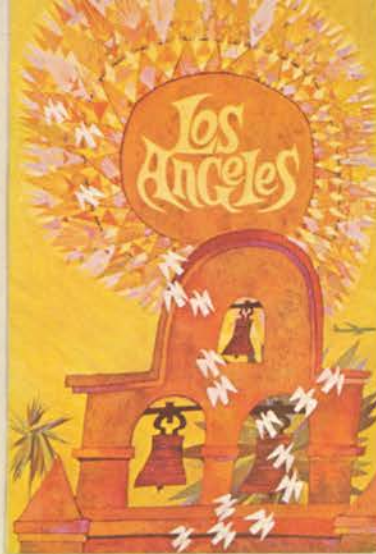
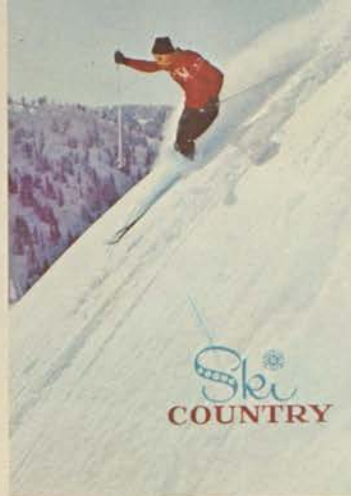




HILTON HOTELS
CORPORATION

1966
Annual Report







1

*Daytime or nighttime,
there's never any problem
of what to do in Chicago...
just in finding
the time to do it.
From the majestic serenity
of the luxurious lakefront
to the pulsing beat
of Chicago after dark,
you can't help but love
the city that plays
as hard as it works.
Whoever you are,
wherever you're from...
this is your kind of town.*

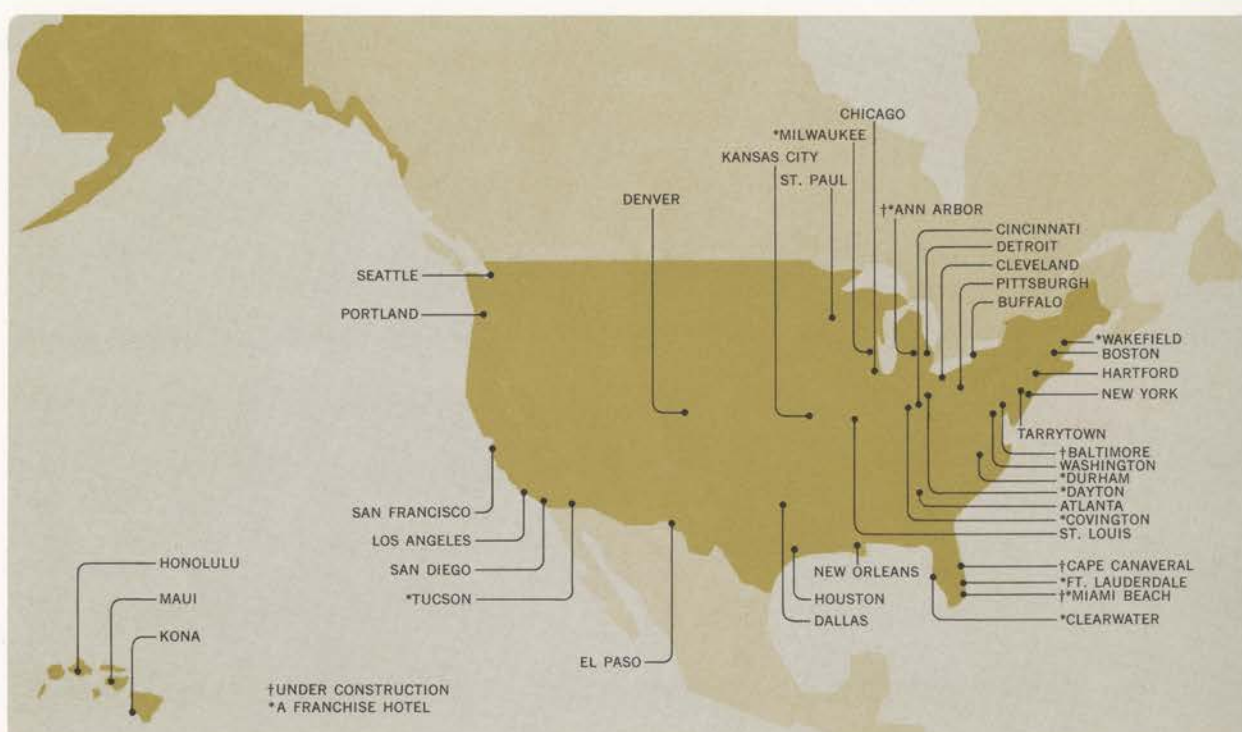
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ANNUAL MEETING

The Annual Meeting of Stockholders will be held at The Conrad Hilton in Chicago, Illinois on Thursday, May 11, 1967 at 10:00 A.M.

HIGHLIGHTS

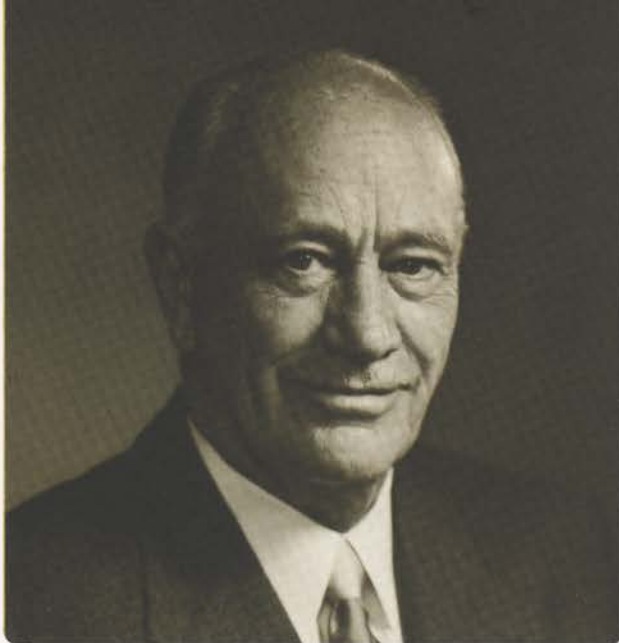


HIGHLIGHTS OF THE YEAR

	1966	1965
Gross revenue.....	\$195,648,871	186,672,426
Net profit from operations.....	6,674,388	4,024,965
Earnings per share from operations.....	1.95	1.14
Dividends per share.....	.75	.60

AT END OF YEAR

Working capital.....	\$ 13,098,146	21,984,913
Investments.....	34,982,192	27,862,026
Fixed assets.....	215,283,379	186,630,253
Long term debt.....	151,460,520	127,346,073
Shareholders' equity.....	112,587,018	109,074,396
Equity per common share.....	32.83	30.78
Number of shares outstanding.....	3,429,366	3,544,066



Conrad N. Hilton



Barron Hilton

To Our Shareholders:

In 1966, Hilton Hotels Corporation celebrated its twentieth anniversary with an outstanding year of accomplishment and confidently began its third decade of operations with optimism for its future and that of the booming travel industry of which it is a vital part.

The past year witnessed major achievements in operational and financial results, in expansion of

properties, and in strengthening management at various levels of responsibility. Most significant, revenues increased \$8,976,445, and net income from operations increased \$2,649,423 or 66 per cent over 1965.

Revenues in the year ended December 31, 1966 totaled \$195,648,871 as compared with \$186,672,426 the year before. Net profit from operations after taxes rose to \$6,674,388, equal to \$1.95 per share on 3,429,366 shares of common stock outstanding from \$4,024,965 or \$1.14 a share on 3,544,066 shares outstanding at the close of 1965. Consolidated net profit for 1966 including profits from the sale of properties and special items totaled \$7,238,982 or \$2.11 per share. Consolidated net profit for 1965, enhanced by the Carte Blanche merger, amounted to \$11,666,550 or \$3.29 per share.

At December 31, 1966 shareholders equity amounted to \$112,587,018, equal to \$32.83 per share as compared with \$109,074,396 or \$30.78 a share at the close of 1965.

Reflecting the promising trend in the Corporation's operating results, its excellent fiscal condition and favorable prospects for the future, the Board of Directors in May of 1966 increased the quarterly cash dividend on the common stock to 20 cents per share from the 15 cents per share previously paid. In February of this year, the Board once again voted to increase the cash dividend on the common stock by declaring a quarterly dividend of 25 cents per share, payable March 31 to stockholders of record March 15.

The Corporation during the past year increased its economic interest in a number of properties already under its management. Highlights included the Hawaiian Village expansion described in detail in this report; the repurchase of The Beverly Hilton in Beverly Hills, California and the commencement of a 180-room expansion of this facility; the purchase of The Statler Hilton in Hartford, Connecticut, and the commencement of a complete modernization of this facility, renamed The Hartford Hilton; the purchase of a one-half interest in the corporation which owns the San Diego Hilton Inn; the acquisition from other parties of a one-half interest in The San Francisco Hilton, making the Corporation the sole owner of this valuable, strategically

continued

situated property; and the completion of 110 rooms and three meeting rooms at the San Francisco Hilton Inn. Management is continuing efforts to increase the value of the Corporation's interests in existing properties. Also, by acquiring properties in selective locations, such as last year's purchase of the Mayfair-Lennox Inn near the St. Louis Airport which was subsequently renamed the Hilton Inn, the Corporation will strengthen its competitive position and enhance its profitability.

Expansion of the Corporation's management contract program is evidenced by the opening last September of the 500-room St. Paul Hilton and the groundbreaking and initiation of construction on the 350-room Baltimore Statler Hilton, the 406-room Dallas Hilton Inn, the 200-room Cape Kennedy Hilton at Cape Canaveral, and in Hawaii the 25-story Lagoon Tower Apartments at the Hilton Hawaiian Village, the 232-unit Hilton Hale Kaanapali condominium apartment hotel on the Island of Maui and the 200-room Kona Hilton on the Island of Hawaii. In addition, the Corporation's franchise program under the Statler-Hilton identification progressed during the year despite the limiting factors of tight money and high interest rates.

Clearly, Hilton Hotels Corporation is moving forward energetically to capitalize upon the opportunities for growth that are perhaps uniquely available to it. At the same time, however, our day-to-day efforts are focused upon merchandising the services and facilities of our present properties on the national, regional and local levels. An all-pervasive sales program, the most sophisticated in the hotel industry, we believe, is being vigorously implemented to attract the patronage of the traveling public and to increase our share of local business from residents in the area of our hotels. Our aim is to increase the overall occupancy of our hotels and while this percentage rose again in 1966, there is room for improvement. Our prime objective is to encourage people to utilize the services of our properties during periods when occupancy is low.

Essential to the success of these efforts, of course, is the preservation and enhancement of the Hilton tradition of premier innkeeping. Personal quality service is the hallmark of our operations and we are acutely aware of the changing tastes and de-

sires of our customers. Always there is the constant refurbishing and upgrading of properties and the addition of new services for the convenience of our patrons. The combination of top-notch, strategically located hotels and inns offering the finest in facilities, accompanied by the best in personal service has led to the Corporation's success in the past and will insure its continued progress.

At the outset of this letter, the travel industry was described as booming, and it truly is. Moreover, there is every indication that the pace will quicken. The world continues to shrink, living standards and leisure time continue to rise and man's desire to see the new, exciting and different has not diminished. It appears we are in the early stages of a travel explosion brought about by a combination of many factors, with the great strides made in transportation, most particularly the jet airplane, ranking high on the list. Soon the jet age will see the introduction of planes which will carry hundreds of passengers quickly and economically to distant places. Millions who have never flown will find air travel within their reach.

These new jets will have a tremendous impact upon Hawaii, we believe. Aircraft carrying in excess of 200 passengers have just been introduced on the run from the Mainland to the 50th State, and within the next few years jumbo jets carrying as many as 400 passengers will be in operation. Our current Hawaiian investments and operations, those under construction and others in the planning stage will place us in an excellent position to satisfy the needs of tourists and residents alike. On the Mainland we have added to the number of our airport inns, have enlarged the accommodations of some and contemplate additional expansion in the future. And at the core of our system stand our great hotel properties located in the metropolitan centers of the nation ready to serve the vacation and business traveler alike.

We have been able to make such a favorable report on 1966 operations because of the support of our guests, the continued confidence of our shareholders and the loyal efforts of our staff, upon whom we depend for sound and profitable growth in the future. To all of them and to our many other friends, we express our sincere appreciation.

Conrad W. Hilton
Chairman of the Board

Susan Hilton
President

March 15, 1967



The new South...epitomized here by the cosmopolitan air of Atlanta. The stadium, newest home of major league baseball and football, is typical of the new Atlanta outlook. Plantations and high rises, azaleas and expressways...both past and present combine to make this city a delight to visit.

REPORT ON OPERATIONS

In 1966, operating revenues of Hilton Hotels Corporation and subsidiaries advanced to \$195,648,871 from \$186,672,426 in 1965. Important factors in the increase were an improvement in the Corporation's room occupancy ratio, selective increases in room rates, and, with the exception of last summer's 43-day airline strike, a favorable economy in which to operate.

While the 1966 revenue figure includes management fee income from properties which the Corporation manages and in which it has equity interests it does not reflect the operating revenues of these properties. For example, the Hilton Hawaiian Village and The Washington Hilton which are 50 per cent owned by the Corporation and the 25 per cent owned New York Hilton had combined revenues in 1966 of \$50,912,630 compared with \$44,220,379 the preceding year.

Included in last year's revenues is management fee income for a full year from the Hilton Hawaiian Village, The New York Hilton, the Kansas City Hilton Inn, The Washington Hilton, The Statler Hilton-Cleveland, and for nine months from the San Francisco Hilton and three and one-half months from The St. Paul Hilton.

The Corporation increased its room occupancy rate in 1966 to 66.4 per cent from 65.8 per cent the year before. The 1966 United States hotel industry occupancy rate was 63 per cent as against 62 per cent in 1965.

Earnings

Net profit from operations after taxes in 1966 was \$6,674,388, equal to \$1.95 per share on the 3,429,366 shares of common stock outstanding at year end. This compares with \$4,024,965 or \$1.14 a share on 3,544,066 shares outstanding at December 31, 1965.

The decrease in the number of shares outstanding reflects primarily the purchase by the Corporation of 115,000 shares of its common stock in the open market.

Consolidated net profit for 1966, including profits from the sale of properties and special items, totaled \$7,238,982 or \$2.11 per share as compared with \$11,666,550 or \$3.29 per share in 1965. In 1965, the

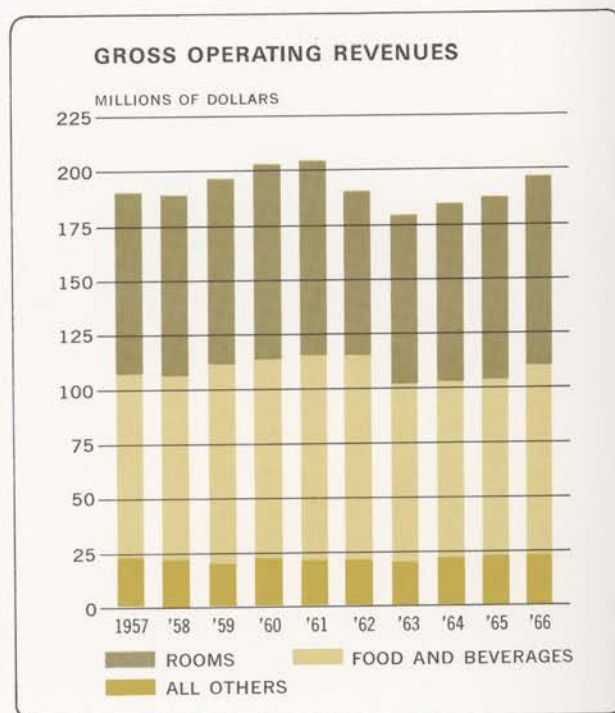
Corporation realized a net gain after taxes from property sales and special items of \$7,641,585 or \$2.15 per share composed of \$2,748,339 from property sales and \$7,028,567 from the merger of Hilton Credit and Carte Blanche from which was deducted \$2,135,321 representing a write-off and reserve for revaluation of certain items. During 1966, the Corporation realized a net gain after taxes of \$334,835 or 10 cents a share from property sales and \$229,759 or 6 cents a share from special items.

Cash Flow

In 1966, cash flow — that is net income from operations (excluding profit from property sales and special items) plus depreciation and amortization— totaled \$22,627,356, equal to \$6.60 per share as compared with \$18,897,545 or \$5.33 a share in 1965.

Dividends

The Corporation in 1966 declared and paid one quarterly dividend of 15 cents a share and three of 20 cents for a total of 75 cents per share. Cash divi-



dends on the common stock have been paid in every year since the Corporation's inception in 1946 aggregating \$60,992,489. On February 2, 1967 the Board of Directors voted a 25 per cent increase in the dividend by declaring a quarterly dividend of 25 cents per share, payable March 31 to shareholders of record March 15.

Financial Condition

Working capital at December 31, 1966 amounted to \$13,098,146 and the ratio of current assets to current liabilities was 1.44 to 1. At the close of 1965 working capital was \$21,984,913 and the current ratio was 1.91 to 1. Principal factors in the reduction of working capital were the repurchase of the Hotel New Yorker second mortgage note, cash investments made in acquiring certain properties and in expanding existing properties.

Fixed assets consisting of land, buildings, leaseholds, leasehold improvements, furnishings and equipment at December 31, 1966 had a book value of \$215,283,379 compared with \$186,630,253 a year earlier. The change reflects primarily the purchase

of The Beverly Hilton, The Statler Hilton in Hartford, the Hilton Inn, St. Louis, and the increased investment in The San Francisco Hilton. Long-term indebtedness at 1966 year-end totaled \$151,460,520 compared with \$127,346,073 at the close of 1965.

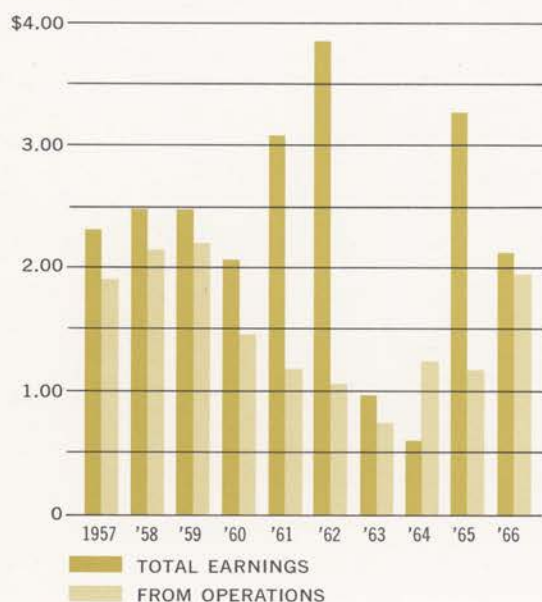
Stockholders equity at December 31, 1966 totaled \$112,587,018, equal to \$32.83 per share as against \$109,074,396, equal to \$30.78 a share a year earlier.

Capital expenditures for modernization in 1966 amounted to \$11,745,142 as compared with \$10,428,598 the preceeding year. Depreciation and amortization in 1966 rose approximately \$1,000,000 to \$15,952,968, substantially in excess of the sum invested in the modernization program. On the following page is shown an analysis of consolidated long term debt and a condensed statement of source and application of funds for the past year.

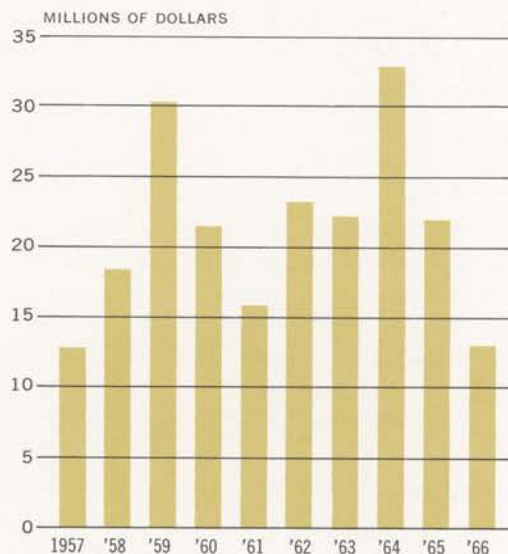
Investments

At the close of the year, the Corporation and its subsidiaries had total investments of \$35,903,758 as compared with \$30,467,460 a year earlier. Principal cause of the increase was the Corporation's pur-

EARNINGS PER SHARE



WORKING CAPITAL



ANALYSIS OF CONSOLIDATED LONG TERM DEBT

	Balance December 31, 1965	Additions During 1966	Reductions During 1966	Balance December 31, 1966
MORTGAGE BONDS AND NOTES				
The Conrad Hilton.....	\$ 3,300,000	—	175,000	3,125,000
The Shamrock Hilton.....	9,328,996	—	258,347	9,070,648
The Terrace Hilton.....	5,667,444	—	264,506	5,402,938
The Pittsburgh Hilton.....	11,239,100	—	274,490	10,964,610
The Portland Hilton.....	4,733,950	—	117,019	4,616,931
New Orleans Hilton Inn.....	1,748,233	—	78,942	1,669,291
Hawaiian Village Development Co.....	2,746,000	—	2,746,000	—
Atlanta Hilton Inn.....	1,202,243	—	57,483	1,144,760
Palmer House Company.....	14,933,701	—	821,925	14,111,776
Los Angeles Statler Hilton.....	5,648,632	—	664,576	4,984,056
Dallas Statler Hilton.....	4,140,742	—	228,530	3,912,212
Boston Statler Hilton.....	9,347,751	—	—	9,347,751
Washington Statler Hilton.....	11,488,471	—	—	11,488,471
Hilton Inns System Mortgage.....	6,666,357	—	395,727	6,270,630
The San Francisco Hilton.....	8,500,000	13,000,000	211,722	21,288,278
New York Statler Hilton.....	11,758,850	—	236,914	11,521,936
St. Louis Hilton Inn.....	—	2,800,634	16,283	2,784,351
The Hartford Hilton.....	—	3,632,500	—	3,632,500
The Beverly Hilton.....	—	14,300,000	272,167	14,027,833
DEBENTURES				
4½% Hilton due 1/1/70.....	649,000	—	3,000	646,000
6% Hilton due 10/15/84.....	14,273,000	—	15,000	14,258,000
4% Metropolitan (Portland) due 7/1/83.....	2,421,325	—	79,935	2,341,390
OTHER NOTES				
Installment purchase contract.....	930,000	—	200,000	730,000
Waldorf-Astoria Laundry.....	234,140	—	40,720	193,420
Hawaiian Village Development Co.....	425,060	721,250	1,146,310	—
The San Francisco Hilton.....	250,000	200,000	450,000	—
Sundry.....	283,875	700,000	46,617	937,258
	131,916,870	35,354,384	8,801,213	158,470,040
Less amounts due within one year.....	4,570,797			7,009,520
	<u>\$127,346,073</u>			<u>151,460,520</u>

SOURCE OF FUNDS:

Net profit from operations.....	\$ 6,674,388
Depreciation and amortization.....	15,952,968
Proceeds from property sales.....	2,244,914
Collection on notes.....	10,495,582
Proceeds from financing.....	23,853,750
Decrease in other net assets.....	3,227,509
	<u>\$62,449,111</u>

FUNDS APPLIED TO:

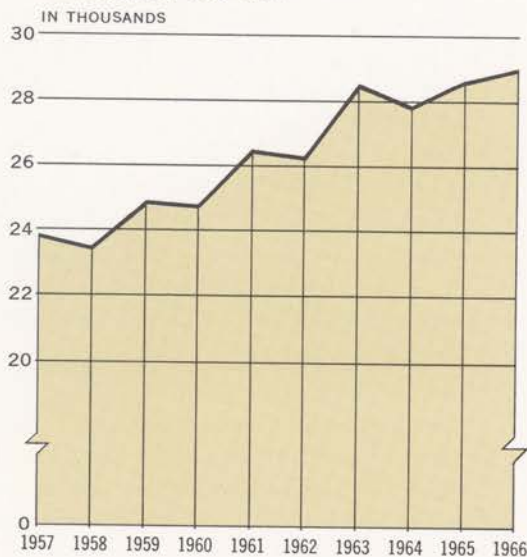
Reduction of long term debt.....	\$ 5,654,903
Capital expenditures.....	39,566,700
Purchase of treasury stock.....	1,979,685
Loans and investments.....	5,734,670
Dividends.....	2,578,670
Increase in cash.....	6,934,483
	<u>\$62,449,111</u>

chase pursuant to its guarantee of a second mortgage note on the Hotel New Yorker for \$4,664,929. The note is in default and foreclosure proceedings have commenced, but the Corporation believes that it is adequately secured against loss. The Corporation invested and loaned a total of \$2,023,530 to Hilton-Burns Holding Company in 1966 to assist in the financing of a garage and apartment building at the Hilton Hawaiian Village complex.

Carte Blanche Corporation, in which the Corporation owns an approximate 41 per cent non-voting equity interest, experienced an active year in 1966 with revenues, the number of cardholders and the number of associate establishments increasing substantially over the prior year. Advertising and sales promotion efforts were expanded during the past year, particularly in the eastern part of the United States, in order to increase the number of members and business associates honoring the Carte Blanche credit card. Increased market penetration was achieved in the New York area in 1966 and plans are proceeding for international expansion.



**NUMBER OF GUEST ROOMS
Available at Year End**



Dividends received from Carte Blanche Corporation amounted to \$1,220,816 in 1966 and the Corporation has a preferred right to receive a like amount of dividends in 1967, 1968, and 1969. In 1965, the Corporation's share of the profits of the former Hilton Credit Corporation, which was merged into Carte Blanche Corporation on December 31, 1965, amounted in consolidation to \$1,421,505.

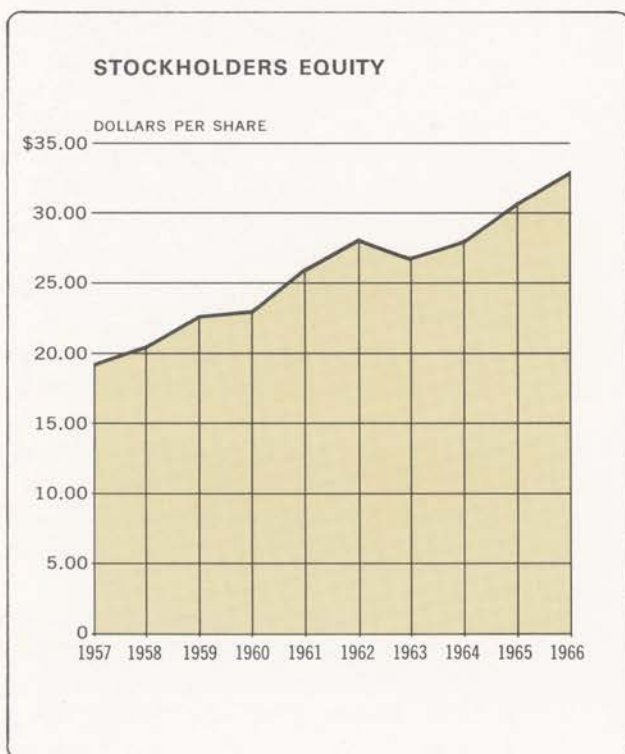
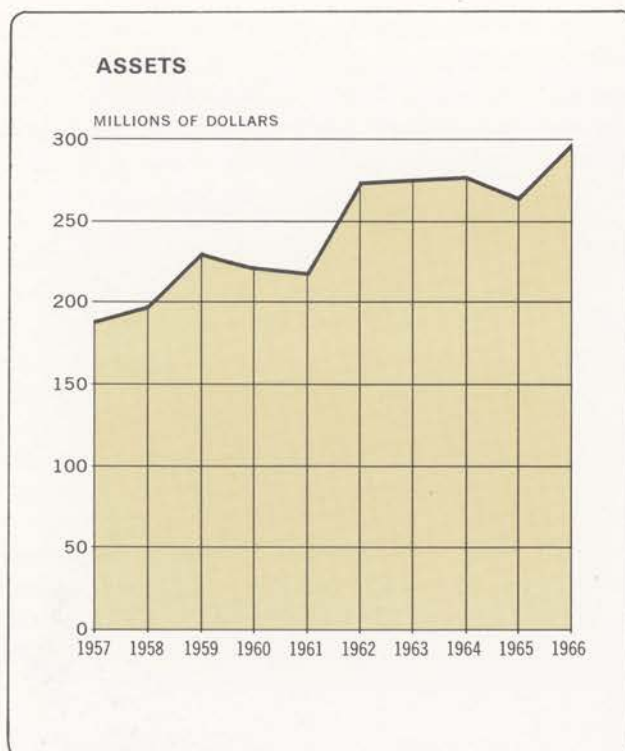
A subsidiary of the First National City Bank owns all of the voting common stock of Carte Blanche Corporation. The government's anti-trust action remains pending. A letter of credit in the amount of \$9,766,528 has been obtained to provide funds if the Corporation is required to repurchase the "Carte Blanche" business as the result of a court order in the anti-trust action. The letter of credit matures December 31, 1968, and, in the event the action is still pending at that date, the Corporation will endeavor to obtain an extension or will deposit the required funds in escrow.

Sales Development

A carefully conceived and well-coordinated sales program was carried forward in 1966 on national, regional and local levels to promote business for existing properties and those which will be added in the near future. The sales program is supervised and directed out of the national sales office in Chicago. National sales representatives or area sales managers are located in six major cities across the nation. They in turn work with the individual hotel's sales staff.

The principal sources of business other than the normal transient trade are conventions of all sizes, the travel industry, group business from corporations and government, and governmental agencies. Carefully-tailored programs have been instituted under the direction of senior sales executives who are concentrating their efforts on servicing these various markets.

During the past year, concentrated sales drives were carried on in cities throughout the country, including San Francisco, Atlanta, Houston, Detroit, St. Louis, Boston, Washington, D. C., San Diego, Los Angeles, Denver, Cincinnati and Pittsburgh. Repre-



sentatives from the national sales headquarters, together with management and sales representatives of Hilton hotels in the cities visited, called upon hundreds of company executives and industrial accounts in each of these cities. These campaigns have resulted in increased awareness of the Corporation, its various properties throughout the nation, and in particular, the facilities and services of our hotels in the areas where these sales drives have been held. In addition to attracting new and increased business to our properties, these campaigns have also helped to better inform the Corporation as to problems and marketing conditions in the areas where our hotels are located.

In 1967, national advertising will seek to aggressively promote business for our hotels. Campaigns aimed at attracting women guests to our properties and particularly to increase attendance of wives of convention delegates will continue.

Hilton Reservation Service

An important source of business for the Corporation in 1966 as in past years was the Hilton Reservation Service, a worldwide network of strategically located and widely-advertised offices, serving 311 key cities around the globe. Nearly 1,400,000 reservations were processed by the Service during 1966.

Hilton Service Corporation, the operator of the Hilton Reservation Service, has entered into a contract with Trans World Airlines, Inc., under which TWA will provide certain features of a computerized reservation service. Hilton Service is owned 51 per cent by the Corporation and 49 per cent by Hilton International Co. The implementation of the contract is contingent upon the effectiveness of the proposed merger of Hilton International and TWA.

The computerized reservation system would handle hotel reservation requests originating within the continental United States and Canada and would be used by Hilton Service Corporation for the benefit of the various hotels that are or may be served by it, including those of the Corporation and certain affiliated hotels as well as hotels of Hilton International Co. The agreement would be for a period of six years after the computerized system is first provided, subject to certain termination rights.

TWA would be reimbursed for the full cost to it of the system when utilized on behalf of the Corporation's hotels.

Food and Beverage Operations

The Corporation in 1966 strengthened its food and beverage operations throughout the nation. In purchasing, our primary goal is to take maximum advantage of the Corporation's considerable buying power to secure quality products at the lowest possible price. Our research and development department is working closely with suppliers to make available to our individual hotels the latest developments in food preparation. The trends towards pre-packaging, pre-preparation and portion control are being carefully followed and inserted into our operations where appropriate.

Officers and Directors

At the annual stockholders meeting in May, 1966, Donald W. Douglas, Jr., president of Douglas Aircraft Company, Inc., was elected a director of the Corporation.

During 1966, Herbert C. Blunck, Truett Gore and Edwin K. Hastings, previously vice presidents, were advanced to senior vice presidents. Mr. Blunck was named special assistant to Barron Hilton, and continues to make his headquarters in Washington, D.C. Mr. Gore is in charge of the Washington, D.C., operations for Hilton Hotels. Mr. Hastings is in charge of the newly-created Hawaiian division. He continues as general manager of the Hilton Hawaiian Village.

Also during the year, Stanley R. Zax, formerly a partner in a Chicago law firm, was elected vice president and secretary and appointed general counsel. He has been active in Hilton legal matters for several years.

Rooms	44.7¢
Food	31.2¢
Beverages	12.3¢
Other Departments	6.2¢
Stores and Office Building Rentals	2.4¢
Management and Franchise Fees	.9¢
Other Income	2.3¢

RECEIPTS FROM OPERATIONS



EXPENDITURES

Payroll and Related Expenses	40.5¢
Cost of Goods Sold	15.7¢
Repairs and Maintenance (Excluding Payroll and Related Expenses)	4.7¢
Other Expenses	13.6¢
Property Taxes	4.7¢
Lease Rentals	3.3¢
Interest—Net	3.3¢
Income Taxes	2.6¢
Dividends	1.3¢
Depreciation	8.2¢
Reinvested in the Business	2.1¢



HAWAII

The group of islands in the Pacific which became our 50th state has become one of the most appealing vacation playgrounds in the world. The unique variety Hawaii offers vacationists—from solitude to sportive, the hula to the hunt, surfing champions to championship golf courses, whether you wish to take part in a native ritual or stare into the soul of a gentle old volcano—seems almost endless to the beholder.

The inception of larger jet aircraft with low excursion fares and convenient flights, together with the most modern hotel and resort accommodations anywhere, is causing a travel surge on this part of the globe, placing a tropical paradise literally into everyone's backyard. The word of mouth popularity of the Islands is spreading across the nation and the world at a phenomenal rate. In the past five years the annual number of visitors to Hawaii has almost doubled to nearly 700,000. With its further discovery by the vacationing family—the practicality of paradise—tourism is projected by the Bank of Hawaii to expand to 2,000,000 visitors annually by 1975. This period will see what is expected to be the revolutionizing entry into air-travel of giant 400 plus—passenger airplanes with an even more economical schedule of rates. The high percentage of persons who have never flown is expected to decrease sharply within the next five years. The coincidental factors of greater disposable income and more leisure time available to the average American, with his "new places to go and worlds to conquer" attitude prevailing, leaves only to the imagination the extent of Hawaiian appeal in years to come.

While tourism as an industry now challenges in size the pineapple and sugar industries combined, the sheer extensiveness of the Islands virtually assures their continued unspoiled primitive beauty.

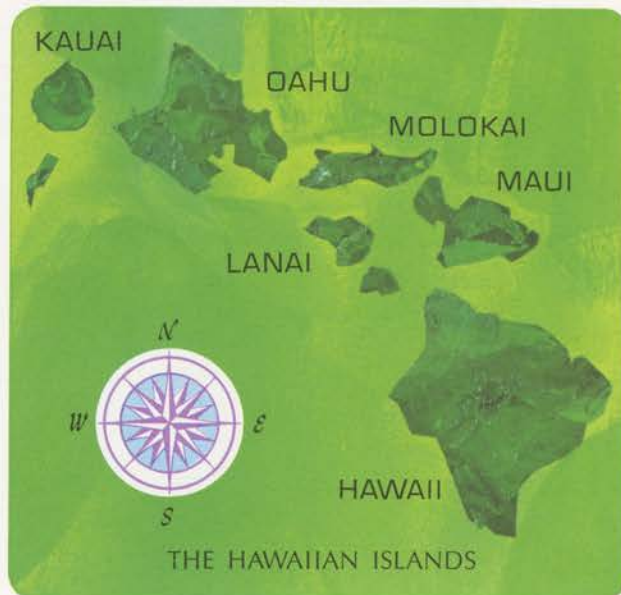
A roasted kalua pig, a pot of poi, papayas, a pineapple brimming with ambrosia...these are but a few of the score of tropical delicacies to be enjoyed at that most festive of all feasts, the luau! For pampering the palate, there's nothing like it...in any language. Add to this the company of Hawaii's most beautiful maidens, native dances and entertainment, and you'll never want to leave. You may go home eventually, but the memory lingers on.

Few people realize the large land area and number of islands comprising Hawaii which offer optimum vacation facilities. The year-round desirability of Hawaii as a vacation retreat is further enhanced by the tradewind currents in this part of the hemisphere. The southwest coasts of all its islands are rain-free much of the year, and they possess an unrivaled climate where the average mean temperature is 75 degrees. The uniformity of temperature and humidity is probably one of the rarest though taken-for-granted natural phenomena in the world.

The endless beaches, blue waters, greenery, rolling hills and mountains, together with an island-hopping accessibility for the entire region, give this land where sunsets rest a distinction and unforgettableness which casts its Polynesian spell and beckons again and again, forever aloha, to those who have once relished its lilting atmosphere and breadth of delights.

An Expanding Economy

The formal admission of Hawaii to statehood in 1959 called a greater and much deserved attention to this part of the world. It seems inappropriate to say a "boom" exists in these peaceful islands of gentle breezes and swaying palms but the fact remains that there is unobtrusive evidence of growth

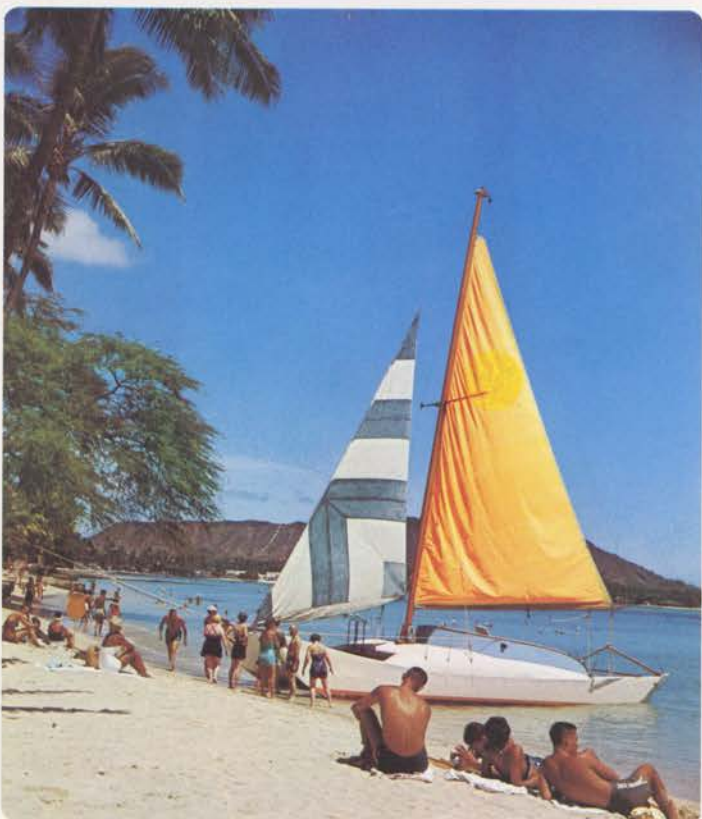
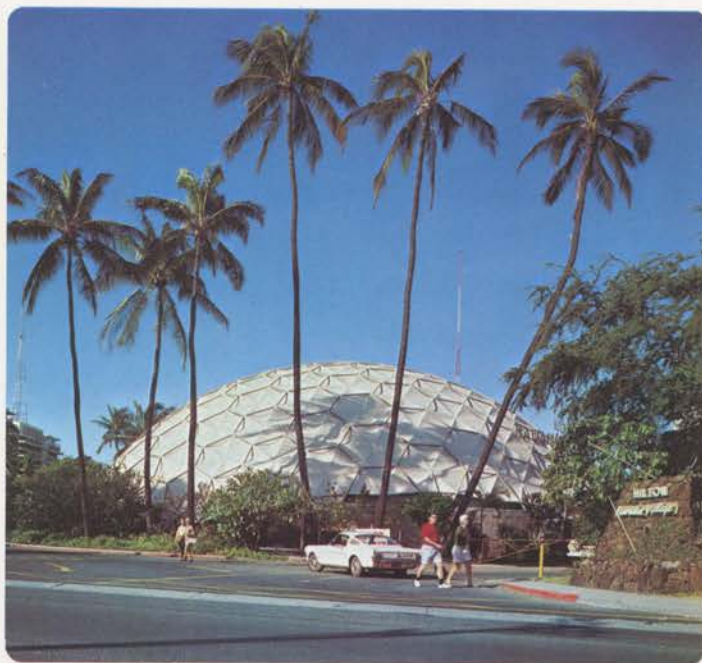


Hilton Hawaiian Village

the fun resort



- | | |
|--------------------------------|----------------------------|
| DIAMOND HEAD APARTMENTS 1 | 5 OCEAN TOWER |
| DIAMOND HEAD TOWERS 2 | 6 BEACH APARTMENTS |
| VILLAGE TOWER 3 | 7 HILTON LAGOON APARTMENTS |
| HILTON HAWAIIAN VILLAGE DOME 4 | 8 HOTEL ADDITION |



If man can
create a paradise,
he has done it
here in Hilton's
Hawaiian Village...
a 20-acre complex
of exotic beauty
and sun-splashed
brilliance located
on Waikiki's
world-famous beach.

Ultra-modern architecture, surrounded by nature's ageless miracles. It's a glorious combination in Hilton's Hawaiian Village.

It's wonderful Waikiki...a front yard full of fun when you're a guest at the Hawaiian Village, Honolulu's most luxurious resort.

everywhere. The traditional agricultural industries have been complemented by such space-age activities as oceanography and astrophysics. Twelve airlines now serve the new state, with many more applying for this right. The state is rapidly becoming one of the prime convention areas in the nation.

Hawaii's rate of population increase has been among the highest in the country. The requirements of a larger population are being met by Hawaiian companies and island representation by some of the largest corporations in the world. Capital investment in new plant and equipment in 1966 is estimated to have been 17 per cent above 1965 while retail sales increased about 10 per cent. Employment reached an all-time high during the year, and personal income rose by 8 per cent. Among the nation's cities, Honolulu ranked 5th in building permit valuations in 1966.

Hilton Participation

The Corporation through its 50 per cent ownership of Hilton-Burns Holding Company and its management of the Hilton Hawaiian Village and other island hotels under construction is one of the major participants in the development of Hawaii. Mr. Fritz B. Burns, a director, and associates own the remaining 50 per cent of Hilton-Burns Holding Company. At year end the Corporation had invested \$9,623,058 and has commitments to loan or invest an additional \$13,522,875 in Hawaii. Our present properties in operation and those under construction will fortify the Corporation's position to best serve the tourists and residents of today and in years to come.

The Hilton Hawaiian Village, situated on the most populated of the islands, the Island of Oahu, is a resort paradise of an ultimate sort; the complete, other-worldly place one dreams of as the ideal vacation spot. It is 20 acres of tropical gardens, 18 of which are owned in fee by the Corporation's 50 per cent owned subsidiary. The most popular social center in Honolulu, and with more than 1000 rooms, the Village is the largest resort hotel complex on Waikiki Beach. It offers the most extensive convention facilities in the state. In addition to seven large meeting rooms in the hotel



proper, there is the Dome convention center seating 1200 for meetings and the Long House with a capacity of 650.

The white sandy beaches of the Hawaiian Village face Diamond Head, and there is a variety of activities and services available to vacationists which would defy a complete listing. The hotel is the only one on this famous stretch of beach which has its own dock and catamarans. There are accommodations to suit all tastes and budgets, pastimes to satisfy every vacation whim or desire.

Construction of the **Hilton Lagoon Apartments** on the Hawaiian Village grounds has recently been completed. This 25-story building containing 235 luxury apartments is owned by the Corporation's 50 per cent owned subsidiary. The apartment hotel overlooks the lush tropical garden area of the complex, and residents will have access to all the services of the Village. It has a swimming pool and other outdoor recreational facilities are available. There are nearby hotel shops and concessions, and the apartment building is close to distinctive shopping areas and the city's yacht harbor. There is a

*You've probably paddled a lazy canoe.
Pick up the pace in Hawaii in an outgoing outrigger...
it's like surfing sitting down!*

range of accommodations to suit individual tastes and requirements. Each apartment has an outdoor lanai as well as fingertip airconditioning control.

Plans were announced in February, 1967 for a multimillion dollar expansion of the Hilton Hawaiian Village, including a 32-story 800-room oceanfront hotel. In addition there will be a 600-seat theater and a new Village Bazaar shopping area as part of the program. Construction on the hotel addition is expected to begin April 1 of this year with completion set for late 1968. The Village Bazaar is also to be finished by that time, with the movie theater ready for use before the end of this year. The master plan for the Village complex still leaves space for future expansion. As a result of the recent settlement of the derivative lawsuits, and in view of the high interest rates for long-term mortgage funds, the Corporation agreed to loan its 50 per cent owned subsidiary up to \$10 million at 6½ per cent interest for the hotel addition.

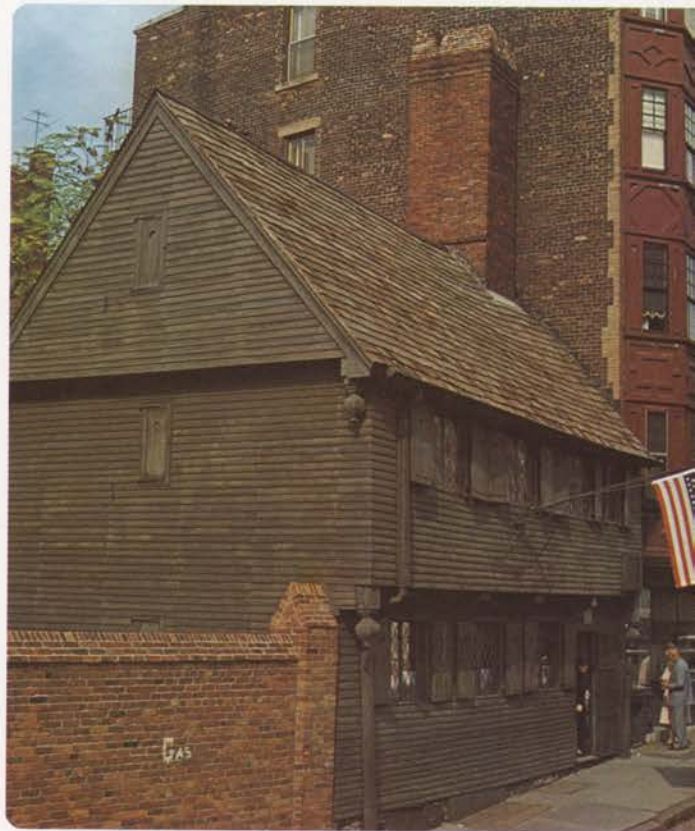
The Hilton Hale Kaanapali resort hotel, scheduled for opening in April of this year and to be managed by the Corporation, is located in a majestic and self-contained resort area on the Island of Maui. Plans for this section of the islands are so well conceived that it is expected to soon rank as one of the world's finest resort areas. Situated on an 11-acre oceanfront tract, the hotel comprises a 6-story and four 2-story buildings totaling 252 units. There are two luxurious swimming pools and a beach pavilion with a variety of services provided. The location offers a stunning view of the Islands of Lanai and Molokai and is adjacent to the Royal Lahaina Golf Course which is open to guests. There is a nearby private airport which can accommodate small planes. A few minutes away is the ancient whaling port of Lahaina. The hotel is of early Polynesian and Hawaiian Monarchy design, with a decor of Spanish and Portuguese influence.

The Kona Hilton, a \$4 million, 200-room hotel expected to open in early 1968, is located on the largest of the islands, the Island of Hawaii. This is an island noted for its historical sights and untraveled places. There is a seeming seclusion and yet the hotel is only 48 minutes by air from Honolulu. Nestling on a small peninsula along the pic-

turesque Kona Coast shoreline, the hotel has a most compelling architecture. The landscaping has taken advantage of a natural palm grove. Each room with its private lanai commands a spectacular sweeping view in each direction along the coast. The hotel, to be managed by the Corporation, is being constructed by a partnership owned 50 per cent by the Corporation and 50 per cent by Fritz B. Burns, a director, and associates.

Other Expansion

The new St. Paul Hilton was formally dedicated on September 16. This 24-story downtown hotel is the tallest hotel in the Twin Cities and includes a 300-car inside garage. The location provides a panoramic view of the Mississippi River and is only 20 minutes from the International Airport. There are 9 private dining and meeting rooms, spacious exhibit areas, a large ballroom, several restaurants and The Top of the Hilton, a revolving



You don't have to be a history buff to enjoy a shiver of pride in Boston. Try a visit to the home of Paul Revere... you'll learn that "heritage" is more than just a word.



1



2



3



Baghdad by the bay! That's San Francisco. As exotic as the Orient, as cosmopolitan as Europe, this delightful city offers America's most varied menu of interests and entertainments. Cable cars and coffee bars, opera stars and super-stars ...you'll find them in San Francisco.

carousel lounge which is reached by a glass walled "scenic" elevator. The Corporation has an investment in stock and notes of SPH Hotel Company, owner of the 500-room hotel, and has a 20-year contract to manage the property.

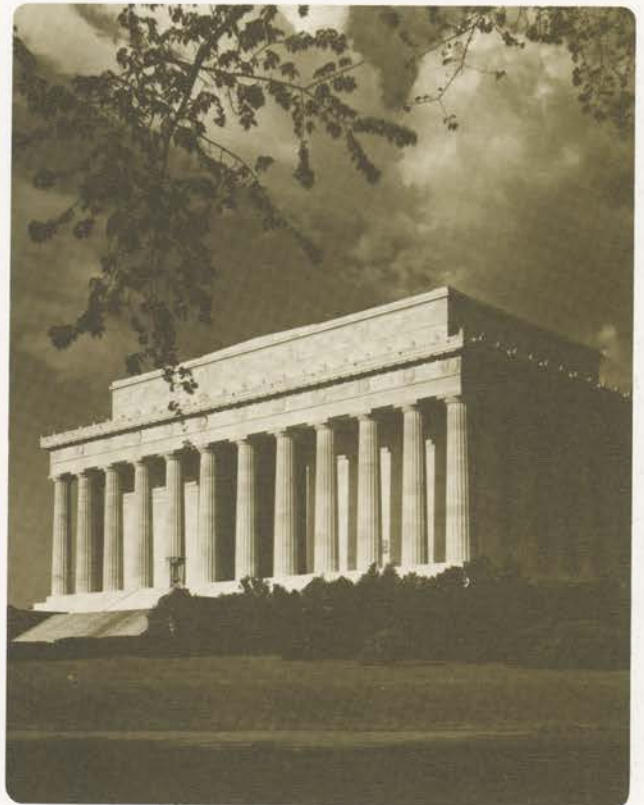
On October 31, the Corporation purchased for \$3,300,000 and assumed operation of the 220-room, Mayfair-Lennox Inn located near the St. Louis Airport. This property, renamed The Hilton Inn, which first opened in 1963, is only 15 minutes by car from the downtown area and consists of a 4-story main building and five 2-story cabanas on 13 acres of landscaped grounds. Various meeting rooms accommodating from 25 to 250 are available, and there are swimming and tennis provisions as well as a main dining room, coffee shop and cocktail lounge. The Hilton Inn, St. Louis, joins existing Hilton Inns located at the airports of five other major cities.

In March 1966, the Corporation exercised its option to repurchase The Beverly Hilton in Beverly Hills, California, at the original 1961 sale price. In June, construction began on a 180-room addition which is expected to be completed in 1967 and will bring the room total to 630. The addition involves a connecting 4-story building to be built around a new swimming pool. There will also be an entire refurbishing of the existing lobby. The International Ballroom has been redecorated and a new ballroom added. Upon conclusion of the program, The Beverly Hilton will have been completely refurbished within the last three years.

1. *Porpoises in Chicago? Certainly! This popular attraction at the windy city's Brookfield Zoo is just one of many unexpected but always delightful diversions to be found throughout Chicagoland.*
2. *Here's New York! Need more be said? This crossroads of the world caters to every taste ever imagined... in things to do, places to go, sights to see.*
3. *New Orleans for the Mardi Gras! You'll never know the meaning of fun until you've been a part of this most festive of all festivals.*
4. *The Lincoln Memorial is just one of the reasons why Washington, D. C. is among America's most visited cities.*

The Corporation in April 1966 also exercised its option to buy the hotel and land of the 450-room Statler Hilton in Hartford, Connecticut, the state's largest hotel. The Corporation has operated this property since shortly after its completion in 1954. Now known as The Hartford Hilton, a major improvement program was initiated involving construction of a three level parking garage for 300 cars, with direct access to the hotel. The entire hotel has been redecorated and in some areas redesigned to provide a more modern look.

As of September 30, the Corporation acquired an undivided one-half interest in The San Francisco Hilton for \$1,500,000 in cash and a \$4,500,000 five-year purchase money mortgage note. As a result, the Corporation now owns all of this centrally located 1,141-room hotel which had its opening in 1964. Construction commenced in August on a ballroom and exhibit hall addition which is scheduled for completion this spring. The new ballroom will seat 800 persons for banquets and 1200 for



meetings. The 10,000 square foot exhibit hall will provide facilities for 73 exhibit booths.

Three hotels to be managed by the Corporation under long-term contracts are currently under construction. The largest Hilton Inn to date, the 406-room Hilton Inn in Dallas, is to open in April, 1967. The 9-story central tower complete with garage facilities is located on a 5½ acre site only 7 minutes from either downtown Dallas or Love Field Airport. Construction is on schedule for a summer 1967 opening of the 200-room Cape Kennedy Hilton at Cape Canaveral, Florida. This hotel is located in a prestige business area only 1½ miles from the gates of Cape Kennedy and the Space Center. Ground was broken early in 1966 for the 350-room Baltimore Statler Hilton. This 24-story hotel is a joint venture of which Hilton Hotels owns approximately 18 per cent which it has agreed to sell under certain conditions, in such event, the hotel would operate as a Statler Hilton franchise.

Franchising

The Corporation's franchise program under the Statler Hilton name moved ahead at a good pace in 1966, its first full year of operation, although progress was limited somewhat by the influence of

Whatever the weather, it's always "play ball" in the Houston Astrodome. Whether you're a baseball bug or an architecture buff, you'll want to see the latest Texas example of the biggest and the best.



tight money and high interest costs. At present there are nine franchised properties in operation. Franchise agreements have been signed for 17 additional properties of which two are under construction. Additional sites are being negotiated or investigated. States in which franchised properties are now operating or under construction include Arizona, Florida, Kentucky, Massachusetts, Michigan, New York, North Carolina, Ohio and Wisconsin.

Properties selected for participation must provide the physical comfort and standards of service generally associated with the Hilton name and be soundly financed and capably managed.

Property Enhancement

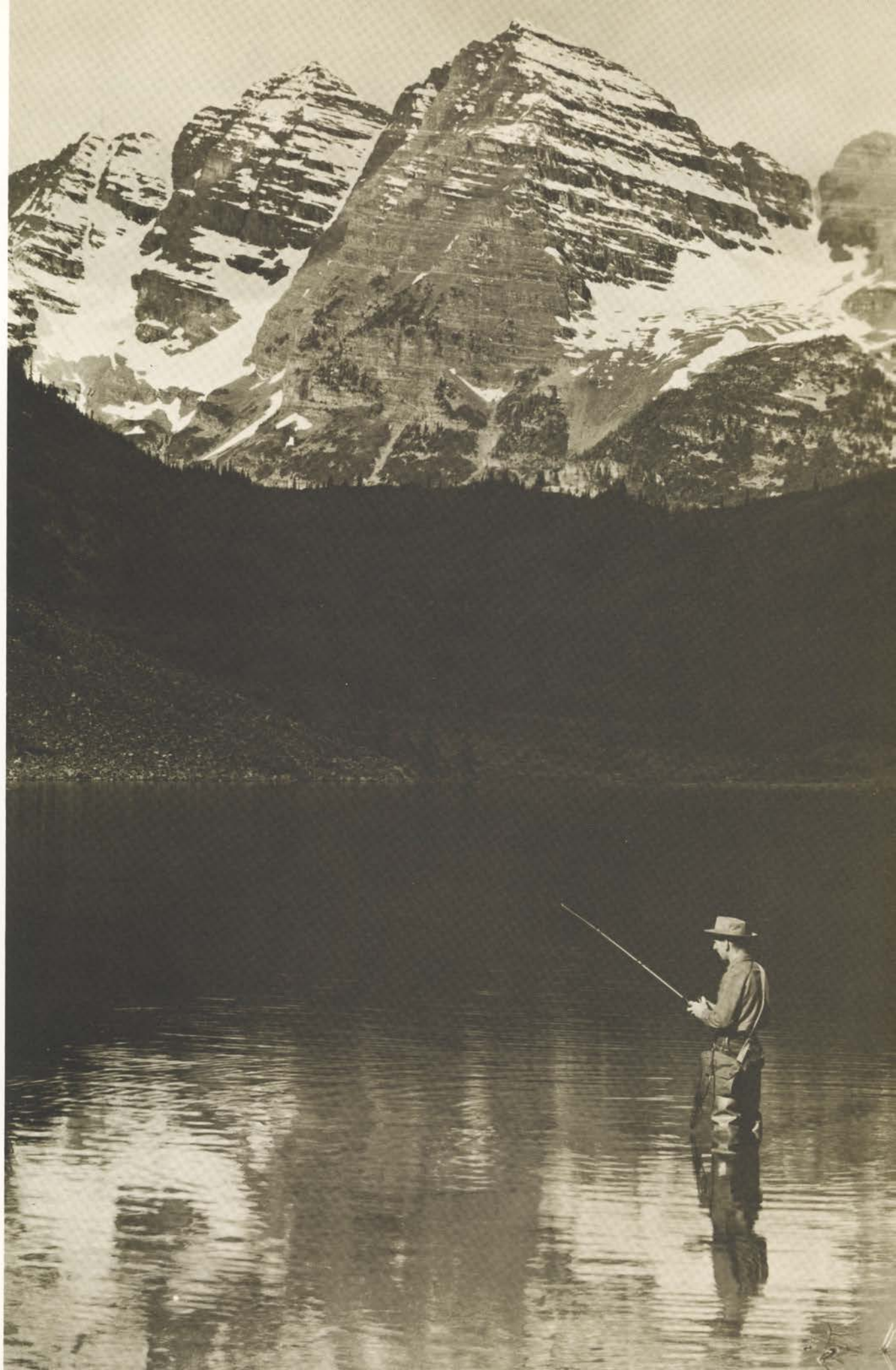
The Corporation is continually enhancing its properties by refurbishing guest rooms and opening new facilities designed to better service its customers. The Statler Hilton in Los Angeles redecorated and refurbished 848 guest rooms and suites, the Pacific Ballroom and a number of private meeting rooms in 1966. This work was accomplished while the hotel was in normal operation. The final phase of the program, including the balance of the guest rooms, as well as a new coffee shop, lobby and entrance, will be completed this year.

At The Palmer House the luxurious new Palmer's Steak House and Tavern, comprised of a main dining room, a smaller more private dining area and a bar and cocktail lounge was opened for business. This completed the extensive \$12 million modernization program begun in 1963.

Oscar's, an unusual new coffee house, opened at The Waldorf-Astoria early in 1967. Designed in a New Orleans garden motif, there are three separate areas created for counter service, dining room and cocktail lounge.

Other dining facilities opened during the year included the Roman Pub at The New York Hilton, the California Wine & Garden Restaurant at The San Francisco Hilton, Cafe Pennsylvania 6-5000 at The Statler Hilton in New York and the re-opening of the luxuriously decorated Empire Room at The Waldorf-Astoria. In addition, programs for the re-decorating and refurbishing of guest rooms at many of our hotels progressed on schedule.

How could you help but love Colorado? Fisherman, skier, or cosmopolite...you'll find your fun on ski slopes and mountains, in rushing streams and western resorts.



COMPARATIVE CONSOLIDATED BALANCE SHEET**ASSETS**

December 31

CURRENT ASSETS

	1966	1965
Cash.....	\$ 21,216,534.31	14,282,051.22
Short-term commercial notes.....	74,681.77	248,878.47
Note receivable, Carte Blanche Corporation.....	—	9,766,528.00
Accounts and other notes receivable.....	15,092,911.77	14,035,566.33
Less: Allowance for doubtful accounts.....	765,271.19	658,756.56
	14,327,640.58	13,376,809.77
Inventories of merchandise and supplies (at cost).....	2,345,551.93	2,341,954.61
Other current assets		
Installment sales contracts and other notes—		
payments receivable within one year (note 2).....	921,566.15	2,605,433.83
Due from affiliated companies.....	638,842.25	974,220.11
Prepaid expenses.....	1,877,978.48	1,939,534.72
Sundry—other.....	1,354,583.40	499,492.07
Total.....	4,792,970.28	6,018,680.73
Total current assets.....	42,757,378.87	46,034,902.80

INVESTMENTS (note 2)

Capital stocks.....	6,164,372.48	6,164,372.48
Installment sales contracts and other notes.....	466,874.17	2,058,842.00
Securities and indebtedness of 50% owned companies.....	17,829,257.25	15,353,612.00
Securities and indebtedness of affiliates—not current.....	6,027,124.75	5,889,433.84
Other investments.....	5,416,129.28	1,001,200.00
	35,903,757.93	30,467,460.32
Less: Amount due within one year (above).....	921,566.15	2,605,433.83
Total investments.....	34,982,191.78	27,862,026.49

FIXED ASSETS (note 3)

Land.....	26,864,179.29	24,950,912.37
Buildings.....	140,987,516.80	112,085,777.34
Furniture and equipment.....	43,785,855.44	39,683,793.86
Leaseholds and improvements.....	45,149,500.32	46,384,993.57
	256,787,051.85	223,105,477.14
Less: Accumulated depreciation and amortization.....	68,237,342.61	61,483,011.63
Total.....	188,549,709.24	161,622,465.51
Revisions and alterations.....	21,316,675.47	19,734,868.58
Operating equipment.....	5,416,993.86	5,272,918.49
Total.....	215,283,378.57	186,630,252.58

OTHER ASSETS AND DEFERRED CHARGES

Due from officers and directors (net of \$125,000.00 included in current assets).....	700,000.00	—
Preopening expenses.....	114,983.21	453,123.28
Organization expenses.....	472,907.40	473,297.04
Unamortized mortgage and loan expenses and discount.....	2,306,312.59	2,362,561.25
Other assets and deferred charges.....	568,021.13	743,050.22
Total.....	4,162,224.33	4,032,031.79

TOTAL ASSETS	\$297,185,173.55	264,559,213.66
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Notes to financial statements form an integral part of this statement and should be considered in connection therewith.

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31

CURRENT LIABILITIES

Accounts payable.....	\$ 6,293,794.66	5,972,271.68
Accrued expenses and charges.....	9,545,042.23	9,180,416.87
Long-term debt due within one year.....	7,009,520.45	4,570,797.17
Estimated Federal and State taxes on income (note 4).....	5,966,250.00	3,586,759.72
Sundry—other.....	844,625.21	739,744.56
Total current liabilities.....	<u>29,659,232.55</u>	<u>24,049,990.00</u>

LONG-TERM DEBT (notes 5 and 8)

Mortgage bonds and notes.....	140,063,972.95	112,450,470.38
4½% fifteen-year convertible debentures.....	646,000.00	649,000.00
4% twenty-five year sinking fund debentures.....	2,341,389.68	2,421,324.93
6% subordinated sinking fund debentures.....	14,258,000.00	14,273,000.00
Bank loans and other notes payable.....	1,145,678.10	2,070,575.24
Sundry—other.....	15,000.00	52,500.00
	<u>158,470,040.73</u>	<u>131,916,870.55</u>
Less: Amounts due within one year (above).....	7,009,520.45	4,570,797.17
Total long-term debt.....	<u>151,460,520.28</u>	<u>127,346,073.38</u>

DEFERRED CREDIT—FEDERAL INCOME TAXES (note 3).....	<u>3,245,989.03</u>	<u>2,909,068.35</u>
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DEFERRED INCOME

Unrealized profit on sale of properties.....	—	949,797.12
Sundry—other.....	56,486.68	59,117.28
Total deferred income.....	<u>56,486.68</u>	<u>1,008,914.40</u>

RESERVES—SUNDRY.....	<u>53,427.47</u>	<u>48,271.82</u>
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MINORITY INTEREST IN SUBSIDIARY.....	<u>122,500.00</u>	<u>122,500.00</u>
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SHAREHOLDERS' EQUITY

Capital stock (note 6)		
Cumulative preferred, issuable in series, par \$25.00 authorized and unissued 221,267 undesignated shares.....	—	—
Common, par \$2.50. Authorized 8,000,000 shares. Issued 4,539,105 shares and 4,538,805 shares (including 1,109,739 and 994,739 shares in treasury—see below).....	<u>11,347,762.50</u>	<u>11,347,012.50</u>
Surplus		
Capital surplus.....	40,404,054.39	39,572,810.64
Earned surplus.....	81,876,240.59	77,215,927.83
Reserve for contingencies (note 7).....	2,500,000.00	2,500,000.00
Total surplus.....	<u>124,780,294.98</u>	<u>119,288,738.47</u>
Total.....	<u>136,128,057.48</u>	<u>130,635,750.97</u>
Deduct:		
1,109,739 shares and 994,739 shares of common stock in treasury (at cost).....	<u>23,541,039.94</u>	<u>21,561,355.26</u>
Total shareholders' equity.....	<u>112,587,017.54</u>	<u>109,074,395.71</u>

COMMITMENTS AND CONTINGENT LIABILITIES (notes 8 and 9)

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	<u>\$297,185,173.55</u>	<u>264,559,213.66</u>
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COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

Year Ended December 31

	1966	1965
REVENUE		
Rooms.....	\$ 87,544,543.69	83,095,708.63
Food and beverage.....	85,152,130.52	81,612,396.09
Other operated departments.....	12,195,928.35	12,120,758.91
Management fees.....	1,467,409.45	1,039,090.15
Franchise and license fees.....	268,999.02	109,786.27
Other income.....	4,399,267.62	4,267,427.24
Store rentals.....	2,839,813.27	2,651,346.92
Office building rentals.....	1,780,778.96	1,775,911.99
	<u>195,648,870.88</u>	<u>186,672,426.20</u>
OPERATING COSTS AND EXPENSES		
Departmental costs and expenses.....	104,862,122.76	102,557,899.35
Office building expenses.....	642,380.18	654,106.75
Administrative and general.....	13,971,961.37	13,352,283.98
Advertising and business promotion.....	5,161,899.26	5,642,882.97
Heat, light and power.....	7,593,563.45	7,580,056.71
Maintenance and repairs.....	13,578,179.92	12,237,718.44
Lease rentals.....	6,373,889.69	7,616,698.49
Real estate and personal property taxes.....	9,171,523.36	8,932,994.11
Interest (net).....	6,417,313.15	6,269,079.34
Depreciation and amortization.....	15,952,967.76	14,872,579.79
Corporate expenses and sundry capital charges.....	1,489,229.99	1,567,697.48
	<u>185,215,030.89</u>	<u>181,283,997.41</u>
NET OPERATING PROFIT.....	<u>10,433,839.99</u>	<u>5,388,428.79</u>
ADDITIONS TO OR (DEDUCTIONS) FROM INCOME		
Income from Hilton Credit Corporation (net).....	—	1,896,351.10
Dividends.....	1,222,616.00	1,800.00
Contribution to pension trust.....	(40,288.00)	(152,243.00)
Sundry—other.....	116,780.97	222,382.92
	<u>1,299,108.97</u>	<u>1,968,291.02</u>
PROFIT FROM OPERATIONS BEFORE INCOME TAXES	<u>11,732,948.96</u>	<u>7,356,719.81</u>
PROVISION FOR INCOME TAXES (note 4)		
Federal.....	4,777,203.89	2,902,396.09
State and city.....	362,198.60	50,000.00
	<u>5,139,402.49</u>	<u>2,952,396.09</u>
PROFIT BEFORE MINORITY INTEREST.....	<u>6,593,546.47</u>	<u>4,404,323.72</u>
MINORITY INTEREST.....	<u>(80,841.40)</u>	<u>379,358.40</u>
NET INCOME.....	<u>6,674,387.87</u>	<u>4,024,965.32</u>
REALIZED PROFIT ON SALE OF PROPERTIES.....	<u>421,165.20</u>	<u>3,664,451.94</u>
Less: Taxes applicable thereto.....	86,330.00	916,112.99
	<u>334,835.20</u>	<u>2,748,338.95</u>
TOTAL NET INCOME AND PROFIT.....	<u>7,009,223.07</u>	<u>6,773,304.27</u>
SPECIAL ITEMS		
Profit on Hilton Credit Corporation/Carte Blanche Corporation Merger	(53,242.29)	9,214,590.87
Loss on redemption of debentures.....	—	(984,062.65)
Provision for loss on investments (note 2).....	269,690.91	(2,138,287.42)
	<u>216,448.62</u>	<u>6,092,240.80</u>
Less: Taxes applicable thereto.....	(13,310.57)	1,198,995.11
	<u>229,759.19</u>	<u>4,893,245.69</u>
TOTAL NET INCOME AND PROFITS AND SPECIAL ITEMS	<u>\$ 7,238,982.26</u>	<u>11,666,549.96</u>

Notes to financial statements form an integral part of this statement and should be considered in connection therewith.

STATEMENT OF CONSOLIDATED SURPLUS**CAPITAL SURPLUS**

BALANCE—DECEMBER 31, 1965	\$39,572,810.64
ADD:	
Surplus arising from exchange of 300 shares Hilton Hotels Corporation common stock for 1,500 shares of common stock of Statler Hotels Delaware Corporation—previously recorded as dissenters to merger in 1962.....	6,243.75
Surplus arising from settlement of derivative lawsuits (note 8).....	<u>825,000.00</u>
BALANCE—DECEMBER 31, 1966	<u><u>40,404,054.39</u></u>

EARNED SURPLUS

BALANCE—DECEMBER 31, 1965	77,215,927.83
ADD:	
Net income and profit and special items for the year ended December 31, 1966.....	<u>7,238,982.26</u>
	<u>84,454,910.09</u>
DEDUCT:	
Dividends paid on common stock.....	<u>2,578,669.50</u>
BALANCE—DECEMBER 31, 1966	<u><u>\$81,876,240.59</u></u>

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and
Shareholders of Hilton Hotels Corporation

We have examined the consolidated balance sheet of Hilton Hotels Corporation and its Subsidiaries at December 31, 1966 and the related consolidated surplus and income statements for the year then ended.

These consolidated statements have been prepared from financial statements of Hilton Hotels Corporation and its Subsidiaries which were either audited by us or by another firm of independent public accountants who have submitted to us their certificate concerning the underlying financial statements examined by them.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examination and upon the opinion expressed in the certificate of another firm of independent public accountants pertaining to the operating units and companies examined by them, the accompanying consolidated balance sheet and related statements of consolidated surplus and income, together with explanatory notes thereto, present fairly the financial position of Hilton Hotels Corporation and its Subsidiaries at December 31, 1966 and the results of consolidated operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois
March 10, 1967

Harris, Kerr, Forster & Company

NOTES TO FINANCIAL STATEMENTS**1. Basis of Consolidation**

The consolidated financial statements include the accounts of all divisions, majority and wholly-owned subsidiaries of Hilton Hotels Corporation (the Company) and the results of operations for ten months of 1966 of an affiliated partnership in which the Company had a majority-interest to October 31, 1966. Subsequent thereto, the Company exchanged its interest in the partnership for securities of a company in which it has a 50% voting interest.

2. Investments

A certain note received in connection with the sale of a hotel property in 1956 was secured by a second mortgage. This note requires periodic payments and matures July 1, 1976. Required payments receivable for the next five years approximate \$22,846, 1967; \$24,015, 1968; \$25,244, 1969; \$26,535, 1970 and \$27,893, 1971.

An investment in a 25% owned company was adjusted upward by \$269,691 to the unaudited underlying book value of the investment at December 31, 1966.

Investments and advances in 50% owned companies aggregated \$17,829,257 while the underlying equity in these investments and advances amounted to \$18,795,819.

On June 20, 1966, the Company repurchased a second mortgage note which it had sold and guaranteed inasmuch as payments of interest and principal were in default and there were alleged defaults under the first mortgage held by another person. The mortgagor has filed for a reorganization under the Federal Bankruptcy Law. Foreclosure proceedings with respect to the second mortgage note are pending in the Supreme Court of New York, New York County, and the property is being operated by receivers.

The second mortgage note is carried as an investment in the amount of \$4,664,929 and no reserve has been provided therefor inasmuch as the Board of Directors of the Company has concluded that said second mortgage note is worth its face amount.

3. Fixed Assets

A major portion of these assets is pledged to secure mortgages of the consolidated companies. Fixed assets are carried at cost or were carried over from predecessor companies together with related depreciation reserves at predecessors' basis. Additions to such assets were carried at cost.

Depreciation of fixed assets has been computed on the basis of the straight-line method for accounting purposes. For income tax purposes, the Company has elected to compute depreciation on the double declining balance method for one hotel and the sum-of-the-digits method with respect to certain additions to fixed assets. Accordingly, the Company has included in the provision for income taxes and in the balance sheet an amount equal to the Federal income tax benefit from the use of these methods of accelerated depreciation.

Subsequent to December 31, 1966, the Company sold a hotel for cash at a realized profit of \$357,161 net of applicable taxes.

4. Federal Income Taxes

Federal income tax returns of the Company and its Subsidiaries subsequent to 1957 are either under or subject to examination by the Internal Revenue Service.

The Company has not paid but has reserved approximately \$2,100,000 to cover taxes and interest due on the 1965 gain on the Hilton Credit Corporation-Carte Blanche Corporation merger. A ruling has been requested from the Internal Revenue Service.

The allowable investment credit for 1966 of \$233,440 has been reflected in income as a reduction of the provision for Federal income taxes.

5. Long-Term Debt

A Trust Indenture securing the 4½% fifteen year Convertible Debentures of the Company (conversion privileges expired January 2, 1958), maturing January 1, 1970, requires annual Sinking Fund payments on January 15th in an amount sufficient to redeem, at the principal amount, without premium, 4% for each year to maturity. The Company has complied with this provision. Debentures in the treasury at December 31, 1966 aggregated \$509,000, which may be used for Sinking Fund payments.

The 4% twenty-five year Sinking Fund Debentures maturing July 1, 1983 are entitled to the benefits of an annual Sinking Fund payment in an amount sufficient to redeem, at their principal amount, without premium, 2% of the highest principal amount at any time outstanding. The Company has complied with this provision. Debentures in the treasury at December 31, 1966 aggregated \$265,000, which may be used for Sinking Fund payments.

The Company's 6% subordinated Sinking Fund Debentures, maturing October 15, 1984, are entitled to the benefit of an annual Sinking Fund payment commencing October 15, 1965. The Company is obligated to pay into the Sinking Fund on or before October 15th in each year from 1965 to 1969 a sum equal to 2% of the largest principal amount of Debentures outstanding on or prior to August 31, 1965, (\$600,000), and thereafter annually, in an amount equal to 1/15th of the principal amount of Debentures outstanding on October 15, 1969 after giving effect to redemptions out of the Sinking Fund payment made for that date. The Company has complied with this provision. The Debentures were redeemable at 104¾% at October 31, 1966 and at decreasing prices thereafter. Debentures in the treasury at December 31, 1966 aggregated \$15,142,000, which may be used for Sinking Fund payments.

Under the most restrictive covenant of the Indenture securing the 6% Debentures, the Company and its Subsidiaries are restricted from issuing or incurring or guaranteeing long-term debt (as defined) senior to or ranking with the Debentures unless the pre-tax earnings of the Company and its consolidated Subsidiaries for the year preceding such issuance or guaranty and also for either one of the two immediately preceding years thereto shall be at least three times the annual interest requirements on all the indebtedness in which the Company and such Subsidiaries are to be liable, but the foregoing does not restrict short-term bank loans, indebtedness subordinated to the Debentures, indebtedness secured by mortgages to institutional lenders, or purchase money mortgages.

The annual Sinking Fund and maturity requirements on total long-term debt for each of the five years ended December 31st follows: 1967, \$7,009,520; 1968, \$6,780,278; 1969, \$7,209,213; 1970, \$8,552,824; 1971, \$7,571,238.

6. Capital Stock

At December 31, 1966, 412,500 shares of common stock of the Company had been reserved for the exercises of warrants which were originally attached to the \$30,000,000 issue in 1959 of 6% Subordinated Sinking Fund Debentures of the Company. The warrants provide that the Company's common stock may be purchased at \$46 per share to October 15, 1967 and \$50 per share to October 15, 1971, the date of the expiration of the warrants. In connection with the distribution of the stock of Hilton International Co. in 1964 shareholders of the Company received one-half share of the common stock of Hilton International Co. for each share of Hilton Hotels Corporation common stock held. As the result of the aforementioned distribution and a 5% stock dividend by Hilton International Co., upon exercises of the warrants the holder will receive .525 shares of Hilton International Co. stock in addition to each share of the Company's stock so purchased. In the event any of the warrants are exercised, the Company has agreed to pay Hilton International Co. or Trans World Airlines, Inc., as the case may be, \$21.90 through October 15, 1967 and \$23.80 thereafter for each warrant exercised.

7. Reserve for Contingencies

This reserve was established by the Board of Directors to provide for possible adjustments for taxes, investments and other contingencies. The policy of the Company has been not to charge losses when realized against the reserve account.

8. Commitments and Contingent Liabilities

The Company had commitments approximating \$2,131,550 in connection with construction, repairs and maintenance, major revisions and alterations of certain of its properties and furniture and equipment purchases.

Subsequent to December 31, 1966 the Company had commitments or had approved further loans or investments in Hawaii aggregating \$13,522,875 as follows: Hilton-Burns Holding Company, (50% voting interest), \$1,172,875, Hilton-Burns Hotels Company, Inc. (wholly-owned subsidiary of "Holding"), \$10,350,000, and Hilton-Burns Kona Partnership (50% interest), \$2,000,000.

The Company has guaranteed the first maturing \$7,500,000 of a \$15,000,000 first mortgage loan of Hilton-Burns Hotel Company, Inc., a wholly-owned subsidiary of Hilton-Burns Holding Company, which had been paid down to \$13,338,675 at December 31, 1966.

The Company is guarantor of rentals and other lease obligations of Hilton of Canada, Ltd., a subsidiary of Hilton International Co., and of the Caribe Hilton, an operating unit of Hilton International Co.

The Company, its officers, directors and subsidiaries, are en-

gaged in various litigation but the Company's legal counsel are of the opinion that the defendants have meritorious defenses and do not anticipate that they will be liable for any material amounts.

Reference is made to the caption "Investments," page 7 of the Report on Operations with respect to the anti-trust litigation in connection with the merger of Hilton Credit Corporation into Carte Blanche Corporation.

In connection with the consummation of the Carte Blanche Corporation transaction and in view of the fact that the Federal income tax returns of Hilton Credit Corporation have not been examined, the Company has indemnified Carte Blanche Corporation under certain circumstances against any losses resulting from Hilton Credit Corporation's loss carry-forward being less than \$4,002,103 at April 30, 1965, less the amount utilized in the ordinary course of business to December 31, 1966.

On December 31, 1966 the pending derivative lawsuits filed on behalf of the Company against certain of its officers and directors was dismissed pursuant to Court orders. Under the terms of said orders, certain of the defendants are required to pay to the Company \$125,000 per year for 6.6 years or a total of \$825,000, which payments are guaranteed by responsible individuals. Subsequent to December 31, 1966 \$130,000 was paid to the Company in accordance with such terms. The attorneys for the Plaintiffs in the aforesaid cases are entitled to apply to the Court of Chancery in the State of Delaware for allowance of fees and expenses, the amount thereof to be determined in the discretion of the Chancellor in an amount not to exceed \$300,000. In view of the foregoing, the Company has made no provision for such attorneys' fees and expenses in its financial statements as it is not in a position to determine what terms and amount will be determined by the Chancellor.

9. Long-Term Leases

The Company and its Subsidiaries operate certain properties under leases ranging from ten years and eleven months to forty-five years and nine months from December 31, 1966 with options to renew in some instances. The total annual fixed or basic rental payable (exclusive of real estate taxes, insurance and other occupancy charges) under such leases for each of the next five years ending December 31st is \$4,285,850 per year.

10. Employees Pension Plan

This is a trustee plan and the Company may terminate the plan and direct the liquidation of the trust at any time. Employees are not required to make any contributions under the plan and the Company is not required to make fixed annual contributions. Estimated actuarial annual cost for the Company and its Subsidiaries for the year 1966 was \$634,133. No contribution to the plan was provided for by the Company for the year 1966. Total assets of the plan as of December 31, 1966 had a market value of \$11,417,841 and, valued at cost, were \$10,635,055. The Actuaries advise that the market value of the assets approximates the liabilities for benefits accrued by participants through the end of the year.

FIVE YEAR SUMMARY**OPERATING RESULTS FOR
YEARS ENDED DECEMBER 31**

	1966	1965	1964	1963	1962
Gross revenue.....	\$195,648,871	186,672,426	183,899,810	178,490,877	189,286,833
Operating costs and expenses.....	145,850,395	142,177,191	141,890,541	137,789,965	143,784,601
Lease rentals.....	6,373,890	7,616,698	7,837,648	7,703,140	7,612,736
Depreciation and amortization.....	15,952,968	14,872,580	14,280,720	13,182,419	12,584,759
Interest expense (net).....	6,417,313	6,269,079	6,461,277	6,495,899	5,948,591
Property taxes.....	9,171,523	8,932,994	8,469,318	8,152,409	8,476,036
Corporate expenses, etc.....	1,370,649	1,343,515	1,772,152	1,598,431	2,495,972
Income from "Carte Blanche".....	1,220,816	1,896,351	1,583,143	767,811	—
Profit before income taxes.....	11,732,949	7,356,720	4,771,297	4,336,425	8,384,138
Income taxes.....	5,139,402	2,952,396	—	1,804,957	4,269,028
Minority interests profit or (loss).....	(80,841)	379,359	368,748	(90,576)	(72,509)
Net profit from operations.....	6,674,388	4,024,965	4,402,549	2,622,044	4,187,619
Net profit or (loss) from property sales	334,835	2,748,339	(2,268,820)	890,021	11,932,372
Net profit or (loss) from special items...	229,759	4,893,246	—	—	(1,112,500)
Total net profit including profit or (loss) from property sales and special items	7,233,982	11,666,550	2,133,729	3,512,065	15,007,491
Earnings per common share					
from operations.....	1.95	1.14	1.24	.74	1.03*
from property sales.....	.10	.77	(.64)	.25	3.10
from special items.....	.06	1.38†	—	—	(.29)
total.....	2.11	3.29	.60	.99	3.84*

**FINANCIAL POSITION
AT YEAR END**

Current assets.....	\$ 42,757,379	46,034,903	56,419,178	53,610,278	50,235,168
Current liabilities.....	29,659,233	24,049,990	23,550,340	31,416,655	26,921,756
Working capital.....	13,098,146	21,984,913	32,868,838	22,193,623	23,313,412
Investments.....	34,982,192	27,862,026	17,672,633	18,119,259	18,852,150
Fixed assets.....	215,283,379	186,630,253	193,048,121	192,005,229	196,818,766
Total assets.....	297,185,174	264,559,214	276,920,030	274,377,367	273,344,990
Long term debt.....	151,460,520	127,346,073	150,135,219	142,826,191	133,238,935
Common shareholders' equity.....	112,587,018	109,074,396	99,683,400	95,571,965	108,716,274
Equity per common share.....	32.83	30.78	28.13	26.97	28.28

**GENERAL INFORMATION
AT YEAR END**

Number of common shares outstanding.....	3,429,366	3,544,066	3,544,066	3,544,067	3,843,612
Number of common shareholders.....	9,300	9,900	10,500	11,773	11,740
Number of hotels owned or operated..	36	33	33	34	33
Number of employees.....	18,650	18,800	20,500	19,800	20,900

*After preferred dividends paid.

†Includes \$1.98 per share from Hilton Credit/Carte Blanche merger.

The years 1962 and 1963 have been restated to reflect the spin off of Hilton International Co.

BOARD OF DIRECTORS

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Chairman, Fritz B. Burns & Son, Los Angeles
ROBERT J. CAVERLY, *Executive Vice President*
DONALD W. DOUGLAS, JR., *President,*
Douglas Aircraft Company, Inc., Los Angeles
SPEARL ELLISON, *Senior Vice President*
HORACE C. FLANIGAN, *Director,*
Manufacturers Hanover Trust Company, New York
Y. FRANK FREEMAN, *Consultant, Beverly Hills*
WALTER M. HEYMANN, *Honorary Director,*
The First National Bank of Chicago
BARRON HILTON, *President*
CONRAD N. HILTON, *Chairman,*
Chairman and President, Hilton International Co.
WILLARD W. KEITH, *Director,*
Marsh & McLennan Incorporated, Chicago
JOHN W. MECOM, *Oil, Houston*
LAWRENCE F. STERN, *Chairman of the Executive*
Committee, American National Bank and
Trust Company of Chicago
ROBERT P. WILLIFORD, *Consultant, Chicago*
SAM D. YOUNG, *Chairman,*
El Paso National Bank, El Paso

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HERBERT C. BLUNCK, *Senior Vice President*
SPEARL ELLISON, *Senior Vice President*
TRUETT GORE, *Senior Vice President*
EDWIN K. HASTINGS, *Senior Vice President*
VERNON HERNDON, *Senior Vice President*
ROBERT F. QUAIN, *Senior Vice President*
FRANK G. WANGEMAN, *Senior Vice President*
CHARLES L. FLETCHER, *Vice President and Treasurer*
STANLEY R. ZAX, *Vice President and Secretary*
JAMES C. COLLINS, *Vice President*
GREGORY R. DILLON, *Vice President*
WILLIAM J. FRIEDMAN, *Vice President*
ROBERT A. GROVES, *Vice President*
CARL T. MOTTEK, *Vice President*
PORTER P. PARRIS, *Vice President*
JAMES J. ROCHE, JR., *Vice President*

Transfer Agents—Common Stock

The First National Bank of Chicago
Manufacturers Hanover Trust Company, New York
Bank of America N. T. & S. A., Los Angeles

Registrars—Common Stock

American National Bank and Trust Company of Chicago
Chemical Bank New York Trust Company, New York
United California Bank, Los Angeles

Executive Offices

720 South Michigan Avenue, Chicago, Illinois 60605



ANN ARBOR, Mich. *Statler Hilton Inn (under construction)	KONA, Hawaii Kona Hilton (under construction)
ATLANTA (airport) Hilton Inn	LOS ANGELES The Statler Hilton The Beverly Hilton (Beverly Hills)
BALTIMORE The Statler Hilton (under construction)	MAUI, Hawaii Hilton Hale Kaanapali
BOSTON The Statler Hilton	MIAMI BEACH, Fla. *Statler Hilton Plaza (under construction)
BUFFALO The Statler Hilton	MILWAUKEE *Statler Hilton Inn
CAPE CANAVERAL, Fla. Cape Kennedy Hilton (under construction)	NEW ORLEANS (airport) Hilton Inn
CHICAGO The Palmer House The Conrad Hilton	NEW YORK CITY The New York Hilton (at Rockefeller Center) The Waldorf-Astoria The Statler Hilton *Statler Hilton Inn (Kennedy Airport)
CINCINNATI The Netherland Hilton The Terrace Hilton	PITTSBURGH The Pittsburgh Hilton
CLEARWATER, Fla. *Statler Hilton Inn	PORTLAND, Ore. The Portland Hilton
CLEVELAND The Statler Hilton	SAINT PAUL The Saint Paul Hilton
COVINGTON, Ky. *Statler Hilton Inn	SAN DIEGO Hilton Inn
DALLAS The Statler Hilton Hilton Inn	SAN FRANCISCO Hilton Inn (airport) The San Francisco Hilton
DAYTON *Statler Hilton Inn	SEATTLE (airport) Hilton Inn
DENVER The Denver Hilton	ST. LOUIS, Mo. (airport) Hilton Inn
DETROIT The Statler Hilton	TARRYTOWN, N.Y. (Westchester County) Hilton Inn
DURHAM, N.C. *Statler Hilton Inn	TUCSON, Ariz. *Statler Hilton Inn
EL PASO (airport) Hilton Inn	WAKEFIELD, Mass. *Colonial Statler Hilton Inn
FT. LAUDERDALE *The Statler Hilton	WASHINGTON, D.C. The Statler Hilton The Washington Hilton
HARTFORD The Hartford Hilton	
HONOLULU Hilton Hawaiian Village	
HOUSTON The Shamrock Hilton	
KANSAS CITY, Mo. Hilton Inn	

*A franchise hotel.

HILTON HOTELS CORPORATION

720 South Michigan Avenue, Chicago, Illinois 60605



PACIFIC NORTHWEST

