with the terms of the contract. In interim periods we recognize the incentive fees that would be due if the contract were terminated at the end of the interim period.

Franchise fees represent fees received in connection with the licensing of our brand names, usually under long-term contracts with the hotel owner. Depending on the brand, we charge franchise royalty fees of up to five percent of room revenue. We recognize fee revenue as earned, in accordance with FAS 45, "Accounting for Franchise Fee Revenue."

Timeshare and other income primarily consists of earnings from our timeshare operations. Timeshare revenue is generated primarily from the sale and financing of timeshare intervals and operating timeshare resorts. We recognize revenue from deeded timeshare sales in accordance with FAS 66, "Accounting for Real Estate Sales." Sales are included in revenue when a minimum of a 10 percent down payment has been received, certain minimum sales thresholds have been attained, the purchaser's period to cancel for a refund has expired and the related receivable is deemed to be collectable. We defer revenue recognition for sales that do not meet these criteria. During periods of construction, profits from timeshare sales are recognized under the percentage-of-completion method. We have a timeshare product which is accounted for as a long-term lease with a reversionary interest rather than the sale of a deeded interest in real estate and sales revenue is recognized on a straight-line basis over the term of the lease.

Timeshare and other income also includes revenue generated by the incidental support of hotel operations and the recognition of deferred gains on asset sales. We account for the sale of real estate in accordance with FAS 66. To the extent we realize gains from the sale of real estate and maintain significant continuing involvement in the form of a long-term management contract, the gain is deferred and recognized in revenue over the term of the contract. During the year ended December 31, 2006, and the period from January 1 through October 23, 2007, the deferral of pre-tax gains on such sales totaled \$5 million and \$368 million, respectively. Results in the year ended December 31, 2006 and the period from January 1, 2007 through October 23, 2007 include the recognition of pre-tax deferred gains totaling \$38 million and \$37 million, respectively. No deferred gains were recognized during the period from October 24 through December 31, 2007, as all deferred gains on assets sales as of the close of the Blackstone Transaction were reduced to zero in accordance with FAS 141. The future deferral of gain recognition is dependent on the structure of individual sale transactions.

We incur certain reimbursable costs on behalf of managed hotel properties and franchisees. We report reimbursements received from managed properties and franchisees as revenue and the costs incurred on their behalf as expenses. These costs, which relate primarily to payroll costs at managed properties where we are the employer, are included in other revenue and expenses from managed and franchised properties in the consolidated statements of operations. Since the reimbursements are made based upon the costs incurred with no added margin, the presentation of these reimbursable costs has no effect on our operating income, net income, cash flow or financial position.

We are required to collect certain taxes and fees from customers on behalf of government agencies and remit these back to the applicable governmental agencies on a periodic basis. These taxes and fees are legal assessments on the customer which we have a legal obligation to act as a collection agent. Because we do not retain these taxes and fees, we do not include such

amounts in revenue. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable governmental agencies.

Income Taxes

We account for income taxes in accordance with FAS 109, "Accounting for Income Taxes," and Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and to recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

Current and deferred tax assets and liabilities are recognized for estimated taxes payable or refundable due to temporary differences and carryforwards. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment is used in considering the relative impact of negative and positive evidence.

Hilton HHonors

Hilton HHonors is a guest loyalty program operated for the benefit of our family of brands worldwide. Members of the HHonors program earn points based on their spending at most of the hotel properties operated and franchised by us. We accumulate and track points on the members' behalf and fulfill awards upon request. Points can be redeemed for hotel stays at participating properties and for a variety of other awards such as airline tickets, cruises and car rentals.

HHonors is provided as a guest loyalty program to participating hotels. We charge the cost of operating the program, including the estimated cost of award redemptions, to participating hotels based on members' qualifying expenditures. These charges do not include a markup or profit element. Our owned hotels record our share of program costs when qualified members stay at our owned hotels. When the members redeem awards at our hotels, our owned hotels recognize revenue for reward stays.

We use outside actuaries to assist in determining the fair value of the future award redemption obligation based on statistical formulas which project future point redemptions based on factors including historical experience, an estimate of points that will never be redeemed, an estimate of the points that will eventually be redeemed and the cost of reimbursing hotels and other third parties in respect to other redemption opportunities available to members. These estimates are used to determine the required liability for outstanding points.

The total liability recorded for outstanding points as of December 31, 2006 and 2007 was \$421 million and \$505 million, respectively. Approximately \$126 million and \$152 million is classified as current, which is recorded in accounts payable and accrued expenses, and the remaining \$295 million and \$353 million is long-term, which is recorded in insurance reserves and other in our consolidated balance sheets ended December 31, 2006 and 2007, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from our estimates and assumptions.

Reclassifications

The consolidated financial statements for the prior year reflect certain reclassifications to conform with classifications adopted in 2007. These classifications have no effect on net income.

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FIN 48, “Accounting for Uncertainty in Income Taxes,” to clarify the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We adopted FIN 48 on January 1, 2007 (see “Note 14: Income Taxes”).

In September 2006, the FASB issued FAS 157, “Fair Value Measurements.” FAS 157 defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. FAS 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. FAS 157 is effective for our consolidated financial statements for fiscal 2008 and interim periods within the year. In November 2007, the FASB agreed to partially defer the effective date for one year for FAS 157, for non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We do not expect this statement will have a material impact on our results of operations or financial position.

In February 2007, the FASB issued FAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.” FAS 159 permits an entity to choose to measure certain financial instruments and certain other items at fair value and report their unrealized gains and losses in earnings. FAS 159 is effective for our consolidated financial statements for fiscal 2008 and interim periods within the year. We currently do not expect to elect the fair value measurement option for any financial assets or liabilities.

In December 2007, the FASB issued FAS 160, “Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51.” FAS 160 clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated statement of operations is presented, thus requiring consolidated net income to be reported at amounts attributable to both parent and the non-controlling interest. This statement is effective for our consolidated financial statements for fiscal 2009 and interim periods within the year. We are currently evaluating the impact that FAS 160 will have on our results of operations and financial position.

In December 2007, the FASB issued FAS 141 (Revised 2007), “Business Combinations” (“FAS 141(R)"). This statement revises FAS 141, “Business Combinations.” FAS 141(R) retains the fundamental requirements in FAS 141 that the acquisition method of accounting (which FAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This statement requires an acquirer to recognize all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. FAS 141(R) is effective for our consolidated financial statements for fiscal 2009 and interim periods within the year. We are currently evaluating the impact that FAS 141(R) will have on our results of operations and financial position.

NOTE 3: THE BLACKSTONE TRANSACTION

On July 3, 2007, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with BH Hotels LLC (the “Parent”) and BH Hotels Acquisition, Inc., a wholly owned subsidiary of the Parent (the “Merger Sub”), pursuant to which the Parent acquired us on October 24, 2007 through the merger of the Merger Sub with and into us, with Hilton Hotels Corporation continuing as the surviving corporation. Upon completion of the merger, each share of our common stock outstanding immediately prior to the Merger (other than certain specified shares) was cancelled and converted into the right to receive \$47.50 in cash. Following the completion of the merger, the Parent was converted into a corporation, Hilton Hotels Holdings Corporation which is wholly owned by BH Hotels Holdco LLC (“Holdco”). Holdco is an affiliate of the Blackstone Group L.P. (“Blackstone”). As a result of the merger, we are now an affiliate of Blackstone and our common stock (and listed debt securities) were delisted from the New York Stock Exchange and we ceased to be a publicly held corporation.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

In connection with the Merger, we commenced tender offers and consent solicitations in relation to approximately \$1.83 billion principal amount of our unsecured debt securities. Pursuant to the terms of the tender offers and consent solicitations, we purchased and retired approximately \$1.56 billion of debt securities concurrent with the completion of the Merger and completed amendments to the indenture pursuant to which the terms of the debt securities were amended to eliminate certain covenants and events of default and to make certain other modifications. We also repaid certain term and revolving loans, industrial revenue bonds and other indebtedness. In the aggregate, we repaid approximately \$3.9 billion of indebtedness (see “Note 12: Long-Term Debt”).

Upon completion of the Merger, our 3.375% convertible notes due 2023 became convertible into \$2,111 per \$1,000 principal amount. As of December 31, 2007, the remaining obligation for the convertible notes totaled \$13 million.

In order to finance the Merger, debt repayment and other transaction expenses, we incurred new indebtedness totaling approximately \$20.6 billion (see “Note 12: Long-Term Debt”). This new debt, together with approximately \$5.7 billion of equity invested by affiliates of Blackstone, was used to fund the acquisition of our previously outstanding common stock, pay transaction costs, establish certain cash reserves and finance the retirement of debt.

The aggregate cash consideration for the Merger was as follows:

	(in millions)
Purchase of common shares	\$ 19,427
Direct acquisition costs	470
Total	<u>\$ 19,897</u>

Allocation of Purchase Price

FAS 141, “Business Combinations,” requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to, quoted market prices, expected future cash flows, current replacement costs, market rate assumptions and appropriate discount and growth rates.

Under the purchase method of accounting, the assets and liabilities of our Predecessor were recorded at their respective fair values as of the date of the acquisition. We are in the process of finalizing internal studies and third-party valuations of assets, including investments, property and equipment, intangible assets and certain liabilities, including deferred tax liabilities. The fair values set forth below are based on preliminary valuations and are subject to adjustment as additional information is obtained. When finalized, adjustments to goodwill may result. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date.

	Preliminary Fair Value (in millions)
Current assets, including \$548 in cash and equivalents	\$ 2,146
Property and equipment	9,566
Investments and notes receivable	1,592
Amortizable intangible assets	3,301
Brands	6,470
Goodwill	12,225
Other assets	1,327
Current liabilities	(2,751)
Long-term debt	(4,839)
Non-recourse debt and capital lease obligations of non-controlled entities	(496)
Deferred income taxes	(7,556)
Other liabilities	(1,088)
	<u>\$ 19,897</u>

Goodwill and Intangible Assets Acquired

Goodwill resulting from the Blackstone Transaction totaled approximately \$12.2 billion. We do not expect any of the goodwill to be tax deductible. Goodwill and brands are considered to have an indefinite life and are not amortized, but rather are reviewed annually for impairment or more frequently if indicators of impairment exist.

Intangible assets with definite lives subject to amortization acquired in the Blackstone Transaction are as follows:

	Preliminary Fair Value	Weighted-Average Amortization Period
	(in millions)	(in years)
Leases	\$ 452	21
Management contracts	751	16
Franchise contracts	1,706	13
Other identifiable intangible assets	392	16
	<u>\$ 3,301</u>	15

NOTE 4: STOCK-BASED COMPENSATION

In connection with the Blackstone Transaction, on October 24, 2007 all of our stock-based awards became fully vested. Time-based unit (“TBU”) awards were paid out at \$47.50 per share, performance-based unit (“PBU”) awards were vested at the 150% performance factor and paid out at \$47.50 per share, and stock option awards were paid out at \$47.50 less the strike price of the awards. The Predecessor recognized approximately \$196 million of additional compensation expense due to the vesting and payout of all stock-based awards. In total, we paid cash of approximately \$695 million to settle all of the Predecessor’s stock based awards outstanding at October 24, 2007.

Prior to October 24, 2007, we maintained the 2004 Omnibus Equity Compensation Plan (“2004 Plan”) which provided for the grant of options, stock units, performance units and other stock-based awards. In addition, we maintained three stock plans with substantially identical terms that provided for the grant of options. At December 31, 2007, there are no shares available for issuance under the 2004 Plan or under the other three stock plans.

We recognize compensation expense on a straight-line basis over the requisite service period of the award, taking into consideration the applicable estimated forfeiture rates. Compensation expense associated with performance units is subject to adjustments for changes in estimates relating to whether the performance objective will be achieved (see Restricted Stock Units below). Total pre-tax compensation expense included in net income was \$46 million and \$243 million for the year ended December 31, 2006 and the period from January 1, 2007 through October 23, 2007, respectively.

Tax deductions in excess of recognized compensation costs totaled \$12 million for the year ended December 31, 2006 and \$107 million for the period from January 1, 2007 through October 23, 2007. There were no excess tax benefits for the period from October 24 through December 31, 2007. As of December 31, 2007, there was no unrecognized compensation cost.

The total intrinsic value of stock options exercised or settled in connection with the Blackstone Transaction was \$68 million and \$443 million for the year ended December 31, 2006, and the period from January 1 through October 23, 2007, respectively. The total fair value of restricted stock units vested was \$15 million and \$368 million for the year ended December 31, 2006, and the period from January 1 through October 23, 2007, respectively.

Stock Options

Under the 2004 Plan, options were granted to salaried officers, directors and other key employees to purchase our common stock at not less than the fair market value at the date of grant. Generally, options vested over a four year period, contingent upon continued employment, and remained outstanding for ten years from the date of grant. Options were generally exercisable in installments commencing one year after the date of grant.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

We granted 2,530,165 and 1,768,763 stock options in 2006 and the period from January 1 through October 23, 2007 with weighted-average exercise prices of \$25.35 and \$35.23 per share, respectively, and estimated weighted-average grant date fair values of approximately \$13.44 and \$14.01 per share, respectively. Cash received from options exercised under all share-based payment arrangements from January 1 through October 23, 2007 was \$26 million. The actual tax benefit realized for the tax deductions from options exercised or settled in connection with the Blackstone Transaction was \$28 million and \$180 million for the year ended December 31, 2006 and the period from January 1 through October 23, 2007, respectively.

The fair values of the options granted in 2006 and the period from January 1 through October 23, 2007 were estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the year ended December 31, 2006 and the period from January 1 through October 23, 2007:

	2006	Period from January 1 through October 23, 2007
Dividend yield	0.7%	0.5%
Expected volatility	55.0%	31.0%
Weighted-average risk-free interest rate	4.5%	4.8%
Expected term of option (in years)	6	7

Volatility was based on historical information with terms consistent with the expected life of our non-qualified stock options. The risk-free rate was based on the quoted treasury yield curve at the time of grant, with terms consistent with the expected life of our non-qualified stock options. The dividend yield was based on the expected annual dividend payment of \$0.16 per share for 2006 and 2007.

A summary of stock option activity under our equity plans for the period from January 1 through December 31, 2007 is as follows:

<u>Option Activity</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>
Balance at December 31, 2006	14,400,838	\$ 16.87
Granted	1,768,763	35.23
Exercised or settled	(16,054,085)	46.39
Forfeited	<u>(115,516)</u>	27.13
Balance at December 31, 2007	<u><u>-</u></u>	

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

A summary of the status of our options as of December 31, 2007 and the changes during the year then ended is as follows:

Unvested Option Activity	Shares	Weighted- Average Grant Date Fair Value
Balance at December 31, 2006	6,214,234	\$ 8.70
Granted	1,768,763	14.01
Vested	(7,867,481)	9.81
Forfeited	(115,516)	11.47
Balance at December 31, 2007	-	

Restricted Stock Units

During the year ended December 31, 2006 and the period from January 1 through October 23, 2007, we awarded restricted stock under our 2004 Plan in the form of TBUs and PBUs. TBU awards generally vest annually in a straight-line method over four years. PBU awards have a performance and vesting period established by our Compensation Committee, which was three years for the PBUs granted in 2006 and 2007. PBUs are payable from 0% to 150% of the target amount depending upon on the level of achievement of performance goals established by the Compensation Committee. Compensation expense for the TBU and PBU awards is measured at the fair value of the underlying stock at the date of grant and is adjusted for estimated forfeitures. Compensation expense associated with the PBU awards is also subject to adjustments for changes in estimates relating to the achievement of the established performance goals. In connection with the Blackstone Transaction on October 24, 2007, all of our restricted stock units became fully vested. TBU awards were paid out at \$47.50 per share and PBU awards were vested at the 150% performance factor and paid out at \$47.50 per share.

In the first quarter 2006, we granted 2,845,001 TBUs and 910,272 PBUs with weighted-average grant date fair values of approximately \$23.69 and \$24.30 per share, respectively. On March 31, 2006, the Compensation Committee determined that, in light of the HI Acquisition on February 23, 2006, the performance goals established for the PBU grants in 2005 and 2006 were no longer appropriate because they did not take into account the impact of the HI Acquisition on the performance of the new combined company. The Compensation Committee cancelled the 2005 and 2006 PBU awards and in their place granted 253,295 TBUs, 710,056 PBUs and 2,130,165 options, with grant date fair values of \$25.53, \$25.53 and \$13.56, respectively.

Total incremental cost resulting from the grants made on March 31, 2006 was expected to be approximately \$13 million, expensed over 33 months from the date of grant. As a result of the modification, we recognized additional compensation expense of approximately \$5 million and \$8 million for the year ended December 31, 2006 and the period from January 1 through October 23, 2007, respectively.

In the third quarter of 2006, we granted 13,540 TBUs with a grant date fair value of \$27.76 per share.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

A summary of the activity of TBUs and PBUs granted under our 2004 Plan for the year ended December 31, 2007 is as follows:

	Units	Weighted- Average Grant Date Fair Value
TBUs		
Balance at December 31, 2006	4,484,748	\$ 22.56
Granted	1,737,306	35.31
Vested	(5,920,117)	27.32
Forfeited	(301,937)	27.71
Balance at December 31, 2007	<u><u>-</u></u>	
PBUs		
Balance at December 31, 2006	1,590,590	\$ 21.51
Granted	1,008,375	41.95
Vested	(2,330,531)	30.21
Forfeited	(268,434)	18.76
Balance at December 31, 2007	<u><u>-</u></u>	

Supplemental Retention and Retirement Plan

We also provided supplemental retirement benefits to eligible senior officers in the form of stock units that settle in shares of our common stock on a one-for-one basis. The compensation expense associated with the benefits is expensed over a four-year vesting period. The pre-tax compensation expense under these plans was \$1 million for the year ended December 31, 2006 and insignificant in the period from January 1 through October 23, 2007. As a result of the Blackstone Transaction, the Supplemental Retention and Retirement Plan benefits became payable to the participants. We have fully funded the plan with \$115 million in cash. At December 31, 2007, the \$115 million is reflected in restricted cash and accounts payable and accrued expenses in our consolidated balance sheets.

NOTE 5: ACQUISITIONS AND DISPOSITIONS

We consider properties to be held for sale when management approves and commits to a formal plan to actively market a property for sale, executes a formal sales contract, allows the buyer to complete its due diligence review and receives a non-refundable deposit. Until necessary approvals have been received and substantive conditions to the buyer's obligation to perform have been satisfied, we do not consider a sale to be probable.

Upon designation as an asset held for sale, we review the carrying value of the property and, as appropriate, adjust the value to the lower of its carrying value or its estimated fair value less estimated cost to sell, and we stop recording depreciation expense.

To the extent we realize a gain from the sale of real estate and maintain significant continuing involvement in the form of a long-term management contract, the gain is deferred and recognized in revenue over the term of the contract. During the year ended December 31, 2006 and the period from January 1 through October 23, 2007, the deferral of pre-tax gains on such sales totaled \$5 million and \$368 million, respectively. No gains have been deferred in the period from October 24 through December 31, 2007. Results for the year ended December 31, 2006 and the period from January 1 through October 23, 2007 include the recognition of pre-tax deferred gains totaling \$38 million and \$37 million, respectively. In accordance with FAS 141, any remaining deferred gain balances were reduced to zero in connection with the Blackstone Transaction on October 24, 2007 (see "Note 3: The Blackstone Transaction").

Fiscal Year 2007 Transactions – October 24 through December 31

In the period from October 24 through December 31, 2007, we sold three wholly owned properties for cash totaling the US dollar equivalent of approximately \$149 million on the transaction dates. We retained a long-term franchise contract on one property and a long-term management agreement on another. As the sales prices were used to determine fair value of the assets in accordance with FAS 141 in connection with the Blackstone Transaction, no gains were recognized in earnings on the completion of two of the property sales. However, the Predecessor previously recognized a pre-tax impairment loss of \$18 million on one of the properties to reduce its value to its estimated fair value (see “Note 8: Impairment Loss and Related Costs”).

Additionally in the period, we purchased the remaining 50% interest in a joint venture property for approximately \$57 million, including assumed debt. The property is now wholly owned. We also entered into an arrangement with a joint venture partner in which we exchanged our minority interest in nine joint venture properties and \$10 million in cash for 100% ownership of two other joint venture properties. As part of this exchange transaction, we repaid \$126 million of joint venture debt. The two properties are now wholly owned. No gains or losses were recognized in earnings related to this transaction as the assets involved were adjusted to fair value in accordance with FAS 141 as part of the Blackstone Transaction.

The \$17 million gain in net other gain in our consolidated statement of operations for the period from October 24 through December 31, 2007 includes approximately \$17 million of net gains on derivative instruments not designated as hedges (see “Note 2: Summary of Significant Accounting Policies – Derivatives”).

Fiscal Year 2007 Transactions – January 1 through October 23

In the first quarter of 2007, we sold our minority interests in eight joint venture properties for cash of approximately \$51 million, resulting in pre-tax gains of approximately \$20 million.

In the second quarter of 2007, we sold three wholly owned hotels for total cash of approximately \$328 million. We have retained long-term management agreements on all three hotels. Due to our continuing involvement in management of the hotels, pre-tax gains totaling approximately \$223 million on the sale of the three hotels were deferred to be recognized over the lives of the management contracts. In accordance with FAS 141, the remaining deferred gain balance at October 24, 2007 was reduced to zero in connection with the Blackstone Transaction. The sale of properties in the second quarter resulted in a reduction in our consolidated goodwill balance of approximately \$2 million. In addition, we sold our minority interest in a joint venture property for approximately \$1 million, resulting in a pre-tax loss of approximately \$1 million.

Also in the second quarter of 2007, we completed the sale of our Scandic hotel brand and certain of our owned and leased hotels for €833 million, equivalent to approximately \$1.1 billion on the transaction date, resulting in a net pre-tax gain on sale of approximately \$60 million which is included in discontinued operations on our consolidated statements of operations (see “Note 6: Discontinued Operations”).

In the period from July 1 through October 23, 2007, we completed the sale of ten hotels in Europe and the UK for the US dollar equivalent of \$775 million on the transaction dates, resulting in net pre-tax gains on sale of approximately \$132 million. We retain long-term management agreements on eight of the hotels sold. Due to our continuing involvement in management of the hotels, pre-tax gains totaling approximately \$145 million on the sale of the eight hotels were deferred to be recognized over the lives of the management contracts. In accordance with FAS 141, the remaining deferred gain balance at October 24, 2007 was reduced to zero in connection with the Blackstone Transaction.

The \$12 million net other loss in our consolidated statements of operations for the period from January 1 through October 23, 2007 also includes \$17 million of net losses on foreign currency contracts related to the Scandic sale proceeds and \$1 million of other net losses.

We have engaged Eastdil Secured, LLC to act as our broker for the sale or financing of certain of our owned hotels. Fees earned by Eastdil related to owned hotels during the year 2006 and the period from January 1 through October 23, 2007 were approximately \$2 million and \$1 million, respectively. Benjamin V. Lambert, a director of the Predecessor, is Chairman of Eastdil.

Fiscal Year 2006 Transactions

In the first quarter of 2006, we completed the HI Acquisition for approximately £3.3 billion, equivalent to approximately \$5.8 billion on the transaction date, including acquisition costs, in an all cash transaction. Under the purchase method of accounting, the assets and liabilities of HI were recorded at their respective fair values as of the acquisition date. The fair values of assets acquired and liabilities assumed included approximately \$9.2 billion of assets, including approximately \$2.3 billion of goodwill, and \$3.4 billion of liabilities.

Also in the first quarter of 2006, we acquired long-term management contracts for four properties, three of which became part of our Waldorf=Astoria collection. In addition, we completed the sale of two wholly owned hotels for cash of approximately \$177 million, resulting in a pre-tax loss of approximately \$38 million and a reduction in our consolidated goodwill balance of approximately \$10 million. We retained long-term management agreements on both of the properties. In addition to the sales of these wholly owned hotels, we sold our minority interest in a joint venture property for cash of approximately \$27 million, resulting in a pre-tax gain of approximately \$11 million.

In the second quarter of 2006, we sold a wholly owned hotel for net proceeds of approximately \$17 million, resulting in a pre-tax gain of approximately \$8 million. The hotel continues to operate as a Hilton branded property under the terms of a 20-year franchise agreement. In addition, we sold our interest in a joint venture property for approximately \$5 million, resulting in a pre-tax loss of approximately \$2 million.

In the third quarter of 2006, we sold six wholly owned hotels, one leased hotel and the stand alone LivingWell health clubs acquired as part of the HI Acquisition. We have retained multi-year management agreements on all these dispositions excluding LivingWell. Proceeds from the dispositions totaled a U.S. dollar equivalent of approximately \$467 million on the transaction dates. In accordance with FAS 141, the preliminary HI purchase price allocation was adjusted to reflect revised fair values based on the sales transactions, with the differences between the preliminary and final valuations reflected in goodwill. As a result, no gains or losses were recognized in earnings related to the sales.

In the fourth quarter of 2006, we sold our minority interest in a joint venture property for cash of approximately \$35 million, resulting in a pre-tax gain of approximately \$22 million. We maintain a long-term franchise contract on this property. Additionally, we completed the sale of two wholly owned hotels for a U.S. dollar equivalent of approximately \$814 million as of the transaction date. We have retained long-term management agreements on both of the properties. No gains or losses were recognized in earnings related to the sale of assets previously acquired as part of the HI Acquisition in accordance with FAS 141.

The \$72 million net other gain in our consolidated statements of operations for 2006 also includes \$33 million of gains on settlement recoveries related to mold found in certain areas of the Hilton Hawaiian Village in 2002, a \$24 million gain on sales of certain marketable securities, a \$17 million net gain from insurance proceeds related to Hurricane Katrina (see "Note 19: Insurance Recoveries"), and \$3 million in other net losses.

NOTE 6: DISCONTINUED OPERATIONS

In April 2007, we completed the sale of our Scandic hotel brand and certain of our owned and leased hotels for €833 million, equivalent to approximately \$1.1 billion on the transaction date. Net proceeds, after transaction costs and taxes, of approximately \$1.04 billion were used to pay down borrowings under our senior credit facilities. At the time we exchanged contracts in March 2007, we designated Scandic as held for sale and stopped recording depreciation and amortization expense. Scandic is presented as discontinued operations in our consolidated financial statements.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

The assets and liabilities of Scandic classified as discontinued operations included in our consolidated balance sheet as of December 31, 2006 were as follows:

	December 31, 2006
	<u>(in millions)</u>
Current Assets	
Cash and equivalents	\$ 31
Accounts receivable, net	41
Inventories	5
Other current assets	32
Total current assets	<u>109</u>
Investments, Property and Other Assets	
Property and equipment, net	165
Management and franchise contracts, net	10
Leases, net	9
Brands	360
Goodwill	762
Deferred income taxes	9
Other assets	2
Total investments, property and other assets	<u>1,317</u>
Total Assets	<u>\$ 1,426</u>
Current Liabilities	
Accounts payable and accrued expenses	\$ 196
Income taxes payable	4
Total current liabilities	<u>200</u>
Deferred income taxes and other liabilities	131
Total Liabilities	<u>\$ 331</u>

Summary operating results for Scandic discontinued operations are as follows:

	Predecessor	
	Year Ended December 31, 2006	Period from January 1 through October 23, 2007
(in millions)		
Revenue		
Owned hotels	\$ 15	8
Leased hotels	706	269
Management and franchise fees	3	1
	<u>724</u>	<u>278</u>
Expenses		
Owned hotels	9	6
Leased hotels	555	220
Depreciation and amortization	15	5
Other operating expenses	50	22
	<u>629</u>	<u>253</u>
Operating Income	95	25
Net (loss) gain on foreign currency transactions	(10)	2
Net other gain (1)	-	60
	<u>85</u>	<u>87</u>
Income Before Taxes	85	87
Provision for income taxes	(14)	(23)
Net Income	<u>\$ 71</u>	<u>64</u>

(1) Net other gain represents the net gain on the sale of Scandic. The net gain includes the recognition of \$63 million of cumulative translation adjustment gains due to the substantial exit of operations from several foreign markets, partially offset by \$3 million of other losses on the Scandic sale. The cumulative translation adjustment gains had previously been deferred in accumulated other comprehensive income, a component of stockholders' equity.

NOTE 7: VARIABLE INTEREST ENTITIES

We manage two hotels in which we have variable interests, as defined in FIN 46(R) "Consolidation of Variable Interest Entities," as revised, due to the terms of performance guarantees. The performance guarantee associated with one of the hotel management agreements does not expose us to the majority of expected cash flow variability; therefore, we are not the primary beneficiary and this hotel is not consolidated. Our maximum exposure to loss on this contract consists of future management fees and our potential obligation to fund the performance guarantee which, as of December 31, 2007, totaled approximately \$31 million through 2012.

The second of the two contracts contains provisions that expose us to the majority of expected cash flow variability. As a result, we are considered to be the primary beneficiary under FIN 46(R), and are required to consolidate the balance sheet and results of operations of the hotel. Our consolidated balance sheets at December 31, 2006 and 2007 include the assets and liabilities of this non-controlled hotel, including approximately \$9 million of cash and equivalents (reflected as restricted cash) and \$100 million of debt for both years, which is non-recourse to us. The debt is secured by the fixed assets of the hotel with a historical cost of approximately \$86 million. The net equity of the hotel is a retained deficit of approximately \$63 million and \$64 million at December 31, 2006 and 2007, respectively, and is reflected on our consolidated balance sheets in other assets. The revenue and operating expenses of this property are included in other revenue and expenses from managed and franchised properties in the consolidated statements of operations. Our financial exposure to this property consists of the fees we earn under the management agreement and costs we may incur under the performance guarantee. The net effect of the other earnings of this property, which belongs to the hotel owners, is eliminated from our consolidated results through minority and non-controlled interests expense in the consolidated statements of operations.

As part of the HI Acquisition on February 23, 2006, we acquired a minority ownership interest in three joint ventures that lease hotels which are managed by us. We have variable interests, as defined in FIN 46(R), which expose us to the majority of expected cash flow variability of the joint ventures. As a result, we are considered to be the primary beneficiary under FIN 46(R), and are required to consolidate the balance sheet and results of operations of the joint ventures. In addition, two of the hotel leases are accounted for as capital leases under FAS 13, "Accounting for Leases." As of December 31, 2006 and 2007, our consolidated balance sheets include the assets and liabilities of these non-controlled joint ventures, including \$14 million and \$18 million of cash and equivalents (reflected as restricted cash), and \$400 million and \$402 million of debt and capital lease obligations, respectively. The debt and capital lease obligations are non-recourse to us and are reflected in non-recourse debt and capital lease obligations of non-controlled entities in our consolidated balance sheets.

The net equity of the hotels is a retained deficit of approximately \$75 million and \$81 million at December 31, 2006 and 2007, respectively, and is reflected on our consolidated balance sheet in other assets. The revenue and operating expenses of these properties are included in leased hotel revenue and expenses in the consolidated statements of operations. The net effect of the earnings of these properties applicable to other ownership interests is eliminated from our consolidated results through minority and non-controlled interest expense in the consolidated statements of operations.

NOTE 8: IMPAIRMENT LOSS AND RELATED COSTS

Results for the period from January 1 through October 23, 2007 include pre-tax impairment loss and related costs totaling \$27 million. This includes a \$18 million charge related to an owned hotel and a \$4 million charge related to our minority interest in a joint venture investment to reduce their respective carrying values to their estimated fair values. The hotel was sold in the 2007 fourth quarter (see "Note 5: Acquisitions and Dispositions"). The charge also includes a \$5 million charge to reduce certain foreign currency denominated assets to their estimated fair value.

There are no impairment loss and related costs for the period from October 24 through December 31, 2007 or the year ended December 31, 2006.

NOTE 9: INVESTMENTS AND NOTES RECEIVABLE

Investments and notes receivable at December 31, 2006 and 2007 are as follows:

	<u>2006</u>	<u>2007</u>
	(in millions)	
Equity investments		
Hotels	\$ 309	745
Other	8	40
Timeshare notes receivable, with an average rate of 12.7%, due 2008 to 2017	454	553
Other notes receivable, with an average rate of 5.9%, due 2008 to 2014	25	56
Marketable securities	6	-
Other investments	<u>17</u>	<u>35</u>
	819	1,429
Less current portion	<u>(60)</u>	<u>(67)</u>
Total	<u><u>\$ 759</u></u>	<u><u>1,362</u></u>

Notes receivable are reflected net of an estimated allowance for uncollectible amounts. For timeshare notes receivable, this estimate is based primarily on historical experience and assumptions with respect to future payment trends. Allowances for uncollectible amounts of other notes receivable, which includes notes from managed, franchised and unconsolidated joint venture properties, are estimated based primarily on historical trends and analysis of underlying real estate collateral. Assessment of collateral may include estimates of future cash flow from the underlying real estate. For timeshare notes receivable, interest income is recognized monthly from the date that the loan is closed. Any fees, including processing fees and late fees, are recognized in the month of collection.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

Total notes receivable, including timeshare, totaled \$479 million and \$609 million, net of allowances for uncollectible amounts of \$35 million and \$44 million as of December 31, 2006 and 2007, respectively.

Timeshare note receivable maturities are as follows:

	<u>(in millions)</u>
2008	\$ 73
2009	80
2010	84
2011	83
2012	77
Thereafter	<u>181</u>
	578
Allowance for doubtful accounts	<u>(25)</u>
Total	<u><u>\$ 553</u></u>

Our investments in unconsolidated affiliates accounted for under the equity method totaled \$317 million and \$785 million at December 31, 2006 and 2007, respectively, representing approximately two percent of total assets at the end of both 2006 and 2007. At December 31, 2007, our unconsolidated affiliates accounted for under the equity method had total assets of approximately \$1.2 billion and total debt of approximately \$669 million, substantially all of which is secured solely by the affiliate's assets or is guaranteed by other partners without recourse to us. We are the creditor on \$43 million of the \$669 million of debt.

Sales of our marketable securities are accounted for using the specific identification method. During the year ended December 31, 2006 and the period from January 1 through October 23, 2007, we sold certain marketable securities for proceeds totaling \$34 million and \$6 million, resulting in gains of \$24 million and \$1 million, respectively, which were reclassified out of accumulated other comprehensive income and recognized in earnings during the year.

NOTE 10: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006 and 2007 are as follows:

	<u>2006</u>	<u>2007</u>
	(in millions)	
Land	\$ 1,059	4,195
Buildings and leasehold improvements	4,267	4,892
Furniture and equipment	938	778
Property held for sale or development	47	51
Construction in progress	<u>44</u>	<u>56</u>
	6,355	9,972
Less accumulated depreciation	<u>(1,537)</u>	<u>(58)</u>
Total	<u><u>\$ 4,818</u></u>	<u><u>9,914</u></u>

At December 31, 2006 and 2007, property and equipment included approximately \$380 million and \$178 million of capital lease assets, primarily buildings and leasehold improvements, net of \$26 million and \$3 million of accumulated depreciation, respectively. At December 31, 2007, approximately 86% of our long-lived assets, primarily property and equipment, are located in the United States. No other single country contains a significant amount of our long-lived assets.

NOTE 11: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2006 and 2007 are as follows:

	2006	2007
	(in millions)	
Accounts and notes payable	\$ 390	411
Accrued compensation and benefits	321	395
Deferred income	90	188
HHonors current point liability	126	152
Deposits	119	129
Accrued transaction costs	-	115
Accrued interest	51	79
Accrued taxes	80	71
Insurance reserves	59	46
Other accrued expenses	469	990
Total	<u>\$ 1,705</u>	<u>2,576</u>

NOTE 12: LONG-TERM DEBT

Long-term debt at December 31, 2006 and 2007 is as follows:

	2006	2007
	(in millions)	
Senior mortgage loan due 2010 (1)	\$ -	11,536
Secured mezzanine loans due 2010 (1)	-	8,550
Unsecured notes, 9.55% due 2013	-	500
Mortgage notes, 5.05% to 8.62%, due 2008 to 2016	289	282
Notes, with an average rate of 7.65%, due 2008 to 2031	2,045	270
Capital lease obligations, 7.01%, due 2008 to 2097	142	87
3.375% Contingently convertible notes due 2023	575	13
Industrial development revenue bonds at adjustable rates, due 2015	82	-
7.95% Collateralized borrowings, due 2010	454	-
Chilean inflation-indexed note, effective rate of 7.65%, due 2009 (2)	145	-
Term loan A, at adjustable rates, due 2011	1,302	-
Term loan B, at adjustable rates, due 2013	283	-
Revolving loans, at adjustable rates, due 2011	1,634	-
Other	17	-
	<u>6,968</u>	<u>21,238</u>
Less current maturities of long-term debt	(412)	(61)
Net long-term debt	<u>\$ 6,556</u>	<u>21,177</u>

(1) Initial due date is 2010, with up to three additional one year extensions at our option.

(2) Interest rates include the impact of interest rate swaps.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

In addition to our long-term debt, our consolidated balance sheet includes debt and capital lease obligations related to variable interest entities consolidated under FIN 46(R) that are non-recourse to us. Non-recourse debt and capital lease obligations of non-controlled entities at December 31, 2006 and 2007 are as follows:

	2006	2007
	(in millions)	
Mortgage note, 5.77%, due 2008	\$ 100	100
Capital lease obligations, 7.01%, due 2008 to 2025	370	370
Other	30	32
	<u>500</u>	<u>502</u>
Less current maturities of non-recourse debt and capital lease obligations of non-controlled entities	<u>(110)</u>	<u>(112)</u>
Net non-recourse debt and capital lease obligations of non-controlled entities	<u>\$ 390</u>	<u>390</u>

Interest paid, net of amounts capitalized, was \$469 million, \$356 million and \$193 million in the year ended December 31, 2006, the period from January 1 through October 23, 2007 and the period from October 24 through December 31, 2007, respectively. Capitalized interest totaled \$13 million, \$18 million and \$6 million in the year ended December 31, 2006, the period from January 1 through October 23, 2007 and the period from October 24 through December 31, 2007, respectively.

Debt maturities, including non-recourse debt and capital lease obligations of non-controlled entities are as follows:

	(in millions)
2008	\$ 173
2009	91
2010	20,237
2011	24
2012	41
Thereafter	1,174
Total	<u>\$ 21,740</u>

The Merger, the repayment of certain indebtedness of ours and the payment of transaction expenses has been financed with \$20.6 billion of mortgage and mezzanine debt financing (the "Secured Debt") incurred by subsidiaries of ours and approximately \$5.7 billion of equity invested by investment funds affiliated with The Blackstone Group. The Secured Debt is secured by substantially all of our consolidated assets and contains significant restrictions on the incurrence of any additional indebtedness by us, including the prohibition of any additional indebtedness for money borrowed and/or evidenced by bonds, debentures, notes and other similar instruments. The Secured Debt bears interest at an average rate equal to the one-month London Interbank Offering Rate ("LIBOR") plus 2.45%. The term of the Secured Debt is three years, with up to three one year extensions at our option.

In November 2007, we incurred \$500 million of unsecured debt (the "Unsecured Debt") with the unanimous consent of the Secured Debt holders. The proceeds of the Unsecured Debt were used to repay \$500 million principal of the mezzanine debt financing portion of the Secured Debt. Upon issuance of the Unsecured Debt, the interest rate on the Secured Debt was adjusted so that the average interest rate on the Secured Debt and the Unsecured Debt in the aggregate is equal to LIBOR plus 2.45% (7.05% at December 31, 2007).

In connection with the Merger, we commenced tender offers and consent solicitations in relation to approximately \$1.83 billion principal amount of our unsecured debt securities. Pursuant to the terms of the tender offers and consent solicitations, we purchased and retired approximately \$1.56 billion of debt securities concurrent with the completion of the Merger and completed amendments to the indentures pursuant to which the terms of the debt securities were amended to eliminate certain covenants and events of default and to make certain other modifications. We also repaid certain term and revolving loans, industrial revenue bonds and other indebtedness. In the aggregate, we repaid approximately \$3.9 billion of indebtedness.

In connection with the tender offers completed in connection with the Merger and other debt repayments completed prior to the Merger, we incurred certain expenses including the premium paid in excess of fair value of the debt tendered, costs of the consent solicitation and the write-off of certain debt issuance costs. These costs, totaling \$71 million and \$139 million for the period from January 1 through October 23, 2007 and the period from October 24 through December 31, 2007, respectively, are reflected as loss from early extinguishment of debt in the consolidated statements of operations.

Upon completion of the Merger, our 3.375% convertible notes due 2023 became convertible into \$2,111 per \$1,000 principal amount. As of December 31, 2007, the remaining obligation for the convertible notes totaled \$13 million.

As of December 31, 2007, we have entered into interest rate swaps that effectively convert the interest payable on approximately \$5.1 billion of the senior mortgage loan from a variable rate of LIBOR plus 2.45% to a fixed interest rate of 6.82% for a period of three years. In addition, we have entered into interest rate caps that effectively place an upper limit on the floating interest rate we pay on \$11.4 billion of the Secured Debt as of December 31, 2007 that cap LIBOR at a rate of no greater than 7.0% for a period of three years.

In November 2002, we entered into a derivative contract which swapped the fixed interest payments on our \$375 million 7.95% Senior Notes due 2007 to a floating interest rate equal to the six-month LIBOR plus 4.15%. In connection with our \$100 million 7.43% bonds due 2009 denominated in Chilean pesos, we had a derivative contract which swapped the principal payment to a fixed U.S. dollar amount of \$100 million and fixed interest payments at 7.65% of that amount. Both of the aforementioned notes and their related derivative contracts were settled in 2007.

In connection with the funding of the Secured Debt, we were required to fund certain cash reserves which may be used for, among other things, debt service, capital expenditures and general corporate purposes. As of December 31, 2007, these reserves, totaling \$965 million, are reflected as restricted cash in our consolidated balance sheet.

Provisions of the financing agreement related to our 7.95% collateralized borrowings due 2010 required that certain cash reserves be maintained and also restricted the transfer of excess cash generated by the related properties to us if net cash flow falls below a specified level (the cash trap). The cash trap became effective in 2003 due to reduced cash flow from the collateralized properties. As of December 31, 2006, cash restricted under the terms of the collateralized borrowings, including required reserves and the cash trap, totaled \$214 million. The collateralized borrowings were extinguished in October 2007 and the cash trap was eliminated prior to the Blackstone Transaction.

NOTE 13: FINANCIAL INSTRUMENTS

The estimated fair values of our financial instruments at December 31, 2006 and 2007 are as follows:

	2006		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and equivalents and long-term marketable securities	\$ 113	113	341	341
Restricted cash	293	293	1,318	1,318
Timeshare notes receivable (including current portion)	454	459	553	553
Other notes receivable (including current portion)	25	24	56	53
Derivative assets	58	58	95	95
Long-term debt (including current maturities)	(6,968)	(7,384)	(21,238)	(20,197)
Derivative liabilities	(3)	(3)	(90)	(90)

Our estimates of the fair value of financial instruments at December 31, 2006 and 2007 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

Cash Equivalents, Long-Term Marketable Securities and Restricted Cash

The fair value of cash equivalents, long-term marketable securities and restricted cash is estimated based on the quoted market price of the investments.

Timeshare and Other Notes Receivable

The estimated fair value of timeshare and other notes receivable is based on recent market prices or the expected future cash flows discounted at risk adjusted rates.

Long-Term Debt

The estimated fair value of long-term debt is based on estimates of market spreads where quoted market values do not exist, on the current rates offered to us for debt of the same remaining maturities and considering the collateral, or quoted market prices for the same or similar issues. In determining the current market rate for fixed rate debt, a market spread is added to the quoted yields on federal government treasury securities with similar maturity dates.

Derivative Instruments

The fair value of derivative assets and liabilities is based on the present value of estimated future cash flow, including the use of foreign currency forward exchange rates, as appropriate.

NOTE 14: INCOME TAXES

The income tax provision (benefit) is as follows:

	Predecessor		2007 ⁽²⁾
	2006	2007 ⁽¹⁾	
	(in millions)		
Pretax income (loss)			
U.S.	\$ 594	143	(234)
Foreign	159	55	33
Total	<u>\$ 753</u>	<u>198</u>	<u>(201)</u>
Current			
Federal	\$ 99	(136)	(180)
Foreign	46	54	31
State and local	35	(17)	(24)
	180	(99)	(173)
Deferred			
Federal	41	114	87
Foreign	24	(4)	(2)
State and local	-	(2)	9
Total	<u>\$ 245</u>	<u>9</u>	<u>(79)</u>

(1) January 1 through October 23, 2007

(2) October 24 through December 31, 2007

During the year ended December 31, 2006 and the period from January 1 through October 23, 2007, we paid cash income taxes of \$255 million and \$136 million, respectively, net of refunds received. In the period from October 24 through December 31, we received cash refunds of taxes of \$62 million, net of income taxes paid. Income tax expense attributable to discontinued operations was \$14 million and \$23 million for the year ended December 31, 2006 and the period from January 1 through October 23, 2007, respectively.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

The income tax effects of temporary differences between financial and income tax reporting that gave rise to deferred income tax assets and liabilities at December 31, 2006 and 2007 are as follows:

	<u>2006</u>	<u>2007</u>
	(in millions)	
Deferred tax assets		
Foreign tax credits	\$ 289	471
Net operating loss carryforwards	178	210
Compensation	110	115
Deferred transaction costs	-	54
Other reserves	32	48
Insurance reserves	48	40
System funds	29	22
Capital loss carryforward	-	16
Deferred income	33	-
Other	44	35
	<u>763</u>	<u>1,011</u>
Valuation allowance	<u>(237)</u>	<u>(551)</u>
	<u>526</u>	<u>460</u>
Deferred tax liabilities		
Property and equipment	(210)	(2,595)
Brands	(900)	(2,572)
Amortizable intangibles	(530)	(1,387)
Unrealized foreign currency gains	(302)	(768)
Investments	(44)	(335)
Deferred income	-	(61)
Prepaid royalties	(53)	(41)
Accrued interest	(49)	-
Unremitted foreign earnings	(217)	-
	<u>(2,305)</u>	<u>(7,759)</u>
Net deferred tax liability	<u>\$ (1,779)</u>	<u>(7,299)</u>

The reconciliations of the Federal income tax rate to our effective tax rate are as follows:

	<u>Predecessor</u>		
	<u>2006</u>	<u>2007⁽¹⁾</u>	<u>2007⁽²⁾</u>
Federal income tax rate	35.0 %	35.0	35.0
Increase (reduction) in taxes			
State and local income taxes, net of Federal tax benefits	2.2	(7.8)	5.1
Foreign taxes	8.5	24.0	(14.9)
Foreign earnings subject to lower rates	(3.6)	(18.1)	3.0
Federal income tax credits	(10.5)	(26.2)	15.5
Change in deferred tax asset valuation allowance	.9	(4.6)	-
Nondeductible transaction costs	-	3.6	-
Gains on investments	.5	(1.5)	(2.5)
Other	(.5)	.2	(1.9)
Effective tax rate	<u>32.5 %</u>	<u>4.6</u>	<u>39.3</u>

(1) January 1 through October 23, 2007

(2) October 24 through December 31, 2007

Net operating loss carryforwards are generally recorded as deferred tax assets and are fully reserved until evidence indicates that it is more likely than not that the benefit will be realized. Approximately \$10 million of net operating loss carryforwards expire between 2008 and 2021 with approximately \$5 million of that amount expiring in 2008. Approximately \$200 million of net operating loss carryforwards have indefinite lives. Foreign tax credits are recorded as deferred tax assets. A portion of foreign tax credits are reserved to the extent evidence indicates it is more likely than not that the federal tax benefit of such portion of those foreign tax credits will not be realized.

Tax Contingencies

On January 1, 2007, we adopted the provisions of FIN 48. As a result of adoption, we provided for a \$14 million increase in the net liability for our unrecognized income tax positions. Of this, \$6 million was recorded as an adjustment to our opening balance of retained earnings and \$8 million was recorded as an increase to goodwill in connection with the HI Acquisition.

The total amounts of our unrecognized tax positions as of January 1, 2007 and December 31, 2007, were \$132 million and \$142 million, respectively, of which \$35 million and \$37 million would impact our effective tax rate if recognized. Included in these totals are gross accrued interest and penalties of \$19 million and \$25 million as of January 1 and December 31, 2007, respectively, of which \$4 million and \$2 million was recognized as a component of our income tax expense during the period from January 1 through October 23, 2007 and October 24 through December 31, 2007, respectively. We estimate that the amount of our unrecognized tax positions will not change significantly within the next twelve months.

<u>Unrecognized Tax Positions</u>	(in millions)
Balance at December 31, 2006	\$ 132
Increases as a result of tax positions taken during a prior period	24
Decreases as a result of tax positions taken during a prior period	(12)
Increases as a result of tax positions taken during the current period	8
Settlements with taxing authorities	(6)
Lapse of applicable statute of limitations	(4)
Balance at December 31, 2007	<u>\$ 142</u>

From January 1, 2007, any interest and penalties incurred in connection with settlement of income tax liabilities and interest income received in connection with settlement of income tax liabilities will be accounted for as a component of our income tax expense. Prior to January 1, 2007, interest and penalties incurred in connection with settlement of income tax liabilities were accounted for as a component of our provision for income taxes, while interest income received in connection with the settlement of income tax liabilities were accounted for as interest and dividend income.

We file income tax returns with federal, state, local and foreign jurisdictions. As of December 31, 2007, we remain subject to federal, state and foreign examinations of our income tax returns for the years 1994 through 2006.

NOTE 15: STOCKHOLDERS' EQUITY

Prior to the completion of the Blackstone Transaction, 500 million shares of common stock with a par value of \$2.50 per share were authorized, of which 409 million were issued at December 31, 2006, including 22 million treasury shares. After the completion of the Merger, a total of 150 million shares with a par value of \$0.01 per share are authorized, of which 120 million were issued at December 31, 2007, including one million treasury shares.

We had 25 million shares of preferred stock with a par value of \$1.00 per share authorized for issuance before the Merger. As of December 31, 2007, we have no preferred stock authorized, issued or outstanding. No preferred shares were issued or outstanding at December 31, 2006.

NOTE 16: EMPLOYEE BENEFIT PLANS

We sponsor multiple domestic and international employee benefit plans. We have a noncontributory retirement plan in the United States (the “Domestic Plan”) which covers certain non-union employees. Benefits are based upon years of service and compensation. Since December 31, 1996, employees have not accrued additional benefits under the Domestic Plan. Therefore, the projected benefit obligation is equal to the accumulated benefit obligation. Plan assets will be used to pay benefits due employees for service through December 31, 1996. As employees have not accrued additional benefits since 1996, we do not utilize salary or pension inflation assumptions in calculating our benefit obligation for the Domestic Plan. The annual measurement date for the Domestic Plan is December 31.

We have multiple employee benefit plans that cover many of our international employees. These plans include a plan that covers workers in the United Kingdom (the “U.K. Plan”) and a number of smaller plans that cover workers in various countries across the world (the “International Plans”). The measurement date for the U.K. Plan and the International Plans is December 31.

The weighted-average assumptions used to determine benefit obligations at December 31 were as follows:

	Domestic Plan		U.K. Plan		International Plans	
	2006	2007	2006	2007	2006	2007
Discount Rate	5.8 %	6.1	5.1	5.7	4.8	4.7
Salary Inflation	-	-	5.9	6.3	3.0	3.1
Pension Inflation	-	-	2.9	3.3	2.2	2.3

The employer contributions, employee contributions and benefits payments are as follows:

	Domestic Plan			U.K. Plan			International Plans		
	Predecessor			Predecessor			Predecessor		
	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)
	(in millions)								
Employer contributions	\$ -	-	-	8	8	2	12	5	3
Employee contributions	-	-	-	2	2	1	-	-	1
Benefits paid	(18)	(17)	(6)	(9)	(9)	(7)	(13)	(9)	(8)

(1) January 1 through October 23, 2007.

(2) October 24 through December 31, 2007.

The benefit obligations for the Domestic, U.K. and International Plans were \$314 million, \$383 million and \$229 million as of December 31, 2006 and \$305 million, \$385 million and \$141 million as of December 31, 2007, respectively. The fair value of plan assets for the Domestic, U.K. and International Plans were \$296 million, \$404 million and \$179 million as of December 31, 2006 and \$301 million, \$425 million and \$111 million as of December 31, 2007, respectively.

The accumulated benefit obligation for the U.K. Plan and the International Plans totaled \$361 million and \$219 million at December 31, 2006 and \$363 million and \$134 million at December 31, 2007, respectively.

The investment objectives for the various plans are preservation of capital, current income and long-term growth of capital. Substantially all plan assets are managed by outside investment managers. Asset allocations are reviewed periodically.

For the Domestic Plan, equity securities include S&P 500 and S&P 400 index funds and foreign equity funds. Equity securities also included \$16 million of our common stock at December 31, 2006, representing approximately 5% of total plan assets. At December 31, 2007, due to the Merger, the Domestic Plan did not hold any of our common stock. Debt securities are primarily U.S. Treasury and government agency debt securities. The expected long-term return on plan assets is based on assumed rates of return for the assets held of 4% to 7% for debt securities and 7% to 9% for equity securities.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

For the U.K. and International Plans, plan assets are primarily in pooled funds managed by outside investment managers. Equity securities are in global equity and regional international funds. Debt funds are in fixed interest and index-linked bond funds. Property funds are in a global real estate fund. The expected long-term return on plan assets is based on assumed rates of return for the assets held of 4% to 5% for debt securities, 6% to 7% for property funds and 7% to 9% for equity securities.

The asset allocations as a percentage of total plan assets at December 31, 2006 and 2007 are as follows:

	Domestic Plan			U.K. Plan			International Plans (1)	
	Target Allocation	Percentage of Plan Assets		Target Allocation	Percentage of Plan Assets		Percentage of Plan Assets	
		2006	2007		2006	2007	2006	2007
Equity securities	50 %	54	45	56	56	56	50	50
Debt securities	50	46	55	30	29	31	31	34
Property funds	-	-	-	14	14	13	8	2
Other	-	-	-	-	1	-	11	14
Total	100 %	100	100	100	100	100	100	100

(1) International Plans assets are managed to individual target allocations depending on the plan and region.

The following tables provide the reconciliation between the funded status of our plans and the accrued benefit cost liability on the consolidated balance sheets for the years ended December 31, 2006 and 2007, as well as the other components recognized in our consolidated balance sheets:

	Domestic Plan		U.K. Plan		International Plans	
	2006	2007	2006	2007	2006	2007
	(in millions)					
Funded status recognized at end of year	\$ (18)	(4)	21	40	(50)	(30)

Amounts recognized in the consolidated balance sheets consist of:

	Domestic Plan		U.K. Plan		International Plans	
	2006	2007	2006	2007	2006	2007
	(in millions)					
Noncurrent asset	\$ 1	2	21	41	6	9
Current liability	-	-	-	-	(1)	-
Noncurrent liability	(19)	(6)	-	(1)	(55)	(39)
Net amount recognized	\$ (18)	(4)	21	40	(50)	(30)

Amounts recognized in accumulated other comprehensive income consist of:

	Domestic Plan		U.K. Plan		International Plans	
	2006	2007	2006	2007	2006	2007
	(in millions)					
Net actuarial loss (gain)	\$ 16	14	(16)	11	(8)	9
Prior service cost	2	-	-	-	-	-
Net amount recognized	\$ 18	14	(16)	11	(8)	9

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

The weighted-average assumptions used to determine net periodic cost were as follows:

	Domestic Plan			U.K. Plan			International Plans			
	Predecessor			Predecessor			Predecessor			
	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)	
Discount Rate	5.3	%	5.8	6.2	4.7	5.1	5.7	4.4	4.4	5.0
Expected long-term return on plan assets	7.3		7.3	7.3	7.1	6.5	6.9	5.5	5.3	6.1
Salary Inflation	-		-	-	5.7	5.9	6.2	2.6	3.0	3.1
Pension Inflation	-		-	-	2.6	2.9	3.2	2.1	2.2	2.3

(1) January 1 through October 23, 2007.

(2) October 24 through December 31, 2007.

Our net annual benefit income (cost) for the years ended December 31, 2006 and 2007 consisted of the following:

	Domestic Plan			U.K. Plan			International Plans		
	Predecessor			Predecessor			Predecessor		
	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)	2006	2007 (1)	2007 (2)
	(in millions)								
Pension Plans	\$ -	1	1	(1)	(3)	(1)	(8)	(4)	(2)
Defined Contribution Plan	-	-	-	-	-	-	(14)	(16)	1

(1) January 1 through October 23, 2007.

(2) October 24 through December 31, 2007.

We expect to contribute approximately \$9 million to the International Plans in 2008. We do not expect to make any contribution to the U.K. Plan or the Domestic Plan in 2008. Amortization from accumulated other comprehensive income into net periodic benefit cost in 2008 of actuarial losses and prior service cost is not expected to be material for the Domestic, U.K. or International Plans. As of December 31, 2007, the benefits expected to be paid in the next five years and in the aggregate for the five years thereafter are as follows:

	Domestic Plan	U.K. Plan (in millions)	International Plans
2008	\$ 19	11	8
2009	19	13	7
2010	19	14	7
2011	20	14	7
2012	20	15	8
2013 - 2017	105	91	38

As of January 1, 2007, the Domestic Plan and plans maintained for certain domestic hotels currently or formerly managed by us were merged into a multiple employer plan. We are the sponsor of this plan and as such could be liable to fund any contributions not funded by the owners of any of the properties covered by the plan. As of December 31, 2007, the multiple employer plan had combined assets of \$339 million and a projected benefit obligation of \$331 million.

We also have plans covering qualifying employees and non-officer directors (the "Supplemental Plans"). Benefits for the Supplemental Plans are based upon years of service and compensation. Since December 31, 1996, employees and non-officer directors have not accrued additional benefits under the Supplemental Plans. These plans are self-funded by us and therefore have no plan assets isolated to pay benefits due employees. At December 31, 2006 and 2007, these plans have benefit obligations of \$10 million and \$11 million, respectively, which are fully accrued in our consolidated balance sheets. Pension

expense under the Supplemental Plans for the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and from October 24 through December 31, 2007 was not significant.

Certain employees are covered by union sponsored, collectively bargained multi-employer pension plans. We contributed and charged to expense \$21 million, \$20 million and \$3 million for the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and from October 24 through December 31, 2007, respectively, for such plans. Information from the plans' administrators is not sufficient to permit us to determine our share, if any, of unfunded vested benefits.

We have various employee investment plans whereby we contribute matching percentages of employee contributions. The aggregate expense under these plans totaled \$26 million, \$24 million and \$5 million for the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and from October 24 through December 31, 2007, respectively.

NOTE 17: LEASES

We lease hotel properties and land under operating and capital leases. At December 31, 2006 and 2007, we leased 196 and 75 hotels, respectively, under operating leases. We also operated seven and six hotels under capital leases as of December 31, 2006 and 2007, respectively. Two of the capital leases at December 31, 2006 and 2007 are consolidated under FIN 46(R) (see "Note 7: Variable Interest Entities") and are non-recourse to us. Our hotel operating leases may require the payment of fixed rent payments, variable rent payments based on a percentage of revenue or income, or the payment of rent equal to the greater of a minimum fixed rent or variable rent based on a percentage of revenue or income. Our hotel leases expire through 2097, with varying renewal options. Our land leases represent ground leases for certain owned hotels and, in addition to minimum rental payments, may require the payment of additional rents based on varying percentages of revenue or income. Total rent expense incurred under our leases was \$528 million, \$399 million and \$97 million in the year ended December 31, 2006, the period from January 1 through October 23, 2007 and the period from October 24 through December 31, 2007, respectively, which included minimum rent payments of approximately \$269 million, \$224 million and \$45 million, respectively.

Minimum lease commitments under non-cancelable operating and capital leases are as follows:

December 31,	Operating Leases	Capital Leases	Non-Recourse Capital Leases
		(in millions)	
2008	\$ 238	8	32
2009	226	8	32
2010	215	8	32
2011	213	9	32
2012	207	9	53
Thereafter	<u>2,605</u>	<u>182</u>	<u>422</u>
	<u>\$ 3,704</u>	<u>224</u>	<u>603</u>
Less imputed interest at 7.01%		<u>(137)</u>	<u>(233)</u>
Present value of net minimum lease payments		<u>\$ 87</u>	<u>370</u>

NOTE 18: COMMITMENTS AND CONTINGENCIES

We have established franchise financing programs with third party lenders to support the growth of our brands. As of December 31, 2007, we have provided guarantees of \$14 million on loans outstanding under these programs. In addition, we have guaranteed \$7 million of debt and other obligations of unconsolidated affiliates and third parties, bringing our total guarantees to approximately \$21 million. Our outstanding guarantees have terms ranging from one to 13 years. We also have commitments under letters of credit totaling \$112 million as of December 31, 2007. The letters of credit are supported by \$112 million of restricted cash. Although we believe it is unlikely that material payments will be required under these guarantees or letters of credit, there can be no assurance that this will be the case.

In addition, we remain a guarantor on 12 operating leases sold as part of the sale of the Red Lion hotel chain in 2001. We have entered into an indemnification and reimbursement agreement with Red Lion Hotels Corporation (“RLH”), which requires RLH to reimburse us for any costs and expenses incurred in connection with the guarantee. The minimum lease commitment under these 12 operating leases totals approximately \$5 million annually through 2020.

We also remain a guarantor on 15 operating leases sold as part of the Scandic transaction. We have entered into indemnification and reimbursement agreements with the new owners of Scandic which require the owners to reimburse us for any costs and expenses incurred in connection with the guarantees. At December 31, 2007 exchange rates, the minimum lease commitment under these 15 operating leases totals approximately \$16 million annually through 2012, \$14 million annually through 2015 and \$9 million annually through 2022.

We have provided a £15.1 million guarantee, equivalent to \$30.2 million at December 31, 2007, to the Hilton U.K. Pension Plan. The guarantee is intended to secure the pension plan’s funding level and is in place through December 2010.

We have also provided performance guarantees to certain owners of hotels we operate under management contracts. Most of these guarantees allow us to terminate the contract rather than fund shortfalls if specified performance levels are not achieved. In limited cases, we are obligated to fund performance shortfalls. At December 31, 2007, we have 11 contracts containing performance guarantees with possible cash outlays totaling approximately \$698 million through 2022. Funding under these performance guarantees totaled approximately \$22 million in 2007 and is expected to total approximately \$29 million in 2008. Funding under these guarantees in future periods is dependent upon the operating performance levels of these hotels over the remaining term of the performance guarantees. Although we anticipate that the future operating performance levels of these hotels will be largely achieved, there can be no assurance that this will be the case. In addition, we do not anticipate losing a significant number of management contracts in 2008 pursuant to these guarantees.

Our consolidated financial statements at December 31, 2006 and 2007 include liabilities of approximately \$18 million and \$22 million, respectively, for potential obligations under our outstanding guarantees. Under certain circumstances, we may be obligated to provide additional guarantees or letters of credit totaling \$76 million at December 31, 2007.

At December 31, 2007, we had contractual commitments of approximately \$466 million for construction and renovation projects at certain owned and majority owned properties, including timeshare. Our construction contracts contain clauses which allow us to cancel all or some portion of the work. The minimum commitments would be for cost incurred under the contract and two to five percent of the remaining contract value.

We are involved in various legal matters arising in the normal course of business, some of which include claims for substantial sums. Accruals are recorded when the outcome is probable and can be reasonably estimated in accordance with FAS 5, “Accounting for Contingencies.” While the ultimate results of claims and litigation cannot be predicted with certainty, we do not expect that the resolution of all pending overtly threatened claims and litigation as of December 31, 2007 will have a material adverse effect on our consolidated results of operations or financial position. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations in a particular period.

NOTE 19: INSURANCE RECOVERIES

On August 29, 2005, Hurricane Katrina hit the Gulf Coast, affecting two of our consolidated hotels; the majority owned Hilton New Orleans Riverside and the wholly owned Hilton New Orleans Airport. Both properties suffered some physical damage, and both properties were closed to paying guests for a period following the hurricane. We have insurance policies that provide coverage for physical damage and business interruption, including lost profits. These policies also reimburse us for other costs and expenses incurred relating to the damages and losses suffered.

Notes To Consolidated Financial Statements
December 31, 2007 (Continued)

During the year ended December 31, 2006 and the periods from January 1 through October 23, 2007 and from October 24 through December 31, 2007, we recognized approximately \$26 million, \$16 million and \$3 million of business interruption insurance proceeds, respectively. These proceeds are recorded as owned hotel revenue in the consolidated statements of operations. Additionally, we recognized approximately \$17 million and \$8 million of insurance recoveries related to building and property losses during the year ended December 31, 2006 and the period from January 1 through October 23, 2007, respectively, which are recorded as net other gain in our consolidated statements of operations. There were no insurance recoveries related to building and property losses during the period from October 24 through December 31, 2007.