

## SUMMARY

*This summary highlights the information contained elsewhere in this document. Because this is only a summary, it does not contain all of the information that may be important to you. You should read the following summary together with the more detailed information included elsewhere in this document.*

### The Company

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. As of June 30, 2007, our system contained 2,896 properties with approximately 490,000 rooms in 76 countries and territories. Of such properties, we owned and operated 54 hotels, leased and operated 84 hotels, owned an interest in and operated 44 hotels, managed 333 hotels owned by others and franchised 2,348 hotels owned and operated by third parties. Also included in the number of properties in our system are 33 timeshare properties which we managed. The Company owns, manages or franchises a hotel portfolio of some of the best known and highly regarded brands, including Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Homewood Suites by Hilton, Hampton, Conrad and the Waldorf=Astoria Collection. The Company develops and operates domestic timeshare resorts through Hilton Grand Vacations Company and its related entities, which the Company wholly owns. The Company is also engaged in various other activities related to or incidental to the operation of hotels.

### Recent Developments

For the three months ended September 30, 2007, our net income from continuing operations increased 13% to \$106 million from \$94 million for the three months ended September 30, 2006. Excluding non-recurring items in both quarters, net income from continuing operations increased by 20% to \$120 million compared to \$100 million for the three months ended September 30, 2006. Management and franchise fees increased by 13% to \$196 million in the 2007 third quarter. Comparable system-wide revenue per available room ("RevPAR") increased by 8.8%; North America comparable owned hotel RevPAR increased by 8.7%. International comparable owned hotel RevPAR increased by 14.3% in the 2007 third quarter and comparable leased hotel RevPAR increased by 14.4%. RevPAR growth includes the benefit of favorable international exchange rate movements.

In April 2007, we entered into an agreement to sell up to ten hotels in continental Europe for €566 million, equivalent to approximately \$770 million on the agreement date. In July 2007, we completed the sale of eight of the ten hotels. The sale of the ninth hotel was completed in October 2007 and the sale of the tenth hotel was completed in November. We retained management contracts on nine of the ten hotels.

In August 2007, we sold the Hilton Caledonian for approximately £52 million, equivalent to approximately \$104 million on the agreement date. In October 2007, we sold the Hilton Cleveland Beachwood for approximately \$24 million. We retained management contracts on both properties.

In November 2007, we entered into an agreement to sell the Hilton St. Helens in the United Kingdom for approximately £6.5 million, equivalent to approximately \$13.6 million on the agreement date. We expect to complete this transaction in December 2007.

We expect to enter into an agreement to acquire our partner's 50% interest in the Embassy Suites Washington D.C. for approximately \$39 million. Upon completion of this transaction, which is expected to close in December 2007, the property will be wholly owned by us.

It should be noted that the foregoing results are unaudited and are subject to revision. It should also be noted that the foregoing results relate to a period prior to the completion of the acquisition of the Company by affiliates of The Blackstone Group L.P. ("Blackstone"), as described under "—Transactions" below. The merger and related Transactions have significantly changed our financial position. We are now significantly more leveraged than we were prior to the Transactions and substantially all of our assets and the assets of our subsidiaries

have been pledged to secure the indebtedness incurred to finance the merger and related Transactions. In addition, it is expected that the Transactions will have a significant ongoing impact on our profitability and cash flows. Following the Transactions we ceased to be subject to the reporting and disclosure requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

### **The Transactions**

Summary information appears below regarding our merger with an entity controlled by Blackstone and related debt tender offers, consent solicitations and other debt repayments, as well as the secured financing for such transactions. We refer to the merger, the tender offers, consent solicitations and other debt repayments (including the conversion of the convertible notes) and the secured financing transactions described below as the "Transactions."

#### ***The Merger***

On July 3, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with BH Hotels LLC ("Parent"), and BH Hotels Acquisition Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), pursuant to which Parent acquired the Company on October 24, 2007 through the merger of Merger Sub with and into the Company with the Company continuing as the surviving corporation (the "merger"). Upon completion of the merger, each share of Hilton 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, without interest and less any applicable withholding taxes. Following the completion of the merger, 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 Blackstone. As a result of the merger, the Company is 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.

The acquisition of the Company and the retirement of certain indebtedness of the Company outstanding prior to the merger were financed by approximately \$5.7 billion of equity contributions from affiliates of Blackstone and the debt financing described below. See also "Description of Certain Indebtedness."

#### ***Retirement of Pre-Merger Indebtedness***

In connection with the merger, Hilton commenced tender offers and consent solicitations in relation to approximately \$1.8 billion principal amount of its unsecured debt securities. Pursuant to the terms of such tender offers and consent solicitations, Hilton purchased and retired approximately \$1.6 billion principal amount of such debt securities concurrent with the completion of the merger and completed amendments to the indenture pursuant to which the terms of such securities were amended to eliminate certain covenants and events of default and to make certain other modifications. In connection with the merger, Hilton also repaid certain term and revolving credit loans, industrial revenue bonds and other indebtedness. In the aggregate, Hilton repaid approximately \$3.9 billion of indebtedness. We refer to the tender offers, consent solicitations and other debt repayments (including the conversion of the convertible notes (as defined below)) herein as the "debt retirement."

Upon completion of the merger, Hilton's 3.375% convertible senior notes due 2023 (the "convertible notes") became convertible into \$2,111.11 per \$1,000 principal amount of such convertible notes. As of November 21, 2007, substantially all of the convertible notes have been converted and for the purposes of this document, all of such convertible notes are reflected as having been converted in connection with the merger.

#### ***Secured Financing***

In order to finance the merger, the debt repayment and other transaction expenses, we incurred new indebtedness through our subsidiaries totaling approximately \$20.6 billion. This new debt, together with 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 debt retirement and consent solicitations. The

new indebtedness incurred includes approximately \$20.6 billion in the form of a senior mortgage loan and secured mezzanine loans. The secured mezzanine loans will be reduced following the completion of the offering by an amount equal to the net proceeds of the offering. The apportionment of the secured indebtedness between the senior mortgage loan and the secured mezzanine loans has not been finalized. In addition, each of the senior mortgage loan and the secured mezzanine loans may be further divided, either by uncrossing portions of the collateral that secure such loans or on a senior/subordinated basis. Notwithstanding any such modifications, the senior mortgage loan and the secured mezzanine loans will remain structurally senior to the notes as well as senior to the notes to the extent of the value of the assets securing such indebtedness. See "Description of Certain Indebtedness."

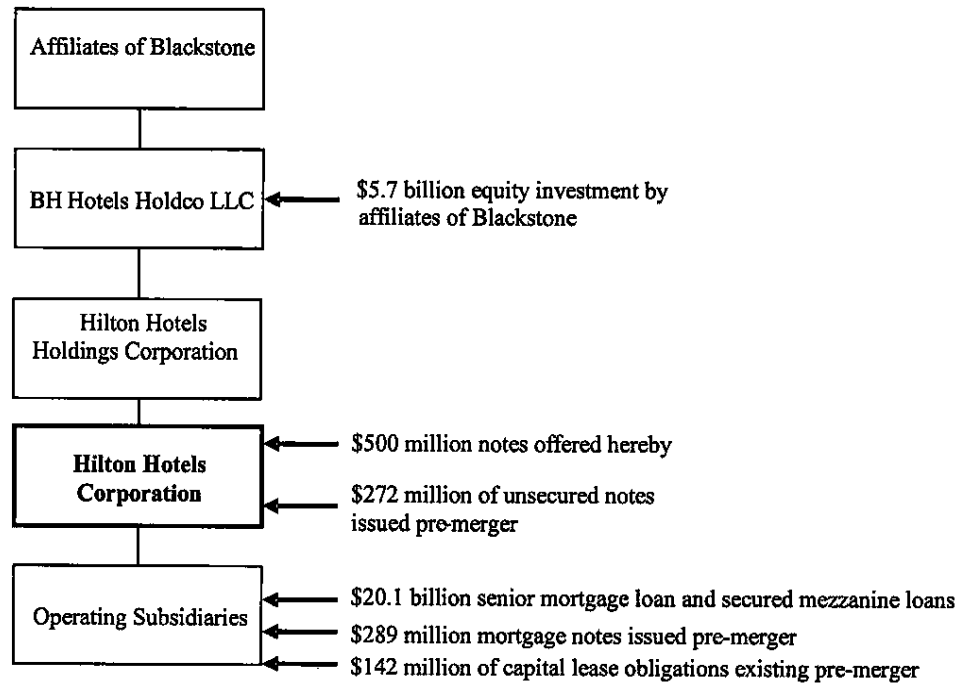
Set forth below is a table summarizing the sources and uses of funds in relation to the Transactions as of October 24, 2007, the closing date of the merger, except to the extent otherwise indicated.

<u>Sources:</u>	<u>Amount (in millions)</u>	<u>%</u>	<u>Uses:</u>	<u>Amount (in millions)</u>	<u>%</u>
Senior mortgage loan and secured mezzanine loans debt <sup>(1)</sup> .....	\$ 20,598	76.4%	Purchase of common stock <sup>(2)</sup> ...	\$ 20,503	76.0%
Assumed debt <sup>(3)</sup> .....	703	2.6	Assumed debt <sup>(3)</sup> .....	703	2.6
Equity from Blackstone affiliates .....	5,660	21.0	Debt repayment.....	3,962	14.7
			Less: Cash.....	(279)	(1.0)
			Closing costs.....	1,190	4.4
			Prefunded reserve/working capital <sup>(4)</sup> .....	882	3.3
Total sources .....	<u>\$ 26,961</u>	<u>100.0%</u>	Total uses .....	<u>\$ 26,961</u>	<u>100.0%</u>

- (1) The apportionment of the indebtedness between the senior mortgage loan and the secured mezzanine loans has not been finalized.
- (2) Includes amounts paid or payable in respect of the conversion of all convertible notes.
- (3) Assumed debt includes mortgage notes totaling \$289 million and capital lease obligations totaling \$142 million as of June 30, 2007 and unsecured notes issued pre-merger totaling \$272 million.
- (4) As of the closing date of the merger and subject to change.

**Corporate Structure**

The following diagram illustrates our corporate structure following the consummation of the Transactions and the offering.



## **The Blackstone Group**

The Blackstone Group, a global private investment and advisory firm, was founded in 1985. The firm has raised over \$70 billion for alternative asset investing since its formation. Blackstone's businesses include private equity investing, real estate investing, marketable alternative asset management, which comprises Blackstone's management of funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds and publicly-traded closed-end mutual funds, and financial advisory, which comprises Blackstone's corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds. In June 2007, Blackstone conducted an initial public offering of common units representing limited partner interests in The Blackstone Group L.P., which are listed on the New York Stock Exchange under the symbol "BX."

## The Offering

*The following summary contains information about certain terms of the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this document entitled "Description of Notes".*

For purposes of the following summary and the "Description of Notes", references to "the Company", "us", "we" and "our" refer only to Hilton Hotels Corporation and do not include our subsidiaries unless the context otherwise indicates.

<b>Issuer</b> .....	Hilton Hotels Corporation, a Delaware corporation.
<b>Securities</b> .....	\$500.0 million principal amount of floating rate notes due 2013.
<b>Offering price</b> .....	Each note will be issued at a price of 100% of its principal amount plus accrued interest, if any, from November 28, 2007.
<b>Interest</b> .....	Three-month LIBOR plus 4.50%. Interest on the notes will accrue from November 28, 2007. Interest will be payable quarterly in arrears on February 15, May 15, August 15, and November 15, commencing February 15, 2008.
<b>Maturity</b> .....	November 15, 2013, unless earlier redeemed.
<b>Optional redemption</b> .....	Prior to November 15, 2011, we may, at our option, redeem some or all of the notes at a price equal to 100% of the principal amount of the notes plus a "make-whole" premium plus accrued and unpaid interest to the redemption date. On or after November 15, 2011, we may, at our option, redeem some or all of the notes at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the redemption date.
<b>Ranking</b> .....	<p>The notes will be our direct, unsecured and senior obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The notes will be effectively junior to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The notes will be effectively subordinated to any indebtedness or other liabilities of our subsidiaries.</p> <p>As of June 30, 2007, on a pro forma basis after giving effect to the Transactions described in this document and to the completion of the offering, we would have had outstanding on a consolidated basis approximately \$21.3 billion of senior indebtedness (including capital lease obligations), approximately \$20.4 billion of which is secured by pledges relating to substantially all of the assets of Hilton and our subsidiaries. As of June 30, 2007, on a pro forma basis after giving effect to the completion of the Transactions and to the completion of the offering, our consolidated subsidiaries would have had \$25.3 billion of indebtedness (including capital lease obligations) and other obligations outstanding, including \$20.5 billion of indebtedness (including capital lease obligations) included in Hilton's consolidated indebtedness.</p>
<b>Certain covenants</b> .....	The indenture will, among other things, restrict our ability and the ability of our subsidiaries to: (i) incur additional indebtedness; (ii) make distributions and certain other payments; and (iii) permit limitations on the ability of our subsidiaries to make payments to us. These covenants are subject to a number of important limitations and exceptions. See

**“Description of Notes—Certain Covenants”.**

**Use of proceeds.....**

We intend to use the proceeds from the sale of the notes to refinance a portion of the secured mezzanine loans incurred in connection with the financing of the merger and related Transactions.

**Form of notes; minimum denominations.....**

The notes will initially be issued in the form of physical certificates in minimum denominations of \$250,000 and integral multiples of \$1,000 in excess thereof. We will agree to use our commercially reasonable efforts to arrange for the certificates to be exchanged for interests in a global certificate registered in the name of The Depository Trust Company (“DTC”) or its nominee after such time as the notes become eligible for trading under Rule 144A under the Securities Act. Following such an exchange, beneficial interests in the notes in global form would be shown on, and transfers would be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

**Transfer restrictions .....**

The notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction. The notes may not be offered, sold, pledged or transferred except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and any other applicable securities laws. The notes will not be transferable pursuant to Rule 144A until such time as we have made publicly available pro forma financial information reflecting the completion of the merger and related financing transactions described in this document. Purchasers are urged to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the notes. See “Notice to Investors; Transfer Restrictions”.

**Absence of a public market for the notes.....**

The notes are new securities, and there is currently no established market for the notes. Accordingly, we cannot assure you as to the development or liquidity of any market for the notes. The notes will not be eligible for trading on The PORTAL Market at the time of issuance. We will undertake to use our commercially reasonable efforts to arrange for the notes to be eligible for trading on The PORTAL Market after the notes become eligible for trading pursuant to Rule 144A.

## RISK FACTORS

*You should carefully consider the risks described below. These risks are not the only ones we face. Additional risks not presently known to us or our subsidiaries or that are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects as well as those of our subsidiaries. This document also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us and described below.*

### **Risks Related to Our Indebtedness**

***Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under the notes.***

As a result of the completion of the Transactions, we are highly leveraged. On a pro forma basis as of June 30, 2007, after giving effect to the Transactions and the offering, our total consolidated indebtedness (including capital lease obligations) would have been approximately \$21.3 billion, including the notes.

We also have the ability to incur up to \$400.0 million of additional indebtedness related to timeshare collateral under the terms of our existing loan agreements as well as up to \$400.0 million of indebtedness in respect of pay-in-kind interest, as well as certain acquisition-related indebtedness.

Our high degree of leverage could have important consequences, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because the notes offered hereby and certain of our indebtedness, including the senior mortgage loan and the secured mezzanine loans, will be at variable rates of interest;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, including the notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants, could result in an event of default under the indenture governing the notes and the agreements governing such other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

On a pro forma basis giving effect to the Transactions and the offering as though they had occurred on January 1, 2006, our pro forma annual interest expense (including capital lease obligations and amortization of debt issuance costs) for the twelve months ended December 31, 2006, based on one-month LIBOR for the senior mortgage loan and the secured mezzanine loans, and three-month LIBOR for the notes, as of November 20, 2007 and assuming the fully-flexed blended interest rate spread of 2.45% with respect to the senior mortgage loan, the

secured mezzanine loans and the notes, and taking into account an interest rate spread of 4.50% with respect to the notes and the interest rate swaps referred to below, would have been approximately \$1.6 billion. We have entered into swap transactions in order to fix the interest rate on approximately \$5.1 billion of the senior mortgage loan and have purchased interest rate caps in order to cap the interest rate on a portion of the senior mortgage loan and secured mezzanine loans, in each case, for a period of three years. A 100 basis point increase in the applicable interest rates on the unswapped portion of such variable rate indebtedness would increase our annual interest expense by approximately \$155 million.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us to meet our scheduled or other debt service obligations.

***Despite our high indebtedness level, we and our subsidiaries still may be able to incur additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.***

We and our subsidiaries have the ability to incur additional indebtedness of up to \$800.0 million (including up to \$400.0 million of indebtedness in respect of pay-in-kind interest) under the covenants contained in the senior mortgage loan and the secured mezzanine loans, as well as certain acquisition-related indebtedness (both directly or through joint ventures) and the refinancing of such acquisition-related indebtedness. Although the indenture governing the notes and our senior mortgage loan and the secured mezzanine loans contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions. If new debt is added to our and our subsidiaries' existing debt levels, the risks related to our high level of leverage may be exacerbated. In addition, the indenture governing the notes will not prevent us from incurring obligations that do not constitute indebtedness under such agreement.

***Our debt agreements contain restrictions that will limit our flexibility in operating our business.***

Our senior mortgage loan and the secured mezzanine loans contain, and the indenture governing the notes will contain, various covenants that will limit our ability to engage in certain, specified types of transactions. The covenants contained in our senior mortgage loan and the secured mezzanine loans, and/or to be contained in the indenture governing the notes, will limit our and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions. Upon the occurrence of an event of default under our senior mortgage loan or the secured mezzanine loans, the lenders could elect to declare all amounts outstanding under such loans to be immediately due and payable. Such actions by those lenders would cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under our senior mortgage loan or the secured mezzanine loans could proceed against the collateral granted to them to secure that indebtedness. We have pledged substantially all of our assets and the assets of our subsidiaries as collateral under our senior mortgage loan or the

secured mezzanine loans. If the lenders under our senior mortgage loan or the secured mezzanine loans accelerate the repayment of borrowings, we may not have sufficient assets to repay our senior mortgage loan or the secured mezzanine loans as well as our unsecured indebtedness, including the notes. See "Description of Certain Indebtedness."

#### **Risks Related to Our Business**

*We are subject to all of the operating risks common in the lodging and timeshare industries and our results may be adversely impacted if any of these risks materialize.*

Our results are significantly affected by occupancy and room rates achieved by our hotels, our ability to manage costs, foreign currency exchange rate movements related to our international operations, our relative mix of owned, leased, managed and franchised hotels, supply and demand changes for hotel rooms and timeshare intervals in our markets, the quantity and pricing of timeshare interval sales and changes in the number of available hotel rooms and timeshare intervals through acquisition, development and disposition. Unfavorable changes in these factors, as well as the occurrence of other events described below, could negatively impact hotel room demand and pricing which, in turn, could limit our ability to pass through operating cost increases in the form of higher room rates. Our ability to manage costs could be adversely impacted by significant increases in operating expenses, such as wages and other labor costs, healthcare, insurance, property taxes and energy, as well as increases in construction costs, resulting in lower operating margins. In addition, economic factors beyond our control in the United States and internationally may create challenges for the lodging industry and us now and in the future. A downturn in economic conditions could impact the demand for hotel rooms and put pressure on room rates. Increases in transportation and fuel costs, the financial condition of the airline industry and its impact on air travel and sustained recessionary periods in the United States and internationally could also unfavorably impact future results.

*Certain of our employees are covered by collective bargaining agreements and labor disputes may disrupt our operations*

Employees at certain of our owned and managed hotels are covered by collective bargaining agreements. In July 2006, we announced a five-year agreement with UNITE HERE, the union representing a majority of our unionized employees, termed a "partnership for future growth" which includes agreement by the parties to work together toward labor peace in cities with collective bargaining. Since the announcement, collective bargaining agreements have been reached and ratified in key markets including New York, Chicago, Puerto Rico, San Francisco, Toronto, Boston and Honolulu. At this time, we cannot predict when or whether new agreements will be reached in other markets in which we have employees covered by collective bargaining agreements, and what the impact of prolonged negotiations could be. Labor disputes in markets in which we have employees covered by collective bargaining agreements could disrupt our operations by causing the diversion of business to other hotels, thereby impacting our financial results negatively.

*We derive a significant portion of our revenue from operations of our owned hotels, and events in the markets where these properties are located could adversely affect our overall financial results.*

We derived approximately 31% of our revenue in 2006 from the operations of our owned hotels. A significant portion of this revenue was derived from our large convention hotels located in major U.S. cities. See "Business—Operations—Hotel Properties—Owned Hotels". In addition, we acquired 39 owned properties in the HI Acquisition (as defined in this document). Although we sold a number of owned properties since the HI Acquisition, soft economic conditions and reduced business travel in any of the markets where we currently own properties could adversely affect our results from these properties and, therefore, our overall financial results. Our owned properties are also subject to risks that generally relate to investments in commercial real estate, including governmental regulations; real estate, insurance, zoning, tax and eminent domain laws; the ongoing need for capital improvements to maintain or upgrade properties; fluctuations in real estate values; and the relative illiquidity of real estate compared to other investments. If our owned properties do not generate sufficient revenue to meet operating expenses, including debt service and capital requirements, our financial results will be adversely affected.

***We face challenges in integrating the operations of Hilton International, as well as risks related to owning and operating real estate and hotels in international locations.***

We may experience difficulties in completing the integration of the operations of Hilton International or "HI", including combining technology and distribution activities, consolidating regional infrastructure, integrating personnel with disparate business backgrounds and corporate cultures and managing relationships with hotel owners, lessors and other business partners on a worldwide basis. As a result of the HI Acquisition, we are subject to varying degrees of risk relating to international real estate generally, including risks related to changes in local, political, economic and market conditions, interest rates, zoning laws, currency exchange rate fluctuations, compliance with environmental laws, costs and terms of financing and the potential for uninsured casualty and other losses. A number of the leased properties we acquired in the HI Acquisition are subject to long-term contracts requiring fixed payments to the lessor. If these properties do not generate sufficient revenue, we may be required to fund shortfalls to the lessors which could adversely impact our financial results. We have assumed certain obligations and liabilities related to the business acquired in the HI Acquisition and have limited rights of indemnification with respect to such matters. As a result of the HI Acquisition, we became subject to the laws and regulations of 76 countries and territories, which exposes us to risks relating to changes in franchise, tax, environmental, zoning, employment, repatriation of money, liquor license and other laws in the countries in which we operate. As a U.S. company operating globally, we may be subject to inconsistent requirements resulting from conflicts between U.S. laws and the laws of the countries in which we operate. If taxation authorities in the countries in which we operate interpret our tax position in a manner that is materially different than our assumptions, our tax liabilities could increase which could materially adversely impact our financial results. Some international jurisdictions restrict the repatriation of non-U.S. earnings. Various international jurisdictions also have laws limiting the ability of non-U.S. entities to pay dividends and remit earnings to affiliated companies unless specified conditions have been met. Sales in international jurisdictions typically are made in local currencies, which subject us to risks associated with currency fluctuations. Currency devaluations and unfavorable changes in international monetary and tax policies could have a material adverse effect on our profitability and financing plans, as could other changes in the international regulatory climate and international economic conditions. In addition, the U.S. government prohibits U.S. companies from operating in certain countries that are subject to economic sanctions or are on the terrorist countries list. We will not do business in such countries, unless we develop or acquire a non-U.S. affiliate that is capable of managing hotels or we obtain authorization from the U.S. Treasury Department's Office of Foreign Assets Control to do so. Some investors would be prohibited by state law or self-imposed policies from investing in our securities if we were to do business in such countries.

***If we have disputes with the owners of hotels we manage, we could be subject to litigation.***

For our managed hotels, we have the responsibility to manage each hotel at a level consistent with the standard required for its brand in the relevant management agreement. Such provisions vary in scope and may be subject to differing interpretations. In the ordinary course of business, we encounter disagreements with the owners of our managed hotels as to whether the duties in our management agreements have been satisfied. To the extent that such conflicts arise, we seek to resolve them by negotiation with the relevant parties. In the event that such resolution cannot be achieved, litigation may result in damages or other remedies against us. Such remedies could include termination of the right to manage the relevant property. We may not be able to negotiate successfully or otherwise resolve such conflicts in each instance.

***In competing for management, franchise and timeshare agreements and leases, we may make loans or provide guarantees to third parties and could experience losses under these loans or guarantee arrangements.***

The terms of our management, franchise and timeshare agreements and leases are influenced by contract terms offered by our competitors at the time such agreements are entered into. Accordingly, we may not enter into contracts or renew contracts in the future on terms that are as favorable to us as those under existing agreements. In connection with entering into these contracts, we may become obligated to make loans to or guarantee the obligations of third parties or guarantee minimum income to third parties. Most of our guarantees allow us to terminate the agreement rather than fund shortfalls if specified performance levels are not achieved. However, under certain agreements we are required to fund performance shortfalls. Weak performance, particularly as a result of a soft economy, as well as the financial condition of third party owners and franchisees, could give rise to losses under

our loans and guarantees. Changes in legislation or regulatory changes may be implemented that have the effect of favoring franchisees relative to brand owners.

***The growth of internet reservation channels could harm our profitability.***

Some of our hotel rooms are booked through internet travel intermediaries. If these bookings increase, these intermediaries may be able to obtain higher commissions or other significant contract concessions from us. We believe that the aim of such intermediaries is to have consumers develop loyalties to their reservation systems rather than to our lodging brands. Although we expect most of our business to continue to be derived from traditional channels and our proprietary branded internet websites, if the amount of sales made through internet intermediaries increases significantly, our ability to control the supply, presentation and price of our room inventory and our profitability may be harmed.

***We are a party to joint venture arrangements and investing through joint ventures decreases our ability to manage risk.***

We have from time to time invested, and expect to continue to invest, as a co-venturer. Joint venturers often have shared control over the operation of the joint venture assets. Therefore, joint venture investments may involve risks such as the possibility that the co-venturer in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Consequently, actions by a co-venturer might subject hotels owned by the joint venture to additional risk. Additionally, we may be unable to take action without the approval of our joint venture partners, or our joint venture partners could take actions binding on the joint venture without our consent.

***Our hotel and timeshare businesses are subject to risks related to the availability of capital.***

Owners of our hotel and timeshare properties, including us, are required to spend money to construct, refurbish and maintain properties. This creates an ongoing need for cash which, if not generated by ongoing operations or otherwise obtained, is subject to the availability of credit in capital markets. The ability of our owners to spend money necessary to maintain the brand standards of our properties is significantly impacted by the cost and availability of capital, over which we have little control.

***Our timeshare business is subject to extensive regulation and if we fail to comply with such regulation our timeshare business could suffer.***

We develop, manage, market and sell timeshare intervals, which generally entitle the buyer to occupy a fully-furnished unit for a one-week period on either an annual or an alternative-year basis. We also provide financing to purchasers of timeshare intervals. Certain of these activities are subject to extensive state regulation in both the state in which the property is located and the states in which the property is marketed and sold, as well as Federal regulation of certain marketing practices. In addition, the laws of most states in which we sell timeshare intervals grant the purchaser a unilateral right to rescind the purchase contract within a statutory rescission period. If we fail to be in compliance with applicable Federal, state, and local laws and regulations to which timeshare properties, marketing, sales and operations are subject, including Federal telemarketing regulations, or a determination by a regulatory authority that we were not in compliance, our timeshare business could suffer.

***Reported profits from our timeshare business may be negatively impacted by deferrals required under percentage-of-completion accounting.***

During periods of construction, profits from timeshare sales are recognized under the percentage-of-completion accounting method. As we are currently constructing several new timeshare projects, we anticipate that this required accounting will negatively impact the reported profits from our timeshare business in 2007. We expect the impact of percentage-of-completion accounting on 2007 results to substantially reverse in 2008. See "Note 2: Summary of Significant Accounting Policies—New Accounting Standards" to the consolidated financial statements.

***Our properties are subject to risks relating to acts of God, terrorist activity and war and any such event could materially adversely affect our operating results.***

Our financial and operating performance may be adversely affected by acts of God, such as natural disasters, particularly in locations where we own and/or operate significant properties. Some types of losses, such as those from earthquake, hurricane, terrorism and environmental hazards, may be either uninsurable or too expensive to justify insuring against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Similarly, war (including the potential for war) and terrorist activity (including threats of terrorist activity), epidemics (such as SARS and bird flu), travel-related accidents, as well as geopolitical uncertainty and international conflict, which impact domestic and international travel, have caused in the past, and may cause in the future, our results to differ materially from anticipated results. Terrorism incidents such as the events of September 11, 2001 and wars such as the Iraq war significantly impact international travel and, consequently, global demand for hotel rooms. In addition, inadequate preparedness, contingency planning or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the value of the brand or the reputation of our business.

***We may incur losses as a result of class actions or other lawsuits which have recently targeted hospitality companies.***

Our financial results may be adversely impacted by legal or governmental proceedings brought by or on behalf of our employees or customers. In recent years, a number of hospitality companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits have been and may be instituted against us from time to time, and we may incur substantial damages and expenses resulting from lawsuits of this type, which could have a material adverse effect on our business.

***If we fail to comply with privacy regulations, we could be subject to fines or other restrictions on our business.***

We collect and maintain information relating to our guests for various business purposes, including maintaining guest preferences to enhance our customer service and for marketing and promotion purposes. The collection and use of personal data are governed by privacy laws and regulations enacted in the United States and other international jurisdictions in which we operate. Privacy regulation is an evolving area in which different jurisdictions may subject us to inconsistent compliance requirements. Compliance with applicable privacy regulations may increase our operating costs and/or adversely impact our ability to service our guests and market our products, properties and services to our guests. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third parties engaged by us) could result in fines or restrictions on our use or transfer of data.

***We rely on our proprietary systems and any failures in such systems could negatively affect our business.***

We invest in sophisticated technology and systems for property management, procurement, reservations and the operation of our HHonors customer loyalty program. If our systems fail to operate as anticipated, or we fail to replace our systems with new systems introduced by our competitors, our business could suffer. In addition, we are combining the systems used by the hotels acquired in the HI Acquisition with ours, and if we experience difficulties in merging these systems, it could disrupt our operations.

***Our historical financial information is not indicative of future financial performance.***

Our historical financial information is not indicative of our results of operations, financial position and cash flows in the future and does not reflect the results of operations, financial position and cash flows that would have occurred if we had been the subject of a leveraged acquisition prior to or during the periods presented. The

**historical financial information included in this document does not reflect the many significant changes that have occurred in our capital structure and funding as a result of the Transactions.**

***Blackstone controls us and may have conflicts of interest with us or you in the future.***

Blackstone beneficially owns all of the outstanding voting equity of our ultimate parent company. As a result, Blackstone will control us and all of our subsidiaries. Because of this ownership, it will be entitled to elect all of our directors, to appoint new management and to approve actions requiring the approval of our stockholders, including approving or rejecting proposed mergers or sales of all or substantially all of our assets, regardless of whether noteholders believe that any such transactions are in their own best interests.

The interests of Blackstone may differ from yours in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of the equity holders might conflict with your interests as a noteholder. Blackstone may have an interest in pursuing acquisitions, divestitures, financings (including financings that are secured) or other transactions that, in its judgment, could enhance its equity investments, even though such transactions might involve risks to you as a noteholder. Additionally, the indenture governing the notes will permit us to pay dividends or make other restricted payments under certain circumstances, and Blackstone or its affiliates and/or advisors may have an interest in our doing so.

Blackstone and its affiliates are in the business of making or advising on investments in companies, and may from time to time in the future, acquire interests in businesses or provide advice that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. They may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

#### **Risks related to the notes**

***An active trading market for the notes may not develop. The notes are likely to trade at a significant discount to their principal amount.***

The notes are a new issue of securities with no established trading market. A trading market for the notes may not develop, or if it does, it may not be liquid at the time you may want to sell the notes. The notes will not be eligible for trading on The PORTAL Market at the time of issuance. We will undertake to use our commercially reasonable efforts to arrange for the notes to be eligible for trading on The PORTAL Market after the notes become eligible for trading pursuant to Rule 144A. **EVEN IF A TRADING MARKET FOR THESE NOTES DOES DEVELOP, THEY ARE LIKELY TO TRADE AT A SIGNIFICANT DISCOUNT TO THEIR OUTSTANDING PRINCIPAL AMOUNT.**

***The indenture governing the notes will not contain certain covenants customary for highly leveraged issuers and the covenants that are included in the indenture will have a narrower scope than is customary for highly leveraged issuers.***

The indenture governing the notes will not contain certain covenants that are customarily included in agreements governing debt securities issued by highly leveraged companies. For example, the indenture will not include covenants that would limit our and our subsidiaries' ability to:

- sell certain assets;
- create liens on certain assets to secure debt;
- enter into certain transaction with our affiliates; or
- require that all holders be given the same opportunity to receive payments in respect of consents delivered in connection with consent solicitations.

In addition, the indenture governing the notes will not include provisions requiring us to repurchase the notes upon the occurrence of a change of control or with the proceeds from certain asset sales.

The only restrictive covenants contained in the indenture governing the notes are covenants restricting our ability to (i) incur indebtedness, (ii) make distributions or other restricted payments and (iii) permit limitations on the ability of our subsidiaries to make payments to us. Each of these covenants is more limited in scope than the corresponding covenants contained in indentures for many highly leveraged issuers and is subject to a number of important limitations and exceptions. In particular, the debt incurrence and restricted payments covenants do not apply to our subsidiaries, which are our primary source of funds for payments in respect of the notes, allowing them to incur an unlimited amount of debt and to make unlimited distributions and other restricted payments.

***The notes will be effectively junior to the rights of our existing and future secured creditors and effectively subordinated to the existing and future indebtedness and other liabilities of our subsidiaries.***

The notes will be our general senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The notes will be effectively junior to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. In addition, the notes will be effectively subordinated to all existing and future liabilities of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations.

Our subsidiaries have no obligation to pay any amounts due on the notes and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of the notes to participate in those assets, will be subordinated to the claims of that subsidiary's creditors, including trade creditors. All of the \$20.1 billion of indebtedness represented by the senior mortgage loan and the secured mezzanine loans outstanding after application of the net proceeds from the offering has been incurred by our subsidiaries. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

Holder of our existing and future secured indebtedness will have claims that are senior to your claims as holder of the notes, to the extent of the value of the assets securing such indebtedness. The notes will be effectively junior to existing secured financings and any future secured indebtedness incurred by us. As a result, in the event of any distribution or payment of our assets in any bankruptcy, liquidation or dissolution, holders of secured indebtedness will have prior claims to those assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our general creditors, based on the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes.

As of June 30, 2007, on a pro forma basis after giving effect to the Transactions described in this document and to the completion of the offering, we would have had outstanding on a consolidated basis approximately \$21.3 billion of senior indebtedness (including capital lease obligations), approximately \$20.4 billion of which is secured by pledges relating to substantially all of the assets of Hilton and our subsidiaries. As of June 30, 2007, on a pro forma basis after giving effect to the completion of the Transactions and to the completion of the offering, our consolidated subsidiaries would have had \$25.3 billion of indebtedness (including capital lease obligations) and other obligations outstanding, including \$20.5 billion of indebtedness (including capital lease obligations) included in Hilton's consolidated indebtedness.

***Hilton Hotels Corporation is a holding company, and its only significant source of cash to satisfy its payment obligations with respect to the notes is distributions from its subsidiaries.***

The Company is a holding company and substantially all of the consolidated assets are owned by, and most of its business is conducted through, its subsidiaries. These subsidiaries will be the Company's primary source of funds for debt payments. Generally, the ability of a subsidiary to make cash available to its parent is affected by such subsidiary's own operating results and is subject to applicable contractual restrictions contained in its debt

instruments and other agreements. In the event of a default under the debt agreements related to the senior mortgage loan and the secured mezzanine loans, our subsidiaries will be restricted from making distributions to us, which may impair our ability to meet our debt service obligations under the notes. Moreover, there may be restrictions on payments by subsidiaries to their parent companies under applicable laws, including laws that require companies to maintain minimum amounts of capital and to make payments to shareholders only from profits. As a result, although a subsidiary of the Company may have cash, the Company may not be able to obtain that cash to satisfy its obligations under the notes.

***Our subsidiaries may not be able to generate sufficient cash to service all of our and their indebtedness, including the notes, and may be forced to take other actions to satisfy our and their obligations under our and their indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and the operating performance of our subsidiaries, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that our subsidiaries will maintain a level of cash flows from operating activities sufficient to permit us and our subsidiaries to pay the principal, premium, if any, and interest on our and our subsidiaries' indebtedness, including the notes.

If our and our subsidiaries' cash flows and capital resources are insufficient to fund our debt service obligations and those of our subsidiaries, we or they may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our or their indebtedness, including the notes. These alternative measures may not be successful and may not permit us and our subsidiaries to meet scheduled debt service obligations. If our and our subsidiaries' operating results and available cash are insufficient to meet our and their debt service obligations, we and they could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. We and our subsidiaries may not be able to consummate those dispositions or to obtain the proceeds that could have otherwise been realized from them, and these proceeds may not be adequate to meet any debt service obligations then due.

***If we or any of our subsidiaries defaults on obligations to pay indebtedness, we may not be able to make payments on the notes.***

Any default under the agreements governing our indebtedness or the indebtedness of our subsidiaries, including a default under the senior mortgage loan and the secured mezzanine loans, that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the notes and substantially decrease the market value of the notes. If our subsidiaries are unable to generate sufficient cash flows and we are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our and their indebtedness, or if we or they otherwise fail to comply with the various covenants in the instruments governing our and their indebtedness (including covenants in the senior mortgage loan, the secured mezzanine loans and the indenture governing the notes offered hereby) we or they could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the senior mortgage loan and the secured mezzanine loans could institute foreclosure proceedings against the assets securing our subsidiaries' obligations under these agreements, and we or our subsidiaries could be forced into bankruptcy or liquidation. If the operating performance of our subsidiaries declines, we or they may in the future need to obtain waivers from the required lenders under the senior mortgage loan and the secured mezzanine loans to avoid being in default. If our subsidiaries breach the covenants under the senior mortgage loan and the secured mezzanine loans and seek a waiver, they may not be able to obtain a waiver from the required lenders. If this occurs, they would be in default under the instrument governing that indebtedness, the lenders could exercise their rights, as described above, and they could be forced into bankruptcy or liquidation.

***We have not registered the notes, which will limit your ability to resell them.***

The notes offered hereby have not been, and will not be, registered under the Securities Act. The offering is being conducted in reliance upon an exemption from registration under the Securities Act and applicable state

securities laws. The notes may not be offered or sold except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state laws. In addition, the notes will not be transferable pursuant to Rule 144A until such time as we have made publicly available pro forma financial information reflecting the completion of the merger and related financing transactions. Purchasers are urged to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the notes.

***The offering of our notes is not a firm commitment offering and there can be no assurance that the offering will be completed.***

We have appointed the placement agents as our agents to assist us in soliciting investors to purchase the notes on a “best efforts” basis. The placement agents are not acting as principals in the offering and have no commitment to us to commit any of their capital to facilitate the distribution of the notes. We reserve the right to reject any and all offers to purchase notes and to terminate the offering without obligation or liability to such investors or any other person.

## CAPITALIZATION

The following table summarizes our capitalization as of June 30, 2007 on a historical basis and on an adjusted basis to give effect to the financing related to the Transactions and on an adjusted basis to give effect to the financing related to the Transactions and to give effect to the offering. **This table does not present pro forma financial information as there has been no adjustment to stockholders' equity to reflect changes in stockholders' equity that would arise from changes in pro forma net income due to the impact of the additional interest expense associated with the financing of the merger and the other Transactions and the impact of purchase accounting.**

	June 30, 2007		
	Actual	As adjusted for the Transactions (in millions)	As Adjusted for the Transactions and the Offering
<b>Long-Term Debt:</b>			
Senior Notes, with an average rate of 7.7%, due 2008-2031.....	\$ 1,822	\$ 272	\$ 272
Revolving loans, at adjustable rates, due 2011...	1,395	—	—
Term loan A, as adjustable rates, due 2011 .....	924	—	—
3.375% Contingently convertible senior notes due 2023 .....	575	—	—
7.95% Collateralized borrowing, due 2010 .....	449	—	—
Mortgage notes, 5.8% to 8.6%, due 2008 to 2016.....	289	289	289
Capital lease obligations, 6.34% to 8.75%, due 2007 to 2097 .....	142	142	142
Industrial development revenue bonds at adjustable rates, due 2015.....	82	—	—
Senior secured debt and mezzanine secured debt .....	—	20,598	20,098
Notes offered hereby .....	—	—	500
<b>Total long-term debt (including current maturities).....</b>	<b><u>\$ 5,678</u></b>	<b><u>\$ 21,301</u></b>	<b><u>\$ 21,301</u></b>
<b>Stockholders' Equity:</b>			
Total stockholders' equity <sup>(1)</sup> .....	<u>4,118</u>	<u>5,660</u>	<u>5,660</u>
<b>Total capitalization.....</b>	<b><u>\$ 9,796</u></b>	<b><u>\$ 26,961</u></b>	<b><u>\$ 26,961</u></b>

(1) Stockholders' Equity, as presented in this table, does not reflect pro forma stockholders' equity as there has been no adjustment to stockholders' equity to reflect changes in stockholders' equity that would arise from changes in pro forma net income due to the impact of the additional interest expense associated with the financing of the merger and the other Transactions and the impact of purchase accounting.

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the Company's historical ratios of earnings to fixed charges for the periods indicated:

	Year Ended December 31,					Six Months Ended June 30,
	2002	2003	2004	2005	2006	2007
Ratio of earnings to fixed charges	1.8x	1.6x	2.2x	3.1x	2.3x	2.1x

For purposes of calculating the ratio of earnings to fixed charges, earnings is the amount resulting from (1) adding (a) income from continuing operations before income taxes and minority interest, (b) interest expense, (c) distributions from less than 50% owned companies and (d) the interest component of rent expense. Fixed charges is the sum of (x) interest expense, (y) capitalized interest expense and (z) the interest component of rent expense.

**This table does not present a pro forma ratio of earnings to fixed charges as the Company has not calculated pro forma income from continuing operations before income taxes and minority interest which will be substantially different from the corresponding historical figure due to the expected impact of purchase accounting relating to the Transactions. It should be noted, however, that, on a pro forma basis giving effect to the Transactions and the offering as though they had occurred on January 1, 2006, the Company's pro forma interest expense (including capital lease obligations and amortization of debt issuance costs) for the twelve months ended December 31, 2006 and the six months ended June 30, 2007, based on one-month LIBOR for the senior mortgage loan and the secured mezzanine loans, and three-month LIBOR for the notes, as of November 20, 2007 and assuming the fully-flexed blended interest rate spread of 2.45% with respect to the senior mortgage loan, the secured mezzanine loans and the notes, and taking into account an interest rate spread of 4.50% with respect to the notes and the interest rate swaps referred to under the caption "Description of Certain Indebtedness—Interest Rate and Term", would have been approximately \$1.6 billion and approximately \$790 million, respectively, as compared with the Company's historical interest expense for such periods of approximately \$498 million and \$218 million, respectively.**

## BUSINESS

### GENERAL INFORMATION

#### Current Operations

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. As of June 30, 2007, our system contained 2,896 properties with approximately 490,000 rooms in 76 countries and territories. Of such properties, we owned and operated 54 hotels, leased and operated 84 hotels, owned an interest in and operated 44 hotels, managed 333 hotels owned by others and franchised 2,348 hotels owned and operated by third parties. Also included in the number of properties in our system are 33 timeshare properties which we managed.

Our hotel brands include Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Homewood Suites by Hilton, Hampton, Conrad and the Waldorf=Astoria Collection. We develop and operate domestic timeshare resorts through Hilton Grand Vacations Company and its related entities, which we wholly own. We are also engaged in various other activities related or incidental to the operation of hotels.

Hilton was organized in the State of Delaware on May 29, 1946. Our principal executive offices are located at 9336 Civic Center Drive, Beverly Hills, California 90210, and our telephone number is (310) 278-4321.

#### Acquisition of Hilton International

On February 23, 2006, we consummated the acquisition of the lodging assets of Hilton Group plc (the "HI Acquisition"), including its operating subsidiary, Hilton International Co. ("HI"), for approximately £3.3 billion, equivalent to approximately \$5.7 billion on the transaction date, excluding acquisition costs, in an all-cash transaction. As a result of the HI Acquisition, we believe we are one of the largest and most geographically diverse lodging companies in the world. The HI properties that we acquired consisted of 392 hotels with approximately 102,000 rooms, including 39 owned, 201 leased, four partially owned through joint ventures, 118 managed and 30 franchised properties. The hotels we acquired in the HI Acquisition consisted of 249 properties operated under the Hilton brand, 131 properties operated under the mid-market Scandic brand, one property under the Conrad brand and 11 other properties. We also acquired 80 LivingWell health clubs, primarily in Europe, and six timeshare properties. As a result of the HI Acquisition, we now wholly own the Hilton HHonors Worldwide frequent guest program and the Hilton Reservations Worldwide reservation system, both of which were previously owned equally by us and HI. We also obtained worldwide ownership of the luxury Conrad hotel brand, which had been operated as a joint venture between us and HI since 2002. As a result of the HI Acquisition, we own all the rights to the Hilton and Conrad brands, including the right to develop these brands, along with all of our other proprietary brands, on a worldwide basis. For further information regarding the HI Acquisition, see "Note 3: Purchase of Hilton International" to our consolidated financial statements for the year ended December 31, 2006.

#### Industry Segments

As of June 30, 2007, we operated in three reportable business segments, each of which is based on similar products or services: Hotel Ownership, Managing and Franchising, and Timeshare. For additional information regarding these business segments, see "Note 16: Segment Information" to our consolidated financial statements for the year ended December 31, 2006.

## OPERATIONS

### Hotel Properties

#### *Owned Hotels*

As of June 30, 2007, we owned a majority or controlling financial interest in and operated 54 hotels, representing 27,640 rooms. The owned hotels include some of our largest and most profitable hotels, including:

- the 1,416-room Waldorf=Astoria;
- the 1,980-room Hilton New York;
- the 2,860-room Hilton Hawaiian Village;
- the 1,240-room Hilton Waikoloa Village;
- the 1,908-room Hilton San Francisco;
- the 1,544-room Hilton Chicago; and
- the 1,616-room Hilton New Orleans Riverside.

Our owned hotels include six properties with respect to which we lease the underlying land. The expiration dates of the leases range up to 2044, with certain leases containing renewal options for 10 to 40 years. Under these leases, we own the buildings and leasehold improvements and all furniture and equipment; we are responsible for repairs, maintenance, operating expenses and lease rentals; and we retain complete managerial discretion over operations. Lease terms generally require us to pay a fixed monthly base rent and may require us to pay additional rent based on a percentage of revenue or income from the hotel. Upon the expiration of such leases, the buildings and other leasehold improvements presently owned by us will revert to the respective landlords. For additional information, see "Note 17: Leases" to our consolidated financial statements for the year ended December 31, 2006.

#### *Leased Hotels*

As of June 30, 2007, we leased 84 hotels, representing 25,350 rooms. Under these leases, we lease the hotel from its owner, manage the hotel and are generally responsible for all aspects of the hotel's operations and recognize all revenue and substantially all expenses associated with the hotel's operations. In general, replacement of furniture, fixtures and equipment is our responsibility. Our hotel 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. The terms of our leases are for various periods expiring through 2097 and generally provide for certain renewal options, subject to certain termination rights. For additional information, see "Note 17: Leases" to our consolidated financial statements for the year ended December 31, 2006.

#### *Joint Ventures*

As of June 30, 2007, we had a minority or non-controlling financial interest in and operated 44 hotels, representing 14,267 rooms. We have a right of first refusal to purchase additional equity interests in certain of these joint ventures. We manage each of the partially owned hotels for the entity owning the hotel.

#### *Managed Hotels*

As of June 30, 2007, we managed 333 hotels, representing 99,021 rooms, which are wholly-owned by others. Under our standard management agreement, we operate a hotel for the benefit of its owner, which either owns or leases the hotel and the associated personal property. Our management fee is generally based on a percentage of each hotel's gross revenue, operating profits, cash flow or a combination thereof. For the majority of

properties, we may also earn an incentive fee based on operating performance. The terms of our management agreements are for various periods and generally contain renewal options, subject to certain termination rights.

In general, our management agreements provide that all operating and other expenses are paid by the owner and we are reimbursed for our out-of-pocket expenses. In turn, our managerial discretion is subject to approval by the owner in certain major areas, including the approval of capital expenditure budgets.

#### *Franchise Hotels*

As of June 30, 2007, we franchised 2,348 hotels, representing 320,386 rooms, which are owned and operated by third parties. In general, franchisees pay us an initial fee based on the number of rooms in a franchise hotel and a continuing fee based on a percentage of the hotel's rooms revenue, which may be up to five percent of rooms revenue depending on the brand. Although we do not directly participate in the management or operation of franchise hotels, we conduct periodic inspections to ensure that our standards are maintained and render advice with respect to certain aspects of hotel operations. We generally approve the plans for, and the location of, franchise hotels and assist in their design.

#### **Hotel Brands**

We operate hotels through the brands described below, which target a wide variety of markets and geographic areas. According to data from Smith Travel Research, in 2006, our domestic Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Homewood Suites by Hilton and Hampton brands all commanded market share premiums in the system-wide revenue per available room ("RevPAR") index, which represents the share of RevPAR these properties attain versus their respective competitive sets.

#### *Hilton*

Hilton hotels are our upscale, full-service hotels that typically include swimming pools, gift shops and retail facilities, meeting and banquet facilities, restaurants and lounges, room service, parking facilities and other services. The Hilton brand also includes Hilton Suites hotels, which are upscale, all-suite hotels. As of June 30, 2007, there were 509 Hilton hotels, representing 176,016 rooms, located in 39 states, the District of Columbia and an additional 73 countries and territories throughout the world.

#### *Hilton Garden Inn*

Hilton Garden Inn hotels are our upper mid-market, focused service hotels that generally utilize a modular design constructed around a courtyard containing an indoor or outdoor swimming pool. In 2007, the Hilton Garden Inn brand earned the first place J.D. Power Award for "Highest Customer Satisfaction" in its category for a sixth consecutive year. As of June 30, 2007, there were 327 Hilton Garden Inn hotels, representing 45,083 rooms, located in 44 states, the District of Columbia, Canada, Germany, Italy and Mexico.

#### *Doubletree*

Doubletree hotels are our full-service hotels in the mid-market to upscale hotel category. The Doubletree brand also includes the Doubletree Guest Suites all-suite hotels and the moderately priced Doubletree Club hotels. As of June 30, 2007, there were 179 Doubletree hotels, representing 46,380 rooms, located in 40 states, the District of Columbia, Canada and Latin America.

#### *Embassy Suites*

Embassy Suites are our upscale, all-suite hotels that feature two-room guest suites with a separate living room and dining/work area and a complimentary cooked-to-order breakfast. Most Embassy Suites hotels are built around a landscaped atrium. In 2007, the Embassy Suites brand earned the first place J.D. Power Award for "Highest Customer Satisfaction" in its category for the sixth time. As of June 30, 2007, there were 185 Embassy Suites, representing 45,144 rooms, located in 38 states, the District of Columbia, Canada, Latin America and the Caribbean.

### *Homewood Suites by Hilton*

Homewood Suites by Hilton are our upscale, extended-stay hotels that feature residential style accommodations including business centers, swimming pools, convenience stores and limited meeting facilities. In 2007, the Homewood Suites brand earned the first place J.D. Power Award for "Highest Customer Satisfaction" in its category for the fifth time. As of June 30, 2007, there were 201 Homewood Suites, representing 22,095 rooms, located in 43 states, the District of Columbia and Canada.

### *Hampton*

Hampton Inn hotels are our moderately priced hotels with limited food and beverage facilities. The Hampton brand also includes Hampton Inn & Suites hotels which offer both traditional hotel room accommodations and apartment style suites within one property. As of June 30, 2007, there were 1,433 Hampton hotels, representing 141,799 rooms, located in 49 states, the District of Columbia, Canada, Latin America and the Caribbean.

### *Conrad*

Conrad hotels are our upscale, full-service hotels located primarily outside the United States. As of June 30, 2007 we managed, and in some cases partially owned, 14 Conrad hotels, representing 4,991 rooms, located in Chicago, Illinois; Miami, Florida; Indianapolis, Indiana; and Belgium, China, Egypt, Indonesia, Ireland, Japan, Singapore, Thailand and Turkey.

### *Waldorf=Astoria Collection*

In early 2006, we introduced a new brand line, the Waldorf=Astoria Collection. This elite brand designation debuted with New York's legendary Waldorf=Astoria, which is wholly-owned by us, along with three world-class luxury resorts managed by us under long-term agreements: the Grand Wailea Resort Hotel & Spa on the island of Maui in Hawaii; the Arizona Biltmore Resort & Spa in Phoenix, Arizona; and the La Quinta Resort & Club in La Quinta, California. Also in 2006, we commenced management of the Qasr Al Sharq in Jeddah, Saudi Arabia, the newest member of the Waldorf=Astoria Collection. We anticipate that the Waldorf=Astoria Collection will grow primarily through branding of existing landmark or boutique hotels and opening newly built Waldorf=Astoria hotels in select cities.

## **Hotels By Region**

The following table sets forth the number of properties and rooms in our hotel system, excluding timeshare properties, by region and country as of June 30, 2007. The inclusion of hotels in regions in the table below is consistent with the reporting of regional information throughout this document.

<u>Region/Country</u>	<u>Hotels</u>	<u>Rooms</u>
<b>North America</b>		
Canada	57	11,751
United States	2,501	386,681
Total	2,558	398,432
<b>United Kingdom &amp; Ireland</b>		
Ireland	7	1,055
United Kingdom	69	15,600
Total	76	16,655
<b>Continental Europe</b>		
Austria	4	1,340
Belgium	4	1,194
Bulgaria	1	245
Croatia	1	147
Cyprus	2	492
Czech Republic	1	788
Denmark	1	376

<b>Region/Country</b>	<b>Hotels</b>	<b>Rooms</b>
Finland	2	430
France	9	2,657
Germany	15	4,727
Greece	2	925
Hungary	2	552
Israel	2	1,044
Italy	12	3,112
Luxembourg	1	337
Malta	1	294
Netherlands	4	918
Romania	1	272
Spain	5	1,467
Sweden	3	908
Switzerland	2	537
Turkey	8	2,606
Poland	1	314
<b>Total</b>	<b>84</b>	<b>25,682</b>
<b>Africa</b>		
Algeria	1	410
Cameroon	1	255
Ethiopia	1	356
Kenya	1	287
Madagascar	1	171
Mauritius	1	193
Morocco	1	269
Nigeria	1	670
Republic of Seychelles	1	40
South Africa	2	656
<b>Total</b>	<b>11</b>	<b>3,307</b>
<b>Middle East</b>		
Egypt	19	6,957
Kuwait	1	350
Oman	1	147
Saudi Arabia	4	2,181
United Arab Emirates	9	1,824
<b>Total</b>	<b>34</b>	<b>11,459</b>
<b>Asia Pacific</b>		
Australia	7	2,509
China	6	3,094
Guam	1	667
India	8	1,409
Indonesia	1	298
Japan	8	3,884
Malaysia	4	1,478
Maldives	1	150
New Zealand	2	187
Philippines	1	246
Republic of Fiji	1	219
Singapore	2	929
South Korea	4	1,560
Sri Lanka	2	552
Thailand	4	1,906

<u>Region/Country</u>	<u>Hotels</u>	<u>Rooms</u>
Vietnam	1	269
<b>Total</b>	<b>53</b>	<b>19,357</b>
<b>Latin America &amp; Caribbean</b>		
Argentina	1	417
Bahamas	1	291
Barbados	1	350
Brazil	2	846
Colombia	2	384
Costa Rica	1	100
Curacao	1	196
Dominican Republic	2	353
Ecuador	3	689
El Salvador	1	204
Honduras	1	120
Jamaica	1	303
Mexico	17	3,547
Nicaragua	1	104
Peru	1	110
Puerto Rico	5	1,739
Trinidad & Tobago	2	610
Venezuela	4	1,409
<b>Total</b>	<b>47</b>	<b>11,772</b>
<b>Total Hotel Properties (76 countries and territories)</b>	<b>2,863</b>	<b>486,664</b>

#### *North America*

As of June 30, 2007, there were 2,558 properties, representing 398,432 rooms, in our hotel system located in the United States and Canada. These properties consist of 246 Hiltons, 321 Hilton Garden Inns, 178 Doubletree's, 179 Embassy Suites, 201 Homewood Suites by Hilton, 1,422 Hamptons, three Conrads and eight other hotels. Our properties in North America consist of 24 owned, five leased, 37 joint venture, 197 managed and 2,295 franchised hotels.

#### *United Kingdom and Ireland*

As of June 30, 2007, there were 76 properties, representing 16,655 rooms, in our hotel system located in the U.K. and Ireland, consisting of 72 Hiltons, two Conrads and two other hotels. Our properties in the U.K. and Ireland consist of 14 owned, 32 leased, one joint venture and 29 managed hotels.

#### *Continental Europe*

As of June 30, 2007, there were 84 properties, representing 25,682 rooms, in our hotel system located in 23 countries in Continental Europe. These properties consist of 75 Hiltons, three Hilton Garden Inns, two Conrads and four other hotels. Our properties in Continental Europe consist of 12 owned, 33 leased, three joint venture, 23 managed and 13 franchised hotels.

#### *Africa*

As of June 30, 2007, there were 11 properties, representing 3,307 rooms, in our hotel system located in ten countries in Africa, each of which is a Hilton branded hotel. Our properties in Africa consist of one owned, three leased, six managed and one franchised hotel.

#### *Middle East*

As of June 30, 2007, there were 34 properties, consisting of 11,459 rooms, in our hotel system located in five countries in the Middle East, consisting of 31 Hiltons, two Conrads and one other hotel. Our properties in the Middle East consist of two leased, one joint venture and 31 managed hotels.

### *Asia Pacific*

As of June 30, 2007, there were 53 properties, representing 19,357 rooms, in our hotel system located in 16 countries and territories in the Asia Pacific region, consisting of 48 Hiltons and five Conrad hotels. Our properties in the Asia Pacific region consist of one owned, five leased, two joint venture, 32 managed and 13 franchised hotels.

### *Latin America & Caribbean*

As of June 30, 2007, there were 47 properties, representing 11,772 rooms, in our hotel system located in 18 countries and territories in Latin America and the Caribbean, consisting of 26 Hiltons, three Hilton Garden Inns, one Doubletree, six Embassy Suites, and 11 Hampton hotels. Our properties in Latin America and the Caribbean consist of two owned, four leased, 15 managed and 26 franchised properties.

### **Timeshare Operations**

We conduct our domestic timeshare operations through Hilton Grand Vacations Company and its related entities ("HGVC"), which we wholly own. As of June 30, 2007, HGVC operated 33 timeshare resorts, consisting of 3,774 rooms, including 20 resorts in Florida, four in Hawaii, three in Nevada and one in each of Colorado and New York. We also operate three timeshare resorts in the United Kingdom and one in Egypt which we acquired in the HI Acquisition. HGVC operates HGVClub and Hilton Club, points-based reservation and exchange systems with 33 affiliated timeshare resorts.

### **Development**

#### *Hotel Properties*

We intend to grow our hotel system through franchising and the addition of new management contracts. We will also continue to invest in capital improvements and select projects at our owned hotels. In addition, we may seek to acquire ownership interests in hotel properties on a strategic and selective basis, either directly or through investments in joint ventures.

During 2006, in addition to the properties added to our system in the HI Acquisition, we added a total of 223 properties, primarily franchises, with approximately 36,000 rooms to our system. A total of 74 properties, primarily franchises, with approximately 12,000 rooms were removed from our system in 2006.

Total hotel property additions to our system in 2006 included 204 franchise properties, 17 managed properties owned by third parties and two leased properties. These additions included 32 properties which, due in part to the market share leadership of our brands, were converted to our family of brands in 2006. These conversions included 16 Doubletrees, eight Hiltons, five Hamptons and three Hilton Garden Inns.

Included in the property additions in 2006 are long-term management agreements we acquired for the following properties: the Grand Wailea Resort Hotel & Spa on the island of Maui in Hawaii; the Arizona Biltmore Resort & Spa in Phoenix, Arizona; and the La Quinta Resort & Club in La Quinta, California. Also in 2006, we commenced management of the Qasr El Sharq in Jeddah, Saudi Arabia. These properties are included in our new, elite brand designation, the Waldorf=Astoria Collection. See "—Hotel Brands—Waldorf=Astoria Collection." In 2006, we also acquired a long-term management agreement for the Hilton Anatole in Dallas, Texas.

In the fourth quarter of 2006, we announced plans to form a joint venture with DLF Limited to develop hotel properties and serviced apartments in India. The joint venture company plans to develop and own 50 to 75 mid-scale and extended-stay hotels over the next seven years. We also announced an alliance with Deutsche Asset Management and HQ Asia Pacific in which they will develop an initial 25 Hilton Garden Inns in Beijing, Shanghai and Tianjin, China, which are expected to be franchised hotels.

We added a total of 115 properties, primarily franchises, with approximately 16,300 rooms to our system during the six months ended June 30, 2007. Excluding the sale of the Scandic hotel brand, a total of 27 properties, primarily franchises, with approximately 5,000 rooms were removed from our system during the same period.

We believe the continued strong performance of our brands has enabled us to significantly enhance our development pipeline compared to our industry competitors. We had nearly 900 hotels, primarily franchises, with approximately 120,000 rooms in our development pipeline at June 30, 2007. The majority of the hotels in our current development pipeline are in the Americas (United States, Canada, Latin America and the Caribbean), though international development outside the Americas is expected to comprise an increasingly larger percentage of our development pipeline over the next few years. The actual opening of hotels in our development pipeline is subject to various conditions and uncertainties.

Our ability to grow the number of managed and franchised hotels is affected by the factors set forth under "Risk Factors," including but not limited to international, national and regional economic conditions; the effects of actual and threatened terrorist attacks and international conflicts; acts of God, such as natural disasters; credit availability; relationships with franchisees and property owners; and competition from other hotel brands.

#### *Timeshare Properties*

We have recently opened or are currently developing the following timeshare projects:

- We are continuing to develop a 1,582-unit timeshare resort located at the north end of the Las Vegas Strip in Las Vegas, Nevada. Phase two of this project, consisting of 431 units, opened in 2006. Approximately 45 percent of the planned four-tower project has been completed.
- We are continuing to develop a timeshare resort at Tuscany Village on International Drive in Orlando, Florida, with seven phases and a total of 440 units. We have opened the first six phases of this project, consisting of 376 units. The final phase of this project, consisting of 64 units, is scheduled for completion in spring 2008. We have commenced construction of our new timeshare project at Ruby Lake in Orlando. Phase I of the Ruby Lake project is expected to contain 141 units and is scheduled for completion in 2009, and Phase II is expected to contain 171 units and is scheduled for completion in 2010.
- In 2006, we completed the remaining 98 units of a 120-unit timeshare resort called Kohala Coast Vacation Suites in Waikoloa, Hawaii, near the Hilton Waikoloa Village. We are also developing a new timeshare project in Waikoloa called Kings Land, the first phase of which is expected to consist of 198 units and is scheduled for completion in late 2008.
- We have commenced construction of the Waikikian Tower, a new timeshare project in Honolulu, Hawaii, adjacent to the Hilton Hawaiian Village. The Waikikian Tower is expected to contain 331 units upon completion which is scheduled for late 2008.
- We have commenced construction of a new timeshare project in New York City on West 57<sup>th</sup> Street. The 57<sup>th</sup> Street Tower is expected to contain 161 units and is scheduled for completion in early 2009.

#### **Property Dispositions**

In 2006, we sold the following assets we acquired as part of the HI Acquisition: the Hilton London Metropole, the Hilton Birmingham Metropole and the Wembley hotel, all in the United Kingdom; the Hilton Toronto Airport, the Hilton Toronto Downtown, the Hilton Quebec City, the Hilton Montreal Airport and the Hilton Saint John, all in Canada; the stand alone LivingWell health clubs; and the leasehold for the Drake Hotel in Chicago, Illinois. We have retained multi-year management agreements on all of these dispositions except for LivingWell.

In addition, we sold the following wholly-owned domestic hotel properties in 2006: the Pointe Hilton Tapatio Cliffs in Arizona; the Hilton Minneapolis in Minnesota; and the Hilton Pittsburgh in Pennsylvania. Also during 2006, we sold our minority interest in the joint ventures owning the following hotels: the Hilton Times Square in New York; the Embassy Suites San Diego-La Jolla in California; and the Embassy Suites Battery Park in New York. We retained long-term management agreements for the Pointe Hilton Tapatio Cliffs, the Hilton Minneapolis and the Embassy Suites San Diego-La Jolla, and long-term franchise agreements for the Hilton Pittsburgh, the Hilton Times Square and the Embassy Suites Battery Park.

In the first half 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. In addition, we sold three wholly-owned hotels, with respect to which we have retained long-term management agreements, for a total cash consideration of approximately \$328 million. We also sold our minority interests in nine joint venture properties for a cash consideration of approximately \$52 million.

For additional information regarding these dispositions, see “Note 5: Acquisitions and Dispositions” to our consolidated financial statements for the year ended December 31, 2006 and “Note 10: Acquisitions and Dispositions” to our consolidated financial statements for the six months ended June 30, 2007.

### **Development Financing**

We have established franchise financing programs with third party lenders to support the growth of our brands. As of June 30, 2007, we provided guarantees of \$16 million with respect to loans outstanding under these programs. In addition, we guaranteed \$24 million of debt and other obligations of unconsolidated affiliates and third parties, bringing the total amount of guarantees provided by us to approximately \$40 million. Approximately \$14 million of these guarantees had indefinite terms, with the balance having remaining terms of one to 13 years. As of June 30, 2007, we also had commitments under letters of credit totaling \$109 million. We believe it is unlikely that material payments will be required under these guarantees or letters of credit. For further information regarding our franchise financing programs, see “Note 18: Commitments and Contingencies” to our consolidated financial statements for the year ended December 31, 2006.

### **Territorial Restrictions Affecting Our Right to Own, Manage or Franchise Hotels**

Prior to the HI Acquisition, we were subject to certain restrictions on our right to operate hotels branded as “Hilton” hotels outside the United States. As a result of the HI Acquisition, we now own the right to develop each of our brands, including the “Hilton” brand, on a worldwide basis.

We entered into certain management and franchise agreements that contain provisions which may restrict our right to own, manage or franchise additional hotels in specified geographic areas.

### **Potential Acquisitions**

We continue to evaluate acquisition opportunities and may, from time to time, engage in a business combination transaction or other acquisitions. However, there can be no assurance that we will engage in any such transactions.

### **Property Transactions**

We will continue to review our owned hotel portfolio for potential repositioning or rebranding opportunities and we may seek to sell certain assets, including assets acquired in the HI Acquisition. We intend to evaluate potential asset sales on an opportunistic basis and we may look to sell particular hotel properties to the extent we can obtain premium prices.

### **Seasonality**

The hospitality industry is seasonal in nature. However, the periods during which our properties experience higher or lower levels of demand vary from property to property and depend principally upon location. Based upon historical results, we generally expect our revenue to be lower in the first fiscal quarter of each year than in each of the three subsequent quarters.

## Statistical Information

The following table sets forth certain system-wide information with respect to the number of properties and rooms of our hotels and timeshare operations as of December 31, 2005 and 2006 and as of June 30, 2007:

	December 31, 2005 Number of		December 31, 2006 Number of		June 30, 2007 Number of	
	Properties	Rooms	Properties	Rooms	Properties	Rooms
<b>Hilton</b>						
Owned	57	32,369	47	26,347	46	25,226
Leased	79	23,460	80	23,798	78	23,264
Joint Venture	16	6,844	14	6,156	13	5,708
Managed	137	47,709	152	56,633	158	59,890
Franchised	193	54,784	205	59,671	214	61,928
	482	165,166	498	172,605	509	176,016
<b>Hilton Garden Inn</b>						
Owned	1	162	1	162	1	162
Joint Venture	1	128	1	128	1	128
Managed	7	886	7	886	8	1,168
Franchised	250	34,347	293	40,493	317	43,625
	259	35,523	302	41,669	327	45,083
<b>Doubletree</b>						
Owned	3	1,349	3	1,349	3	1,351
Leased	5	1,746	4	1,554	4	1,554
Joint Venture	14	4,306	12	3,761	7	1,958
Managed	30	8,060	27	7,487	30	8,633
Franchised	108	26,707	127	30,968	135	32,884
	160	42,168	173	45,119	179	46,380
<b>Embassy Suites</b>						
Owned	3	663	3	664	2	444
Joint Venture	25	6,586	23	5,788	20	5,074
Managed	56	14,832	56	14,918	52	13,992
Franchised	98	22,348	103	23,802	111	25,634
	182	44,429	185	45,172	185	45,144
<b>Home wood Suites by Hilton</b>						
Owned	1	140	1	140	—	—
Managed	41	4,706	41	4,706	41	4,689
Franchised	122	13,287	150	16,295	160	17,406
	164	18,133	192	21,141	201	22,095
<b>Hampton</b>						
Owned	1	133	1	133	1	133
Managed	34	4,453	34	4,447	23	2,927
Franchised	1,301	129,535	1,357	133,907	1,409	138,739
	1,336	134,121	1,392	138,487	1,433	141,799
<b>Scandic</b>						
Owned	1	325	3	528	—	—
Leased	121	21,403	118	21,182	—	—
Managed	3	429	3	429	—	—
Franchised	5	715	5	669	—	—
	130	22,874	129	22,808	—	—
<b>Conrad</b>						
Joint Venture	3	1,395	3	1,399	3	1,399
Managed	12	3,660	12	3,753	11	3,592
	15	5,055	15	5,152	14	4,991
<b>Other</b>						
Owned	2	630	1	324	1	324
Leased	2	666	1	129	2	532
Managed	6	1,311	11	4,277	10	4,130
Franchised	6	2,434	2	855	2	170
	16	5,041	15	5,585	15	5,156
<b>Timeshare</b>						
	40	4,272	34	3,740	33	3,774
<b>Total</b>						
Owned	69	35,771	60	29,647	54	27,640
Leased	207	47,277	203	46,663	84	25,350
Joint Venture	59	19,259	53	17,232	44	14,267
Managed	326	86,046	343	97,536	333	99,021
Franchised	2,083	284,157	2,242	306,660	2,348	320,386

Timeshare	40	4,272	34	3,740	33	3,774
<b>TOTAL PROPERTIES</b>	<b>2,784</b>	<b>476,782</b>	<b>2,935</b>	<b>501,478</b>	<b>2,896</b>	<b>490,438</b>

For purposes of the table above, "owned" properties include those in which we have a majority or controlling financial interest and "joint venture" properties are those in which we have a minority or non-controlling financial interest. Statistics are presented pro forma as if the HI Acquisition had occurred January 1, 2005. For additional information, see "Hotel Properties."

The following table sets forth certain system-wide information for our hotels with respect to occupancy rates, average room rates and RevPAR for the years ended December 31, 2005 and 2006 and the six-month periods ended June 30, 2006 and 2007:

	Year ended December 31,		Six months ended June 30,	
	2005	2006	2006	2007
<b>Hilton</b>				
Occupancy	71.8%	72.8%	72.3%	72.6%
Average Rate	\$ 138.55	\$ 149.86	\$ 146.73	\$ 161.19
RevPAR	\$ 99.50	\$ 109.11	\$ 106.05	\$ 117.03
<b>Hilton Garden Inn</b>				
Occupancy	70.0%	71.4%	71.2%	72.5%
Average Rate	\$ 103.89	\$ 111.34	\$ 112.75	\$ 119.45
RevPAR	\$ 72.70	\$ 79.55	\$ 80.24	\$ 86.61
<b>Doubletree</b>				
Occupancy	70.4%	71.6%	71.7%	72.4%
Average Rate	\$ 112.58	\$ 122.32	\$ 118.64	\$ 127.89
RevPAR	\$ 79.30	\$ 87.60	\$ 85.06	\$ 92.53
<b>Embassy Suites</b>				
Occupancy	73.8%	74.9%	75.7%	75.4%
Average Rate	\$ 129.93	\$ 140.18	\$ 140.12	\$ 149.63
RevPAR	\$ 95.85	\$ 105.05	\$ 106.14	\$ 112.84
<b>Homewood Suites by Hilton</b>				
Occupancy	75.2%	75.8%	76.1%	76.8%
Average Rate	\$ 101.31	\$ 108.31	\$ 109.37	\$ 116.75
RevPAR	\$ 76.19	\$ 82.14	\$ 83.25	\$ 89.67
<b>Hampton</b>				
Occupancy	71.6%	72.5%	72.7%	73.0%
Average Rate	\$ 87.80	\$ 94.69	\$ 95.18	\$ 102.18
RevPAR	\$ 62.87	\$ 68.66	\$ 69.23	\$ 74.55
<b>Scandic</b>				
Occupancy	64.0%	65.1%	—	—
Average Rate	\$104.86	\$109.92	—	—
RevPAR	\$67.11	\$71.58	—	—
<b>Conrad</b>				
Occupancy	70.4%	69.6%	68.4%	69.4%
Average Rate	\$ 153.35	\$ 173.75	\$ 173.43	\$ 196.23
RevPAR	\$ 107.90	\$ 120.94	\$ 118.59	\$ 136.12
<b>Other</b>				
Occupancy	75.2%	79.5%	76.6%	73.8%
Average Rate	\$ 132.99	\$ 145.13	\$ 133.44	\$ 153.67
RevPAR	\$ 99.98	\$ 115.36	\$ 102.27	\$ 113.48
<b>Total</b>				
Occupancy	71.4%	72.5%	72.8%	73.1%
Average Rate	\$ 115.43	\$ 124.58	\$ 123.82	\$ 134.24
RevPAR	\$ 82.46	\$ 90.27	\$ 90.10	\$ 98.14

For purposes of the table above, statistics for the years ended December 31, 2005 and 2006 are presented pro forma as if the HI Acquisition had occurred on January 1, 2005, and such statistics include hotels in our system as of December 31, 2006 which were in our hotel system or the hotel system of HI since January 1, 2005. Statistics for the six-month periods ended June 30, 2006 and 2007 are presented pro forma as if the HI Acquisition had occurred on January 1, 2006, and such statistics include hotels in our system as of June 30, 2007 which were in our hotel system or in the hotel system of HI since January 1, 2006. Comparable hotels exclude data for HI franchise hotels and our owned hotels in New Orleans due to the interruption in operations as a result of Hurricane Katrina.

The following table sets forth certain system-wide statistical information for our hotels by geographic region as of and for the year ended December 31, 2006:

<u>Regions</u>	<u>Occupancy</u>	<u>Average Rate</u>	<u>RevPAR</u>
North America	72.8%	\$120.56	\$87.77
United Kingdom & Ireland	77.1%	169.92	130.98
Continental Europe	69.0%	161.27	111.29
Africa	71.3%	133.52	95.16
Middle East	72.7%	115.84	84.24
Asia Pacific	77.3%	132.65	102.57
Latin America & Caribbean	71.4%	128.03	91.47
Nordic	65.3%	114.17	74.57
Total	72.5%	124.58	90.27

In the table above, statistics are presented pro forma as if the HI Acquisition had occurred on January 1, 2005. The table includes hotels in our system as of December 31, 2006 which were in our hotel system or in the hotel system of HI since January 1, 2005. Comparable hotels exclude data for HI franchise hotels and our owned hotels in New Orleans due to the interruption in operations as a result of Hurricane Katrina.

The following table sets forth certain system-wide statistical information for our hotels by geographic region as of and for the six-month period ended June 30, 2007:

<u>Regions</u>	<u>Occupancy</u>	<u>Average Rate</u>	<u>RevPAR</u>
North America	73.4%	\$128.07	\$94.06
United Kingdom & Ireland	73.8%	187.39	138.27
Continental Europe	66.8%	187.57	125.24
Africa	71.5%	159.11	113.79
Middle East	73.1%	108.61	79.43
Asia Pacific	75.8%	151.27	114.70
Latin America & Caribbean	71.9%	150.80	108.45
Total	73.1%	134.24	98.14

In the table above, statistics are presented pro forma as if the HI Acquisition had occurred on January 1, 2006. The table includes hotels in our system as of June 30, 2007 which were in our hotel system or in the hotel system of HI since January 1, 2006. Comparable hotels exclude data for HI franchise hotels and our owned hotels in New Orleans.

## **ADDITIONAL INFORMATION**

### **Casino Windsor**

We own a 50% equity interest in Windsor Casino Limited, which operates the 400-room Casino Windsor in Windsor, Ontario, Canada for the Ontario provincial government under a management contract that expires in 2012. This hotel casino features a 75,000 square foot casino and entertainment and meeting facilities.

### **Design and Furnishing Services**

Hilton Supply Management, Inc., our wholly owned subsidiary, provides design and furnishing services to our hotels and to hotels owned and operated by others. These services include the purchase and distribution of furniture, furnishings, equipment, food, beverage and operating supplies. The volume of this operation depends primarily on the number of new hotels we operate or franchise and on refurbishing and remodeling of our existing hotels.

## **Reservation System**

Hilton Reservations Worldwide, LLC (“HRW”) oversees and operates a computerized, worldwide reservation system for hotels owned, operated or franchised by us, our affiliates and others. Prior to the HI Acquisition, Hilton and Hilton Group plc each owned a 50% interest in HRW. As a result of the HI Acquisition, HRW is now wholly-owned by us. The domestic HRW reservation agents utilize an automated system that enables them to automatically cross-sell among all of our hotel brands which has benefited, and which we expect will continue to benefit, our hotel brands.

## **HHonors**

Hilton HHonors Worldwide, LLC (“HHW”) operates our guest loyalty program (“HHonors”). Prior to the HI Acquisition, Hilton and Hilton Group plc each owned a 50% interest in HHW. As a result of the HI Acquisition, HHW is now wholly-owned by us. The HHonors program is operated worldwide for the benefit of our family of brands. Members of the HHonors program earn points based on their spending at most of the hotel properties operated and franchised by us. HHonors accumulates and tracks points on the member’s behalf and fulfills 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. We expect HHonors to continue to have a positive impact on our brands.

## **Technology and Distribution**

We operate the Hilton worldwide internet website and our various hotel brand websites which provide cost effective customer service, including online hotel reservations and HHonors enrollment. We also provide various business, technology and information services for our hotel guests, including high speed internet access at many of our hotels and self-service check-in kiosks at certain of our owned or managed hotels.

We operate our proprietary OnQ system, which is a single technology platform that links our brands and hotels to enhance customer service and loyalty, as well as to maximize operational efficiencies. The OnQ system has been installed in virtually all of the hotels in our domestic hotel system. We have commenced the installation of the OnQ system in the hotels we acquired in the HI Acquisition. We also utilize an integrated strategy related to the electronic and online distribution of rooms in our systems. This strategy provides for brand standards that permit each hotel to establish its own room rates, but requires the hotel to offer such rates consistently across all designated distribution channels, including our proprietary websites, HRW call centers, the Global Distribution System used by travel agents, and through hotels directly. In addition, we have implemented enhancements to our major brand websites as part of the strategy.

“Our Best Rates. Guaranteed.” is our program which offers a price-matching guarantee that is designed to encourage customers to book their reservations through the above referenced distribution channels. We believe that this program, along with enhancements to our branded websites, has contributed to significantly increased numbers of transactions on our proprietary websites.

## **Trademarks**

The following trademarks used herein are owned by us and are either registered or have been filed for registration as trademarks in the United States and/or in certain foreign countries: Conrad®, Double Dip®, Doubletree®, Doubletree Club Hotel®, Doubletree Guest Suites®, Doubletree by Hilton™, Embassy Suites Hotels®, Embassy Suites by Hilton™, Finn & Porter®, Garden Inn®, Hampton®, Hampton Inn®, Hampton Inn & Suites®, Hampton by Hilton™, Hawaiian Village®, HGVClub®, HHonors®, Hilton®, Hilton Garden Inn®, Hilton Grand Vacations Club®, Hilton Hawaiian Village®, Hilton Suites®, Homewood Suites by Hilton®, OnQ™, Points & Miles®, Senior HHonors®, Waldorf=Astoria® and Waldorf=Astoria Collection®. We consider all of these trademarks, and the associated name recognition, to be valuable to our business.

## **Marketing**

Our hotel properties offer multiple product lines to a broad range of customers in many geographic markets worldwide. Our properties include full-service and limited service hotels in urban, airport, resort and suburban locations, as well as timeshare resorts.

Our metropolitan and airport properties primarily serve the convention and meeting market and the business traveler market (business persons traveling as individuals or in small groups). Our resort properties primarily serve the tour and leisure market (tourists traveling either as individuals or in groups) and the convention and meeting market. Our suburban properties primarily serve the leisure and business traveler markets. As discussed in the "Risk Factors" section of this document, these sources of business are sensitive to general economic and other conditions.

We are a sponsor of the U.S. Olympic Team through 2008, which entitles our family of brands to use the official hotel sponsor designation and Olympic logo in advertising and marketing materials.

## **Competition**

We seek to maintain the quality of our lodging business while expanding both domestically and internationally, primarily through franchising and the addition of management contracts. We intend to improve our business by leveraging our strong brand names, maximizing operating efficiencies, utilizing cost containment programs and technology, and expanding and enhancing properties. We may also acquire or develop properties as appropriate, either directly or through investments in joint ventures.

We believe that our position as a multi-branded owner, operator, manager and franchisor of hotels makes us one of the largest and most geographically diverse lodging companies in the world. Competition in the industry is based primarily on the level of service, quality of accommodations, convenience of locations and room rates. Competition from other hotels, motels and inns, including facilities owned by local interests and facilities owned by national and international chains, is vigorous in all areas in which we operate or franchise our facilities. Our hotels also generally compete with facilities offering similar services in cities and other locations where our hotels are not present. If hotel capacity is expanded by others in a city where our branded hotels are located, competition will increase. Our management agreements are generally for long-term periods, but most allow the hotel owner to terminate the arrangement if certain financial or performance standards are not met. Competition in the timeshare business is based primarily on the quality and location of timeshare resorts, the pricing of timeshare intervals and the availability of program benefits, such as exchange programs. We believe that our focus on core business strategies, combined with our financial strength, diverse market presence, strong brands and strategically located properties, will enable us to remain competitive.

## **Environmental Matters**

We are subject to various Federal, state, local and foreign laws, ordinances and regulations that:

- (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous or toxic wastes; or
- (ii) may impose liability for the costs of cleaning up, and certain damages resulting from, sites of past spills, disposals or other releases of hazardous or toxic substances or wastes (together, "Environmental Laws").

Environmental Laws could make us liable for costs of removing or cleaning up hazardous or toxic substances on, under or in property we currently own or operate or that we previously owned or operated. Those laws could impose liability without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances or waste. We endeavor to maintain compliance with Environmental Laws but, from time to time, our operations may have resulted or may result in non-compliance or liability for cleanup pursuant to Environmental Laws. In that regard, as of June 30, 2007, we had been notified of contamination resulting from past

disposals of waste at eight sites to which hazardous or non-hazardous waste may have been sent from our facilities in the past. Based on information reviewed by and available to us, including:

- (i) uncertainty whether our facilities in fact shipped any waste to such sites;
- (ii) the number of potentially responsible parties at such sites; and
- (iii) where available, the volume and type of waste sent to such sites;

we believe that any liability arising from such disposals under Environmental Laws would not have a material adverse effect on our financial position or results of operations. However, there can be no assurance that this will be the case.

## Regulation and Licensing

*Ontario Gaming Laws.* Ontario, Canada has laws and regulations governing the conduct of casino gaming. Ontario law requires that the operator of a casino must be found suitable and be registered. A registration, once issued, remains in force until revoked. Ontario law defines the grounds for registration, as well as revocation or suspension of such registration. The Ontario authorities have conducted an investigation and have found us and the other shareholder of Windsor Casino Limited suitable in connection with the Ontario registration of Windsor Casino Limited. See “—Additional Information—Casino Windsor” above.

*Other Laws and Regulations.* We are subject to the laws and regulations of 76 countries and territories. The hotels and timeshare resorts we operate are subject to extensive state, local and national regulations and, on a periodic basis, must obtain various licenses and permits, including those required to sell alcoholic beverages. National and state laws and regulations also require certain registration, disclosure statements and other practices with respect to the franchising of hotels. We believe that we have obtained all required licenses and permits and our businesses are conducted in substantial compliance with applicable laws.

## Employees

At June 30, 2007, we had approximately 100,000 employees, of whom approximately 28,000 were covered by various collective bargaining agreements providing, generally, for basic pay rates, working hours, other conditions of employment and orderly settlement of labor disputes. We believe that the aggregate compensation benefits and working conditions afforded our employees compare favorably with those received by employees in the hotel industry generally. See “Risk Factors—Certain of our employees are covered by collective bargaining agreements and labor disputes may disrupt our operations.”

## Legal Proceedings

### *Merger Litigation*

Between July 5 and July 17, 2007, twelve purported stockholder class actions related to the Merger Agreement were filed. Four of these lawsuits were filed in the Court of Chancery of the State of Delaware, in and for New Castle County, and were consolidated on August 1, 2007 into a single proceeding entitled *In re Hilton Hotels Corporation Shareholders Litigation* (Civil Action No. 3072-VCN). The parties to the Delaware Chancery Court consolidated action have stipulated to the dismissal without prejudice of all claims pending in the action and are awaiting the Court’s approval of the dismissal. One of the lawsuits, *Duchman v. Hilton Hotels Corporation, et al.* (Case No. CV 07 4542), was filed on July 12, 2007 in the U.S. District Court for the Central District of California. On September 21, 2007, the parties to the *Duchman* action similarly stipulated to the dismissal of all claims and that action has been terminated.

The remaining seven lawsuits were filed in the Superior Court of California, County of Los Angeles, and were consolidated on August 14, 2007 into a single proceeding entitled *In re Hilton Hotels Corporation Shareholder Litigation* (Lead Case No. BC373765). The consolidated action names as defendants us, each of our directors, and Blackstone. The complaint alleges that our directors breached their fiduciary duties to our stockholders in

connection with negotiating and approving the Merger Agreement, that the proxy statement was materially misleading, and that the consideration to be received by our stockholders under the Merger Agreement is inadequate. Hilton and Blackstone are alleged to have aided and abetted the other defendants' alleged fiduciary breaches. The lawsuit seeks a variety of equitable and injunctive relief.

Plaintiffs had filed a motion seeking to preliminarily enjoin the shareholder vote on the merger, but subsequently withdrew that motion. Now that the merger has been consummated, Plaintiffs have indicated that they intend to amend their complaint. A status conference with the California Superior Court is currently set for November 15, 2007. We intend to vigorously defend the action.

*Other Matters*

We are involved in various legal matters arising in the normal course of business, some of which include claims for substantial sums. Accruals with respect to such matters are recorded when their outcome is probable and can be reasonably estimated. 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 June 30, 2007 will have a material adverse effect on our consolidated results of operations or financial position. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations in a particular period.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

*The description of the indebtedness of the subsidiaries wholly owned by Hilton that follows is subject to any modifications which may occur from time to time as a result of amendments to the loan documents evidencing the Loans (as defined below). As a result, the terms summarized below are subject to change. These changes may include, without limitation, (i) changes in the amounts of the senior mortgage loan and the secured mezzanine loans, (ii) the splitting of the senior mortgage loan and the secured mezzanine loans into a number of additional loans, (iii) uncrossing the collateral for the loans and splitting them into additional loans and (iv) allocating coupon among the various loans. Some of the terms used herein are defined in these documents and we have not included all of such definitions herein.*

### **Indebtedness Incurred in Relation to the Transactions**

#### ***General***

On October 24, 2007, certain wholly owned subsidiaries of Hilton borrowed from Bear Stearns Commercial Mortgage, Inc., Banks of America, N.A., German American Capital Corporation, Goldman Sachs Mortgage Company, Morgan Stanley Mortgage Capital Holdings LLC, Merrill Lynch Mortgage Lending Inc., and Lehman Brothers Holdings Inc., collectively, as Lender and Bear Stearns International Limited, as Security Agent (i) mortgage debt (the "Senior Mortgage Loan") and (ii) multiple mezzanine loans (collectively, the "Secured Mezzanine Loans", together with the Senior Mortgage Loan, the "Loans"), in an aggregate amount of \$20.6 billion. The borrowers under the Loans are wholly-owned, bankruptcy remote subsidiaries of Hilton.

#### ***Interest Rate and Term***

The Loans currently bear interest at a blended initial average rate equal to the one-month London Interbank Offered Rate (adjusted monthly) ("LIBOR") plus 1.85%. Upon completion of the offering, the interest rate on the Loans shall be adjusted so that the blended initial average interest rate on the Loans and the notes in the aggregate shall be equal to LIBOR plus 1.85% (subject to increase to LIBOR plus 2.45% for the period from 2007 to 2012 and LIBOR plus 2.70% for the period from 2012 to 2013). The blended average interest rate of the Loans and the notes may also change from its initial value as a result of non-pro-rata repayments of principal. Refinancings, repayments and restructurings relating to all or a portion of the Loans, including any such events occurring in the near term, may increase or decrease the blended average interest rates applicable to the Loans.

Pursuant to the Loans, the borrowers are expected to enter into interest rate hedge agreements comprised of interest rate caps and swaps that will cap LIBOR at a blended weighted average rate of no greater than 6.5% for a period of three years. The borrowers have already entered into interest rate swaps that effectively convert the interest payable on approximately \$5.1 billion of the Senior Mortgage Loan from variable rate LIBOR to a fixed rate (4.3685% plus the applicable spread), for a period of three years and have purchased interest rate caps in order to cap the interest rate on a portion of the Loans for a period of three years. The term of each of the Loans is three years, provided that the borrowers will have the option to extend the term of each of the Loans for up to three one-year extensions. It is expected that the borrowers will enter into additional interest rate hedging transactions to the extent that the Loans are extended.

#### ***Pay in Kind***

In the event that there is insufficient cash flow to satisfy debt service on the Secured Mezzanine Loans taking into account certain committed capital for acquisitions, the borrowers have the right to elect to pay interest on a portion of the Secured Mezzanine Loans on a deferred basis by adding such interest to the principal amount which is the subject of such election (the "PIK Election"), provided however, the maximum amount of any accrued interest under such PIK Election shall not exceed \$400 million. The effective interest rate on the principal amount subject to the PIK Election may increase by up to 300 basis points.

### ***Amortization***

The Loans require the borrowers to pay certain amounts of the loan principal as follows:

- (i) commencing December 2010, the borrowers are required to make principal payments based on a 25 year amortization schedule and a fixed debt constant; and
- (ii) commencing February 2008, in the event that on any payment date the debt yield associated with the franchise and management business is less than a certain base franchise debt yield, then the borrowers shall be required to make a payment of principal equal to approximately \$8.3 million (as the same may be modified, the "Franchise Amortization Payments").

### ***Prepayment***

The Loans are generally not voluntarily prepayable until May 13, 2008 (the "Prepayment Release Date"); provided that the borrowers may prepay, without payment of any prepayment premium, a portion of the Secured Mezzanine Loans with the proceeds from the offering; and provided, further, that the borrowers are permitted to make voluntary prepayments at any time that do not exceed \$4.0 billion in the aggregate (the "Free Prepayment Cap") without payment of any prepayment premium, in connection with certain releases of collateral for the Loans, as well as with casualty and condemnation proceeds and other specified principal payments. Following the Prepayment Release Date, the borrowers are permitted to make voluntary prepayments of the Loans for any reason, upon payment of a prepayment premium which initially equals 1.5% and which declines over time to zero.

### ***Use of Proceeds***

In addition to the payment of the merger consideration, the funds borrowed under the Loans were used for purposes such as reserves, refinancing certain debt of Hilton outstanding at the time of the merger and for other costs and expenses related to the merger.

### ***Security and Cross-Collateralization***

The Senior Mortgage Loan is secured by, among other things, (i) a first priority mortgage lien or other security with respect to the hotels which are wholly-owned or leased directly or indirectly by the borrowers or other subsidiaries of Hilton (the "Owned and Leased Hotels"), (ii) a first priority security interest in the hotel brands owned by Hilton and its subsidiaries (the "Hilton Brands"), (iii) a first priority security interest or other security with respect to the franchise and management agreements relating to the hotels managed or franchised under the Hilton Brands and a first priority security interest in or other security with respect to the entities acting as managers and franchisors of the hotels managed or franchised under the Hilton Brands and (iv) a first priority security interest in the parent entities owning the Hilton timeshare business. As of the closing of the Transactions, each portion of the collateral securing the Senior Mortgage Loan was cross collateralized and cross defaulted with all of the collateral securing the Senior Mortgage Loan.

The Secured Mezzanine Loans are secured by, among other things, a first priority security interest in the equity interests in the mortgage borrowers or such other security with respect to the mortgage borrowers. Each portion of the collateral securing a Secured Mezzanine Loans is cross-collateralized and cross-defaulted with all of the collateral securing the Secured Mezzanine Loans.

### ***Prefunded Reserve***

In connection with the funding of the Loans, the borrowers were required to fund a reserve in an amount equal to approximately \$813 million which may be used for, among other things, debt service, capital expenditures and general corporate purposes of Hilton (the "Prefunded Reserve"). A portion of the Prefunded Reserve in an amount equal to approximately \$107 million is required to be allocated to the payment of unsecured bonds of Hilton that are scheduled to mature in 2008 and 2009.

### ***Recourse***

The Loans are non-recourse with customary recourse carve-outs. Liability with respect to the recourse carve-outs will be guaranteed by Hilton, Hilton International Co. and Blackstone Real Estate Partners VI L.P and certain affiliates thereof.

### ***Operation of the Franchise and Management Business***

As a condition to receiving the Loans, the franchisor and manager borrowers were required to enter into an operating agreement with Hilton (the "Operating Agreement"), pursuant to which Hilton performs all of the franchise and management obligations for substantially all of the hotels operating under the Hilton Brands. The Operating Agreement, among other things, (i) imposes certain operating standards on Hilton in connection with its operations and (ii) provides for the payment of an operating fee to Hilton in connection with the services that it is required to provide.

### ***Other Terms***

The Loans contain customary (i) default provisions, (ii) representations and warranties and (iii) affirmative and negative covenants, including, among other things, (x) an annual obligation to spend 4% of the gross revenues from the owned and leased Hotels on the replacement of furniture, fixtures and equipment ("FF&E") for the Owned and Leased Hotels (in the aggregate) and (y) limitations or prohibitions on:

- the ability of Hilton and any of its subsidiaries to enter into any line of business other than the ownership, operation and development of the collateral and the hospitality business generally, including the business currently engaged in by Hilton collectively (the "Hilton Business"), or make any material change in the nature of its business objectives or purposes, or undertake or participate in activities other than the Hilton Business;
- the ability of Hilton and any of its subsidiaries to incur additional secured or unsecured indebtedness, provided, however, certain subsidiaries are permitted to enter into (i) an additional credit facility secured by the Hilton timeshare properties and the associated receivables in an amount not to exceed the lesser of (x) an amount which results in a 50% LTV for the value of the timeshare collateral and (y) \$400 million and (ii) additional mortgage and mezzanine debt and joint venture debt in connection with certain acquisition or developments, subject to certain limitations;
- the ability of the borrowers and other Hilton subsidiaries to make cash distributions to its parent entities (including Hilton) and any other Person, provided however, the loan documents provide for certain exceptions to this prohibition, including among other things, distributions (i) to facilitate the payment of certain debt service, (ii) to pay certain taxes of the consolidated group in which Hilton is a member, (iii) to pay certain expenses or liabilities then due and payable related to the ownership, operation, acquisition, development, expansion or management of the collateral securing the loan, to make certain payments associated with the Timeshare Loan and certain intercompany indebtedness, or otherwise for the general corporate purposes of Hilton and its subsidiaries and which is consistent with the Hilton Business and (iv) pay certain other limited expenses or liabilities not included in clause (iii) above;
- the ability of the borrowers to use assets as security in other transactions;
- the ability of the borrowers to sell any of its assets; provided that borrower is permitted to sell assets (other than the Hilton Brands) so long as the debt yield is not reduced, subject in certain cases to partial prepayment of the Loans; and
- the ability of the borrowers to guarantee other indebtedness.

## **Indebtedness Incurred Prior to the Transactions**

Following the completion of the tender offers and consent solicitations, an aggregate principal amount of \$272.4 million of senior unsecured notes issued by Hilton remain outstanding, excluding the convertible notes, consisting of the following series:

- \$36.3 million aggregate principal amount of 7.625% Notes due 2008;
- \$70.5 million aggregate principal amount of 7.200% Notes due 2009;
- \$9.3 million aggregate principal amount of 8.250% Notes due 2011;
- \$5.1 million aggregate principal amount of 7.625% Notes due 2012;
- \$54.9 million aggregate principal amount of 7.500% Notes due 2017; and
- \$96.4 million aggregate principal amount of 8.000% Quarterly Interest Bonds due 2031.

All of these securities were issued under an indenture dated as of April 15, 1997 (the "1997 indenture"). In connection with the consent solicitations conducted concurrently with the tender offers, the Company obtained consents to amend the 1997 indenture, related officers' certificates and the securities themselves to eliminate substantially all of the restrictive covenants contained therein, to eliminate certain events of default, to modify or eliminate covenants regarding consolidations, mergers and sales of assets and Company reports and modify and/or eliminate certain other provisions, including, without limitation, certain provisions relating to defeasance, contained in the 1997 indenture, the related officers' certificates and the securities themselves.

## DESCRIPTION OF NOTES

Hilton will issue the notes under an indenture dated April 15, 1997, between itself and The Bank of New York Trust Company, N.A., as trustee (as successor to BNY Western Trust Company and Morgan Guaranty Trust Company of New York) (as supplemented, the "Indenture") setting forth the specific terms of the notes. The notes will be offered and sold, subject to the conditions described in this document, in a private transaction that is not subject to the registration requirements of the Securities Act. See "Notice to Investors; Transfer Restrictions." We have no obligation to register the notes at any time or engage in an offer to exchange the notes for securities registered under the Securities Act.

The following description is a summary of the material provisions of the notes and the Indenture. It does not restate those instruments or such agreement in their entirety and it does not purport to be complete. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the notes. Copies of the Indenture are available upon request from Hilton. You can find the definitions of certain terms used in this description under the subheading "—Certain Definitions." Certain defined terms used in this description but not defined below under "— Certain Definitions" have the meanings assigned to them in the Indenture. As used in this section of the document, "Hilton", the "Company", "we" and "our" refer only to Hilton Hotels Corporation and not to any subsidiaries thereof.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

### Brief Description of the Notes

The notes:

- will be general unsecured senior obligations of Hilton;
- will rank pari passu in right of payment with all existing and future unsecured senior Indebtedness of Hilton; and
- will be senior in right of payment to any future subordinated Indebtedness of Hilton.

However, the notes will be effectively subordinated to all indebtedness or other liabilities under the senior mortgage loan and the secured mezzanine loans, which will be secured by substantially all of the assets of Hilton and its subsidiaries and to the indebtedness and other obligations of our subsidiaries, none of which are guarantors of the notes. See "Risk Factors — The notes will be effectively junior to the rights of our existing and future secured creditors and effectively subordinated to the existing and future indebtedness and other liabilities of our subsidiaries." As of June 30, 2007, on a pro forma basis after giving effect to the Transactions described in this document and to the completion of the offering, we would have had outstanding on a consolidated basis approximately \$21.3 billion of senior indebtedness (including capital lease obligations), approximately \$20.4 billion of which is secured by pledges relating to substantially all of the assets of Hilton and our subsidiaries. As of June 30, 2007, on a pro forma basis after giving effect to the completion of the Transactions and to the completion of the offering, our consolidated subsidiaries would have had \$25.3 billion of indebtedness (including capital lease obligations) and other obligations outstanding, including \$20.5 billion of indebtedness (including capital lease obligations) included in Hilton's consolidated indebtedness.

### Principal, Maturity and Interest

Hilton expects to issue \$500.0 million in aggregate principal amount of notes in the offering. The notes will be issued in denominations of \$250,000 and integral multiples of \$1,000 in excess thereof. The notes will mature on November 15, 2013.

Interest on the notes will accrue at a variable interest rate equal to the Three-Month LIBOR Rate plus 4.50% and will be payable quarterly in arrears on February 15, May 15, August 15 and November 15, commencing

on February 15, 2008, unless any such interest payment date (other than an interest payment date at maturity) would otherwise be a day that is not a business day, in which case the interest payment date will be postponed to the next succeeding business day (except if that business day falls in the next succeeding calendar month, that interest payment date will be the immediately preceding business day). If the maturity date of the notes is a day that is not a business day, all payments to be made on such day will be made on the next succeeding business day, with the same force and effect as if made on the due date, and no additional interest will be payable as a result of such a delay in payment. We will pay interest to the holders of record at the close of business on the first calendar day of the month of the related interest payment date, except on the maturity date and any redemption date we will pay accrued and unpaid interest only to the person to whom we pay the principal amount (which may or may not be the holder of record on the relevant record date). Interest on overdue principal and interest will accrue at a rate that is equal to the then applicable interest rate on the notes.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed based on a 360 day year comprised of twelve 30-day months. The amount of interest payable for any period shorter than a full quarterly period will be computed on the basis of the actual number of days elapsed per 30 day month.

#### **Methods of Receiving Payments on the Notes**

Payment of interest on certificated notes will be made by check mailed directly to holders at their registered addresses; provided, however, that payments of interest will be made by wire transfer if a holder of record of at least \$5.0 million in principal amount of notes has given wire transfer instructions to the trustee at least five business days prior to the applicable interest payment date. Payment of principal of, premium, if any, and interest at maturity or upon redemption on certificated notes will be made upon surrender of such notes at the office or agency of the Company in the City of New York maintained for such purposes (which initially will be the corporate trust office of the Trustee). Payment of principal and premium, if any, and interest on a global note registered in the name of or held by the Depository Trust Company ("DTC") or its nominee will be made in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of such global note.

#### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar. Hilton may change the paying agent or registrar without prior notice to the holders of the notes, and Hilton or any of its subsidiaries may act as paying agent or registrar.

#### **Transfer and Exchange**

A holder may transfer or exchange notes in accordance with the provisions of the Indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. The notes will be subject to significant transfer restrictions until the expiration of the Resale Restriction Period (as defined in this document) and prior to the expiration of the Resale Restriction Period, we and the trustee reserve the right to require, prior to any offer, sale or other transfer made pursuant to certain exemptions from the registration requirements of the Securities Act, the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee, as the case may be.

In connection with transfers and exchanges, holders will be required to pay all taxes due on transfer. Hilton will not be required to transfer or exchange any note selected for redemption. Also, neither Hilton nor the registrar will be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

#### **Optional Redemption**

At any time prior to November 15, 2011, Hilton may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at a redemption price of 100% of the principal amount of such notes plus the Applicable Premium, plus accrued and unpaid interest to, but not including, the applicable redemption date.

*“Applicable Premium”* means, with respect to a note at any redemption date, the excess of (A) the present value at such time of (1) 100% of the principal amount of such note plus (2) all required interest payments due on such note through November 15, 2011 (assuming the interest rate in effect on the date on which notice of redemption was given, and excluding accrued but unpaid interest to the applicable redemption date), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such note.

*“Treasury Rate”* means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days prior to the date that the notice of redemption is sent (or, if such Statistical Release is no longer published, any publicly available source or similar market data)) most nearly equal to the period from the redemption date to November 15, 2011; provided, however, that if the period from the redemption date to November 15, 2011, is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from the redemption date to November 15, 2011, is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

On or after November 15, 2011, Hilton may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at a redemption price of 100% of the principal amount of such notes plus accrued and unpaid interest on the notes redeemed to, but not including, the applicable redemption date.

Unless Hilton defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

#### **Selection and Notice**

If less than all of the notes are to be redeemed at the election of Hilton, the particular notes to be redeemed shall be selected not more than 45 days prior to the redemption date by the trustee, from the outstanding notes not previously called for redemption, by such method as the trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (in integral multiples of \$1,000) of the principal amount of notes; provided, however that no note of \$250,000 in aggregate principal amount or less shall be redeemed in part. In any case when more than one note is registered in the same name, the trustee, in its discretion, may treat the aggregate principal amount so registered as if it were represented by one note.

The trustee shall promptly notify Hilton in writing of the notes selected for redemption and, in the case of any notes selected for partial redemption, the principal amount thereof to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of notes shall relate, in the case of any note redeemed or to be redeemed only in part, to the portion of the principal amount of such note which has been or is to be redeemed.

Notice of redemption shall be given by Hilton, or at Hilton's written request, by the trustee in the name and at the expense of Hilton, not less than 30 days and not more than 60 days prior to the redemption date to the holders of notes to be redeemed in whole or in part. Any notice so given shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. Failure to give such notice, or any defect in such notice to the holder of any note designated for redemption, in whole or in part, shall not affect the sufficiency of any notice of redemption with respect to the holder of any other note.

If, at the time notice of redemption is given, the redemption moneys are not held by the trustee, the redemption may be made subject to their receipt on or before the date fixed for redemption and such notice shall be of no effect unless such moneys are so received. A redemption may also be conditioned upon the occurrence of a specified event and the redemption date specified in a notice of redemption may be variable so as to coincide with the occurrence of a specified event.

Upon payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption.

## **Mandatory Redemption; Open Market Purchases**

Hilton is not required to make mandatory redemption or sinking fund payments with respect to the notes. Hilton may at any time, from time to time, purchase notes in the open market or otherwise.

## **Certain Covenants**

### ***Incurrence of Indebtedness***

Hilton will not directly or indirectly create, issue, incur, assume, become liable in respect of or suffer to exist any Indebtedness, other than the following (collectively, "Permitted Debt"):

- (1) Indebtedness represented by the Notes;
- (2) Indebtedness of Hilton in existence on the Issue Date (other than Indebtedness described in clause (1));
- (3) Indebtedness incurred by Hilton constituting reimbursement obligations with respect to letters of credit issued in the ordinary course of business, including letters of credit in respect of workers' compensation or employee health claims, or other Indebtedness with respect to reimbursement-type obligations regarding workers' compensation or employee health claims; provided, that upon the drawing of such letters of credit or the incurrence of such Indebtedness, such obligations are reimbursed within 30 days following such drawing or incurrence;
- (4) Indebtedness arising from agreements of Hilton providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or a Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or a Subsidiary for the purpose of financing such acquisition; provided, however, that such Indebtedness is not reflected on the balance sheet of Hilton (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet for purposes of this clause (4));
- (5) Indebtedness of Hilton to a Subsidiary; provided that any such Indebtedness owing to a Subsidiary is expressly subordinated in right of payment to the Notes; provided, further, that any subsequent issuance or transfer of any Capital Stock or any other event which results in any Subsidiary ceasing to be a Subsidiary or any other subsequent transfer of any such Indebtedness (except to Hilton or another Subsidiary) shall be deemed, in each case, to be an incurrence of such Indebtedness;
- (6) Hedging Obligations (excluding Hedging Obligations entered into for speculative purposes) for the purpose of limiting interest rate risk with respect to any Indebtedness permitted to be incurred pursuant to "— Incurrence of Indebtedness," or for the purpose of limiting exchange rate risk or commodity pricing risk;
- (7) obligations in respect of performance, bid, appeal and surety bonds and completion guarantees provided by Hilton in the ordinary course of business;
- (8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided that such Indebtedness is extinguished within 30 days of its incurrence;
- (9) any guarantee by Hilton of Indebtedness of any Subsidiary or joint venture, so long as the aggregate principal amount of Indebtedness so guaranteed does not exceed \$250.0 million of Indebtedness;
- (10) Indebtedness of Hilton consisting of (i) the financing of insurance premiums or (ii) take-or-pay obligations contained in supply arrangements, in each case, incurred in the ordinary course of business;

(11) Indebtedness consisting of Indebtedness issued by Hilton to current or former officers, directors and employees thereof, their respective estates, spouses or former spouses, in each case to finance the purchase or redemption of Equity Interests of Hilton or any direct or indirect parent company of Hilton in an amount not to exceed \$10.0 million in any one year;

(12) customer deposits and advance payments received in the ordinary course of business from customers for goods and services purchased in the ordinary course of business;

(13) Indebtedness owed on a short-term basis of no longer than 30 days to banks and other financial institutions incurred in the ordinary course of business of Hilton with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of Hilton and its Subsidiaries;

(14) Indebtedness of Hilton undertaken in connection with cash management and related activities with respect to any Subsidiary or joint venture in the ordinary course of business; and

(15) Indebtedness which serves to refund, refinance, replace, renew, extend or defease any Indebtedness, of the Company incurred as permitted under clauses (2) through (14) above and any Indebtedness of the Company issued to so refund or refinance such Indebtedness of the Company or any Subsidiary including additional Indebtedness incurred to pay premiums (including reasonable tender premiums), defeasance costs and fees in connection therewith (the "Refinancing Indebtedness") prior to its respective maturity; provided, however, that such Refinancing Indebtedness:

(a) has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred which is not less than the remaining Weighted Average Life to Maturity of the Indebtedness being refunded or refinanced, replaced, renewed or defeased, and

(b) to the extent such Refinancing Indebtedness refinances Indebtedness subordinated or pari passu to the notes, such Refinancing Indebtedness is subordinated or pari passu to the notes at least to the same extent as the Indebtedness being refinanced or refunded.

Accrual of interest or dividends, the accretion of accreted value, the accretion or amortization of original issue discounts and the payment of interest or dividends in the form of additional Indebtedness will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such respective Indebtedness is denominated that is in effect on the date of such refinancing.

### ***Restricted Payments***

Prior to the occurrence of (i) a Qualified Public Offering or (ii) any other transaction as a result of which the common stock of Hilton or a direct or indirect corporate parent company of Hilton is traded on a national securities exchange, Hilton will not, directly or indirectly, declare or pay any dividend on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any Capital Stock of Hilton, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Hilton or any Subsidiary (collectively, "Restricted Payments"), except for (i) Restricted Payments payable solely in common stock of the Person making such dividend, (ii) any Restricted Payments paid to any direct or indirect parent of Hilton to pay any taxes that are due and payable by such parent as the parent of a consolidated, combined, affiliated, or unitary group including Hilton, after the date hereof, and, in no event, in excess of the taxes that are due and payable by such parent, (iii) Restricted Payments to pay for the repurchase, retirement or other acquisition or retirement for value of Equity Interests of Hilton or any of its direct or indirect parent companies held by any future, present or former employee, director or consultant of Hilton, any of its Subsidiaries or any of its direct or indirect

parent companies pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement and (iv) Restricted Payments made with Excluded Contributions.

### ***Payment Restrictions Affecting Subsidiaries***

Hilton will not and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) make Restricted Payments in respect of any Capital Stock of such Subsidiary held by, or pay any Indebtedness owed to, Hilton or any other Subsidiary of Hilton, (b) make loans or advances to, or other investments in, Hilton or any other Subsidiary of Hilton or (c) transfer any of its assets to Hilton or any other Subsidiary of Hilton, except for such encumbrances or restrictions existing under or by reason of (i) any restrictions existing under these notes, (ii) any restrictions existing under the agreements evidencing Indebtedness permitted under – Incurrence of Indebtedness, (iii) any restrictions with respect to a Subsidiary imposed pursuant to an agreement that has been entered into in connection with the disposition of all or substantially all of the Capital Stock or assets of such Subsidiary, (iv) contractual encumbrances or restrictions in effect on the Issue Date; (v) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions of the nature discussed in clause (c) above on the property so acquired; (vi) applicable law or any applicable rule, regulation or order; (vii) any agreement or other instrument of a Person acquired by Hilton or any Subsidiary in existence at the time of such acquisition or at the time it merges with or into Hilton or any of its Subsidiaries or assumed in connection with the acquisition of assets from such Person (but, in any such case, not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person and its Subsidiaries, or the property or assets of the Person and its Subsidiaries, so acquired or the property or assets assumed; (viii) contracts for the sale of assets, including customary restrictions with respect to a Subsidiary of Hilton pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Subsidiary; (ix) restrictions on cash or other deposits or net worth imposed by customers or hotel owners under contracts entered into in the ordinary course of business; (x) customary provisions in joint venture agreements and other agreements or arrangements relating solely to such joint venture; (xi) customary provisions contained in leases or licenses of intellectual property and other agreements, in each case entered into in the ordinary course of business; (xii) restrictions or conditions contained in any trading, netting, operating, construction, service, supply, purchase or other agreement to which Hilton or any of its Subsidiaries is a party entered into in the ordinary course of business; provided, that such agreement prohibits the encumbrance of solely the property or assets of Hilton or such Subsidiary that are the subject of such agreement, the payment rights arising thereunder or the proceeds thereof and does not extend to any other asset or property of Hilton or such Subsidiary or the assets or property of any other Subsidiary; (xiii) any encumbrances or restrictions imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (i) through (xii) above; provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of Hilton, not materially more restrictive with respect to such encumbrance and other restrictions taken as a whole than those prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

### **Financial Reports**

So long as any notes are outstanding, Hilton will furnish to the trustee and the noteholders and make available such information to prospective purchasers of notes designated by noteholders, to the extent required and Hilton is not then subject to Section 13(a) or 15(d) of the Exchange Act under Rule 144(a)(d)(4) under the Securities Act:

(1) within 90 days after the end of each fiscal year of Hilton, a copy of the audited consolidated balance sheet of Hilton and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of income and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year; and

(2) within 60 days after the end of each of the first three quarterly periods of each fiscal year of Hilton commencing after the Issue Date, the unaudited consolidated balance sheet of Hilton and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash

flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the corresponding periods of the previous year.

### Events of Default and Remedies

Each of the following is an "Event of Default":

- (1) default in the payment of any interest upon the notes when it becomes due and payable, and continuance of such default for a period of 30 days;
- (2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the notes;
- (3) default in the performance, or breach, of any covenant or warranty of Hilton in the Indenture, which default continues uncured for a period of 60 days after receipt of written notice to Hilton by the trustee or to Hilton and the trustee by the holders of at least 30% in principal amount of the outstanding notes;
- (4) failure of Hilton to post on its website a pro forma income statement for the year ended December 31, 2006 and the nine months ended September 30, 2007, giving pro forma effect to the Transactions as if they had occurred at the beginning of the respective periods and a pro forma balance sheet as of September 30, 2007, giving pro forma effect to the Transactions as if they had occurred on September 30, 2007 within 120 days of the Issue Date;
- (5) a default under any mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced any Indebtedness for money borrowed by Hilton or any of its Subsidiaries or the payment of which is guaranteed by Hilton or any of its Subsidiaries, other than Indebtedness owed to Hilton or a Subsidiary, whether such Indebtedness or guarantee now exists or is created after the issuance of the Notes, if both:
  - (a) such default either results from the failure to pay any principal of such Indebtedness at its stated final maturity (after giving effect to any applicable grace periods) or relates to an obligation other than the obligation to pay principal of any such Indebtedness at its stated final maturity and results in the holder or holders of such Indebtedness causing such Indebtedness to become due prior to its stated maturity; and
  - (b) the principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at stated final maturity (after giving effect to any applicable grace periods), or the maturity of which has been so accelerated, aggregates \$50.0 million or more at any one time outstanding;
- (6) failure by Hilton to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$50.0 million (net of any amount covered by a reputable and creditworthy insurance company), which judgments are not paid, discharged or stayed for a period of 60 days after such judgment becomes final and non-appealable; and
- (7) certain events of bankruptcy or insolvency described in the indenture with respect to Hilton.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Hilton, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default (other than of a type specified in clause (7) above) occurs and is continuing, the trustee or the holders of at least 30% in aggregate principal amount of the then outstanding notes may declare all the notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes

notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, premium, if any, or interest.

Subject to the provisions of the indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest, if any, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

- (1) such holder has previously given the trustee notice that an Event of Default is continuing;
- (2) holders of at least 30% in aggregate principal amount of the then outstanding notes have requested the trustee to pursue the remedy;
- (3) such holders have offered the trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) holders of a majority in aggregate principal amount of the then outstanding notes have not given the trustee a direction inconsistent with such request within such 60 day period.

The holders of a majority in aggregate principal amount of the then outstanding notes by notice to the trustee may, on behalf of the holders of all of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the notes. In the event of any Event of Default specified in clause (5) above, such Event of Default and all consequences thereof (excluding any resulting payment default, other than as a result of acceleration of the Notes) shall be annulled, waived and rescinded, automatically and without any action by the trustee or the holders, if within 20 days after such Event of Default arose:

- (1) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged; or
- (2) holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default; or
- (3) the default that is the basis for such Event of Default has been cured.

Notwithstanding the foregoing, the Indenture will provide, if we so elect, that the sole remedy for a failure to comply with the reporting obligations in the Indenture, which are described below under the caption “— Financial Reports,” will, at our option, for the 365 days after the occurrence of such a failure consist exclusively of the right to receive additional interest on the notes at an annual rate equal to 0.25% of the principal amount of the notes and should we so elect to pay additional interest, such failure to comply shall not constitute a Default or an Event of Default. In the event we do not elect to pay the additional interest upon a failure to comply as set forth above or such non-compliance shall continue for a period in excess of 365 days, such failure shall constitute a Default which, following notice as provided above, may give rise to an Event of Default whereupon the notes will be subject to acceleration as provided above. Any additional interest payable pursuant to this paragraph will be payable in the same manner as interest otherwise accruing on the notes and references in this “Description of Notes” to “interest” shall be deemed to include any additional interest. The additional interest will accrue on all outstanding notes from and including the date on which a failure to comply with the reporting obligations in the Indenture first occurs to but not including the 365th day thereafter (or such earlier date on which the failure to comply relating to the reporting obligations shall have been cured or waived). On such 365th day (or earlier, if the failure to comply relating to the reporting obligations is cured or waived prior to such 365th day), such additional interest will cease to accrue. The

provisions of the Indenture described in this paragraph will not affect the rights of holders of notes in the event of the occurrence of any other Event of Default.

Hilton is required to deliver to the trustee annually a certificate regarding compliance with the Indenture.

### **No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of Hilton, as such, will have any liability for any obligations of Hilton under the notes, the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

### **Defeasance of Notes or Certain Covenants in Certain Circumstances**

#### ***Defeasance and Discharge***

The Indenture provides that Hilton may be discharged from any and all obligations in respect of the notes and the Indenture (except for certain obligations to register the transfer or exchange of notes, to replace stolen, lost or mutilated notes, to maintain paying agencies and to hold money for payment in trust) upon the irrevocable deposit with the trustee, in trust, of money and/or government obligations that, through the payment of interest and principal in respect thereof in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay and discharge each installment of principal (and premium, if any) and interest on the notes on the dates such payments are due. Such discharge may occur only if, among other things, Hilton shall have delivered to the trustee an opinion of counsel or a ruling from the U.S. Internal Revenue Service (an "IRS Ruling"), in either case to the effect that holders of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge.

#### ***Defeasance of Certain Covenants***

Upon compliance with certain conditions, Hilton may omit to comply with certain restrictive covenants contained in the Indenture and any omission to comply with such obligations shall not or no longer constitute a Default or Event of Default with respect to notes. The conditions include, among others: the deposit with the trustee of money and/or government obligations that, through the payment of interest and principal in respect thereof in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay principal, premium, if any, and interest on the notes on the dates such payments are due; and the delivery to the trustee of an opinion of counsel or an IRS Ruling to the effect that the holders of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and related covenant defeasance.

### **Modification and Waiver**

Without prior notice to or consent of any holders, Hilton and the trustee, at any time and from time to time, may modify the Indenture for any of the following purposes:

- (1) to evidence the succession of another corporation to the rights of Hilton and the assumption by such successor of the covenants and obligations of Hilton in the Indenture and in the notes;
- (2) to add to the covenants of Hilton for the benefit of the holders of notes or to surrender any right or power conferred in the Indenture upon Hilton;
- (3) to add any additional Events of Default;

(4) to change or eliminate any of the provisions of the Indenture, provided that any such change or elimination will become effective only when there is no outstanding note issued thereunder created prior to such modification which is entitled to the benefit of such provision and as to which such modification would apply;

(5) to secure the notes or to provide that any of Hilton's obligations under the notes or the Indenture shall be guaranteed and the terms and conditions for the release or substitution of such security or guarantee;

(6) to supplement any of the provisions of the Indenture to such extent as is necessary to permit or facilitate the defeasance and discharge of notes, provided that any such action will not adversely affect the interests of the holders of notes in any material respect;

(7) to establish the form or terms of notes as permitted by the Indenture;

(8) to evidence and provide for the acceptance of appointment thereunder by a successor trustee with respect to notes and to add to or change any of the provisions of the Indenture as is necessary to provide for or facilitate the administration of the trusts thereunder by more than one trustee; or

(9) to cure any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the Indenture or to amend any provision solely to conform the Indenture and the notes to the description of the notes contained in this document;

(10) to make any provision with respect to matters or questions arising under the Indenture that we may deem necessary or desirable and that shall not be inconsistent with provisions of the Indenture; provided that such change or modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Notes in any material respect.

With the written consent of the holders of not less than a majority in principal amount of the outstanding notes, Hilton and the trustee may modify the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of notes under the Indenture; provided, however, that such modifications may not, without the consent of the holder of each outstanding note:

(1) change the stated maturity of any note or reduce the principal amount thereof or the rate (or extend the time for payment) of interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any note or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the due date thereof (including, in the case of redemption, on or after the redemption date), or alter any redemption provisions in a manner adverse to the holders of such notes;

(2) reduce the percentage in principal amount of the outstanding notes, the consent of whose holders of such notes is required for any such amendment, supplemental indenture or waiver provided for in the Indenture; or

(3) modify any of the waiver provisions, except to increase any required percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding note affected thereby.

#### **Consolidation, Merger, Conveyance, Transfer or Lease**

The Indenture provides that the Company may not consolidate or merge with or into, or sell, assign, convey, transfer or lease its properties and assets substantially in their entirety (computed on a consolidated basis) to, another corporation, Person or entity unless either (a) in the case of a merger or consolidation, the Company is the surviving Person or (b) the successor or transferee is a Person organized under the laws of the United States, any state thereof or the District of Columbia and expressly assumes, by supplemental indenture, all the obligations of the Company under the Notes and the Indenture.

## **Satisfaction and Discharge**

The Indenture will, upon Hilton's request, cease to be of further effect with respect to the notes specified in such request and the trustee, at the expense of the Hilton, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(1) either:

(a) all notes theretofore authenticated and delivered (other than (i) notes which have been destroyed, lost or stolen and which have been replaced or paid and (ii) notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by Hilton and thereafter repaid to the Hilton or discharged from such trust) have been delivered to the trustee for cancellation; or

(b) all notes not theretofore delivered to the trustee for cancellation, (i) have become due and payable, or (ii) will become due and payable at their stated maturity within one year, or (iii) are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice by the trustee in the name, and at the expense, of Hilton, and Hilton, either complies with any other condition or terms specified, or if not so specified in the case of (i), (ii) or (iii) of this subclause (b), has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust for such purpose an amount in the currency in which such notes are denominated sufficient to pay and discharge the entire indebtedness on such notes for principal (and premium, if any) and interest to the date of such deposit (in the case of notes which have become due and payable) or to the stated maturity or redemption date, as the case may be; provided, however, in the event a petition for relief under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, is filed with respect to Hilton within 91 days after the deposit and the trustee is required to return the deposited money to Hilton, the obligations of Hilton under the Indenture with respect to such notes shall not be deemed terminated or discharged;

(2) Hilton has paid or caused to be paid all other sums payable hereunder by Hilton; and

(3) Hilton has delivered to the trustee an officers' certificate and an opinion of counsel each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture with respect to such series have been complied with.

## **Concerning the Trustee**

If the trustee becomes a creditor of Hilton, the Indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign, and Hilton shall take prompt steps to have a successor appointed.

In case an Event of Default with respect to the notes has occurred and is continuing, the trustee shall, with respect to the notes, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

## **Additional Information**

Anyone who receives the offering memorandum may obtain a copy of the Indenture without charge by writing to Hilton Hotels Corporation, 9336 Civic Center Drive, Beverly Hills, CA 90210, Attention: Corporate Secretary.

## Governing Law

The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

## Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

*“Calculation Agent”* means initially the trustee (and its successors) or any other firm hereafter appointed by the Company to act as calculation agent in respect of the notes.

*“Capital Stock”* means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing, but excluding any debt security that is convertible into, or exchangeable for, Capital Stock.

*“Capitalized Lease Obligation”* means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) in accordance with GAAP.

*“Contingent Obligations”* means, with respect to any Person, any obligation of such Person guaranteeing any leases, management or franchise agreements, dividends or other obligations that do not constitute Indebtedness (“primary obligations”) of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent,

- (1) to purchase any such primary obligation or any property constituting direct or indirect security therefor,
- (2) to advance or supply funds
  - (a) for the purchase or payment of any such primary obligation, or
  - (b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, or
- (3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

*“Default”* means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

*“Disqualified Stock”* means, with respect to any Person, any Capital Stock of such Person which, by its terms, or by the terms of any security into which it is convertible or for which it is putable or exchangeable, or upon the happening of any event, matures or is mandatorily redeemable (other than solely as a result of a change of control or asset sale) pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof (other than solely as a result of a change of control or asset sale), in whole or in part, in each case prior to the date 91 days after the earlier of the maturity date of the notes or the date the notes are no longer outstanding; provided, however, that if such Capital Stock is issued to any plan for the benefit of employees of the Company or its Subsidiaries or by any such plan to such employees, such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer or its Subsidiaries in order to satisfy applicable statutory or regulatory obligations.

“*Equity Interests*” means Capital Stock and all warrants, options or other rights to acquire Capital Stock, but excluding any debt security that is convertible into, or exchangeable for, Capital Stock.

“*Excluded Contribution*” means net cash proceeds, marketable securities or Qualified Proceeds received by Hilton after October 24, 2007 from:

- (1) contributions to its common equity capital, and
- (2) the sale (other than to a Subsidiary of Hilton or to any management equity plan or stock option plan or any other management or employee benefit plan or agreement of Hilton) of Capital Stock of Hilton,

in each case designated as Excluded Contributions pursuant to an Officer’s Certificate executed by the principal financial officer of Hilton on the date such capital contributions are made or the date such Equity Interests are sold, as the case may be.

“*GAAP*” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the Issue Date.

“*Governmental Authority*” shall mean any court, board, agency, commission, office or other authority of any nature whatsoever for any governmental unit (foreign, federal, state, county, district, municipal, city or otherwise) whether now or hereafter in existence.

“*Hedging Obligations*” means, with respect to any Person, the obligations of such Person under any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, commodity swap agreement, commodity cap agreement, commodity collar agreement, foreign exchange contract, currency swap agreement or similar agreement providing for the transfer or mitigation of interest rate, currency or commodity risks either generally or under specific contingencies.

“*Indebtedness*” means, with respect to any Person, without duplication:

- (1) any indebtedness (including principal and premium) of such Person, whether or not contingent:
  - (a) in respect of borrowed money;
  - (b) evidenced by bonds, notes, debentures or similar instruments or letters of credit or bankers’ acceptances (or, without duplication, reimbursement agreements in respect thereof);
  - (c) representing the balance deferred and unpaid of the purchase price of any property (including Capitalized Lease Obligations), except (i) any such balance that constitutes an obligation in respect of a commercial letter of credit, a trade payable or similar obligation to a trade creditor, in each case accrued in the ordinary course of business and (ii) any earn-out obligations until such obligation, within 60 days of becoming due and payable, has not been paid and becomes a liability on the balance sheet of such Person in accordance with GAAP; or
  - (d) representing any Hedging Obligations;

if and to the extent that any of the foregoing Indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet (excluding the footnotes thereto) of such Person prepared in accordance with GAAP;

- (2) to the extent not otherwise included, any obligation by such Person to be liable for, or to pay, as obligor, guarantor or otherwise on, the obligations of the type referred to in clause (1) of a third Person (whether or

not such items would appear upon the balance sheet of the such obligor or guarantor), other than by endorsement of negotiable instruments for collection in the ordinary course of business; and

(3) to the extent not otherwise included, the obligations of the type referred to in clause (1) of a third Person secured by a Lien on any asset owned by such first Person, whether or not such Indebtedness is assumed by such first Person;

provided, however, that notwithstanding the foregoing, Indebtedness shall be deemed not to include Contingent Obligations incurred in the ordinary course of business.

For the avoidance of doubt, the following shall not be deemed Indebtedness of Hilton: (i) Indebtedness incurred by Subsidiaries of Hilton and not guaranteed by Hilton and (ii) non-recourse carve-out guaranties, environmental indemnities and completion guaranties provided by Hilton (whether in connection with a loan or otherwise).

“*Issue Date*” means November 28, 2007.

“*Lien*” means, with respect to any asset, any mortgage, lien (statutory or otherwise), pledge, hypothecation, charge, security interest, preference, priority or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction; provided that in no event shall an operating lease be deemed to constitute a Lien.

“*Opinion of Counsel*” means a written opinion from legal counsel, which opinion is reasonably acceptable to the trustee. The counsel may be an employee of Hilton or counsel to Hilton or its Subsidiaries.

“*Person*” an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“*Qualified Public Offering*” means any public sale of common stock or preferred stock of the Company or any of its direct or indirect parent companies (excluding Disqualified Stock) registered under the Securities Act, other than:

- (1) public offerings with respect to the Company’s or any direct or indirect parent company’s common stock registered on Form S-8;
- (2) issuances to any Subsidiary of the Company; and
- (3) any such public or private sale that constitutes an Excluded Contribution.

“*Qualified Proceeds*” means assets that are used or useful in, or Capital Stock of any Person engaged in, a Similar Business; provided that the fair market value of any such assets or Capital Stock shall be determined by Hilton in good faith.

“*Reuters Page LIBOR01*” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace such page on such service, or such other service as may be nominated for the purpose of displaying rates or prices comparable to the London Interbank Offered Rate for U.S. dollar deposits).

“*Similar Business*” means any business conducted or proposed to be conducted by Hilton and its Subsidiaries on the Issue Date or any business that is similar, reasonably related, incidental or ancillary thereto.

“*Subsidiary*” or “*Subsidiaries*” means, with respect to a specified Person, any corporation, partnership, limited partnership, limited liability company or other entity as to which the specified Person, directly or indirectly

(including through one or more Subsidiaries), owns a majority of the outstanding shares of stock or other ownership interests having voting power under ordinary circumstances to elect directors of such corporation or other Persons performing similar functions for such entity.

*“Three-Month LIBOR Rate”* means, for each Interest Period during the Floating Rate Period, the rate (expressed as a percentage per year) for deposits in U.S. dollars for a three-month period that appears on Reuters Page LIBOR01 as of 11:00 a.m. (London time) on the second London Banking Day (the “LIBOR Interest Determination Date”) immediately preceding the first day of such Interest Period (the “LIBOR Rate Reset Date”). If such rate does not appear on such page for the purpose of displaying offered rates of leading banks for London interbank deposits in U.S. dollars, the Three-Month LIBOR Rate will be determined on the basis of the rates, at approximately 11:00 a.m., London time, on the LIBOR Interest Determination Date, at which U.S. dollar deposits with a maturity of three months in an amount determined by the Calculation Agent as representative of a single transaction in the relevant market and at the relevant time are offered by four major banks in the London interbank market selected and certified to the Calculation Agent by the Company (“Reference Banks”) to prime banks in the London interbank market for the interest period commencing on the LIBOR Rate Reset Date. The Company will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided as requested, the Three-Month LIBOR Rate will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the Three-Month LIBOR Rate will be the interest rate per annum equal to the average of the rates per annum quoted by three major banks in New York City selected and certified to the Calculation Agent by the Company, at or about 11:00 a.m., New York City time, on the LIBOR Interest Determination Date, for loans in U.S. dollars to leading European banks in amounts that are representative of a single transaction in the relevant market and at the relevant time with a maturity corresponding to the interest period and commencing on the LIBOR Rate Reset Date. If fewer than three New York City banks selected and certified to the Calculation Agent by the Company are quoting rates, the Three-Month LIBOR Rate for the applicable interest period will be the same as for the immediately preceding Interest Period.

*“Weighted Average Life to Maturity”* means, when applied to any Indebtedness at any date, the quotient obtained by dividing:

- (1) the sum of the products of the number of years from the date of determination to the date of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such payment; by
- (2) the sum of all such payments.

#### **Original Issuance in Certificated Form**

The notes will be issued under the exemption from registration provided by Section 4(2) of the Securities Act. The notes will originally be issued in the form of registered definitive certificates (the “certificated notes”). The notes have not been and will not be, registered under the Securities Act or any securities laws of any jurisdiction, and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes will not be transferable after initial issuance except pursuant to an applicable exemption from the registration requirements under the Securities Act. See “Notice to Investors; Transfer Restrictions.”

The Company has not yet made publicly available pro forma financial information reflecting the completion of its recent merger and other Transactions. The notes will not be transferable pursuant to Rule 144A under the Securities Act or eligible for trading on The PORTAL Market until such time as Hilton has posted on its website a pro forma income statement for the year ended December 31, 2006 and the nine months ended September 30, 2007, giving pro forma effect to the Transactions as if they had occurred at the beginning of the respective periods and a pro forma balance sheet as of September 30, 2007, giving pro forma effect to the Transactions as if they had occurred on September 30, 2007. The Company has committed to use its reasonable best efforts to prepare and make available such pro forma financial information within 120 days of the Issue Date. The failure to provide such information within 120 days of the Issue Date would be an Event of Default under the notes. See “-Events of Default.”

## **Book Entry, Delivery and Form**

Upon the availability of the updated financial information, the Company has agreed to use its commercially reasonable efforts to arrange for noteholders to exchange their certificated notes for interests in one or more registered notes in global form without interest coupons (the “global notes”) and to use its commercially reasonable efforts to make the notes eligible to trade in The PORTAL Market. The global notes will be deposited with the trustee as custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, for credit to an account of a direct or indirect participant in DTC as described below.

## **Depository Procedures**

The following description of the operations and procedures of DTC are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Hilton takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised Hilton that DTC is a limited purpose trust company created to hold securities for its participating organizations (collectively, the “Participants”) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised Hilton that, pursuant to procedures established by it:

- (1) upon deposit of the global notes, DTC will credit the accounts of the Participants designated by the depositors with portions of the principal amount of the global notes; and
- (2) ownership of these interests in the global notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the global notes).

Prospective purchasers are advised that the laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a global note to such Persons will be limited to such extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a global note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see “Notice to Investors; Transfer Restrictions.”

Except with respect to certificated notes, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or “holders” thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on a global note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, Hilton and the trustee will treat the Persons in whose names the notes, including the global notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither Hilton, the trustee nor any agent of Hilton nor the trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the global notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the global notes; or
- (2) other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised Hilton that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or Hilton. Neither Hilton nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and Hilton and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

#### **Exchange for Certificated Notes**

A global note is exchangeable for certificated notes if:

- (1) DTC (a) notifies Hilton that it is unwilling or unable to continue as depositary for the global notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, Hilton fails to appoint a successor depositary;
- (2) Hilton, at its option and expense, notifies the trustee in writing that it elects to cause the issuance of the certificated notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the notes.

Upon the transfer of certificated notes, certificated notes may, unless all global notes have previously been exchanged for certificated notes, be exchanged for an interest in the global note representing the principal amount of notes being transferred, subject to the transfer restrictions set forth in the Indenture.

In addition, beneficial interests in a global note may be exchanged for certificated notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the Indenture. In all cases, certificated notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Notice to Investors; Transfer Restrictions," unless that legend is not required by applicable law.

Neither Hilton nor the trustee will have any liability for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes and Hilton and the trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes.

## NOTICE TO INVESTORS; TRANSFER RESTRICTIONS

The notes have not been and will not be, registered under the Securities Act or the securities laws of any state or jurisdiction, and may not be offered, sold, pledged or transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable securities laws. In addition, the notes will not be transferable pursuant to Rule 144A under the Securities Act until such time as the Company has made publicly available pro forma financial information reflecting the completion of the merger and related financing transactions. Purchasers are urged to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the notes.

In order to purchase the notes, you will be required to deliver (1) a signed investor letter in the form attached as Annex A hereto and (2) a signed note purchase agreement in the form attached as Annex B hereto containing representations and agreements as set forth below (terms used in this paragraph that are defined in Rule 144A are used herein as defined therein):

- *No Registration.* The purchaser understands and acknowledges that the notes have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction, are being offered for sale in transactions exempt from registration under the Securities Act and any other applicable securities laws, and may not be offered, sold, pledged or otherwise transferred except pursuant to any exemption from the registration requirements of the Securities Act and any other applicable securities laws, or in a transaction not subject thereto and in each case in compliance with the conditions for transfer set forth under the "Investment Representations" section below.
- *QIBs.* The purchaser is a "qualified institutional buyer" ("QIB"), as defined in Rule 144A, is aware that the sale to it is being made in reliance on a private placement exemption from registration under the Securities Act and is acquiring the notes for its own account or for an account over which it exercises sole discretion for another QIB, and not with a view to distribution.
- *Purchaser's Knowledge.* The purchaser is able to fend for itself in the transactions contemplated by this document; has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the financial position and results of operations of Hilton and the merits and risks of its prospective investment in the notes; and has the ability to bear the economic risks of its prospective investment and can afford the complete loss of part or all of its investment.
- *No Representations, Etc.* The purchaser acknowledges that neither we nor the placement agents nor any person representing us or the placement agents have made any representations, express or implied, to it with respect to us or the offering or sale of any notes other than the information contained in this document. The purchaser has received a copy of the private placement memorandum relating to the offering and acknowledges that (a) it has conducted its own investigation of Hilton, including with respect to Hilton's financial position and results of operations, and the terms of the notes and, in conducting its examination, it has not relied on any of the placement agents or on any statements or other information provided by any of the placement agents concerning Hilton or the terms of the offering, (b) it has had access to our SEC filings and such financial and other information as it deems necessary to make its decision to purchase the notes, such purchaser acknowledging that the private placement memorandum does not contain pro forma financial information and financial statements for the three-month or nine-month periods ended September 30, 2007 and representing and agreeing that such purchaser does not require such information in order for the purchaser to make an informed investment decision, and (c) has been offered the opportunity to ask questions of and request additional information from Hilton and received answers thereto and received that additional information, as it deemed necessary in connection with the decision to purchase the notes.
- *Investment Representations.* The purchaser agrees on its own behalf and on behalf of any investor account for which it is purchasing notes, and each subsequent holder of a note by its acceptance thereof will be deemed to agree, to offer, sell, pledge or otherwise transfer such notes prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any

successor provision) (the “Resale Restriction Period”) only (i) to us or any subsidiary thereof, (ii) after such time as the Company has made publicly available pro forma financial information reflecting the completion of the merger and related financing transactions and for so long as the notes are thereafter eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to which notice is given that the transfer is being made in reliance on Rule 144A, (iii) outside the United States in an offshore transaction in compliance with Regulation S under the Securities Act or (iv) pursuant to any other available exemption from the registration requirements of the Securities Act, including under Rule 144, if available, subject in each of the foregoing cases to compliance with any applicable securities law of any state or other jurisdiction, and any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control. Each purchaser acknowledges that prior to the expiration of the Resale Restriction Period, we and the trustee reserve the right to require, prior to any offer, sale or other transfer made pursuant to clause (iv) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee, as the case may be.

- *Legends.* Each purchaser acknowledges that each note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER ANY SUCH LAWS.

THE HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE EXPIRATION OF THE HOLDING PERIOD APPLICABLE TO SALES THEREOF UNDER RULE 144(K) UNDER THE SECURITIES ACT (OR ANY SUCCESSOR PROVISION) (THE “RESALE RESTRICTION PERIOD”), ONLY (A) TO HILTON HOTELS CORPORATION (THE “COMPANY”), OR ANY SUBSIDIARY THEREOF, (B) AFTER SUCH TIME AS THE COMPANY HAS MADE PUBLICLY AVAILABLE PRO FORMA FINANCIAL INFORMATION REFLECTING THE COMPLETION OF THE MERGER AND RELATED FINANCING TRANSACTIONS AND FOR SO LONG AS THE NOTES ARE THEREAFTER ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING UNDER RULE 144, IF AVAILABLE, SUBJECT IN EACH OF THE FOREGOING CASES TO COMPLIANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION, AND ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL. EACH PURCHASER ACKNOWLEDGES THAT PRIOR TO THE EXPIRATION OF THE RESALE RESTRICTION PERIOD WITH RESPECT TO ANY OFFER, SALE, PLEDGE OR TRANSFER PURSUANT TO CLAUSE (D), THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE

TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER EXPIRATION OF THE RESALE RESTRICTION PERIOD.

The foregoing restrictions will not apply subsequent to the expiration of the Resale Restriction Period or to a note that has been transferred in compliance with Rule 144 under the Securities Act.

*Additional Representations.* The purchaser acknowledges that Hilton, the placement agents and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by such purchaser by its purchase of notes are no longer accurate, such purchaser shall promptly notify Hilton and the placement agents. If it is acquiring any notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.