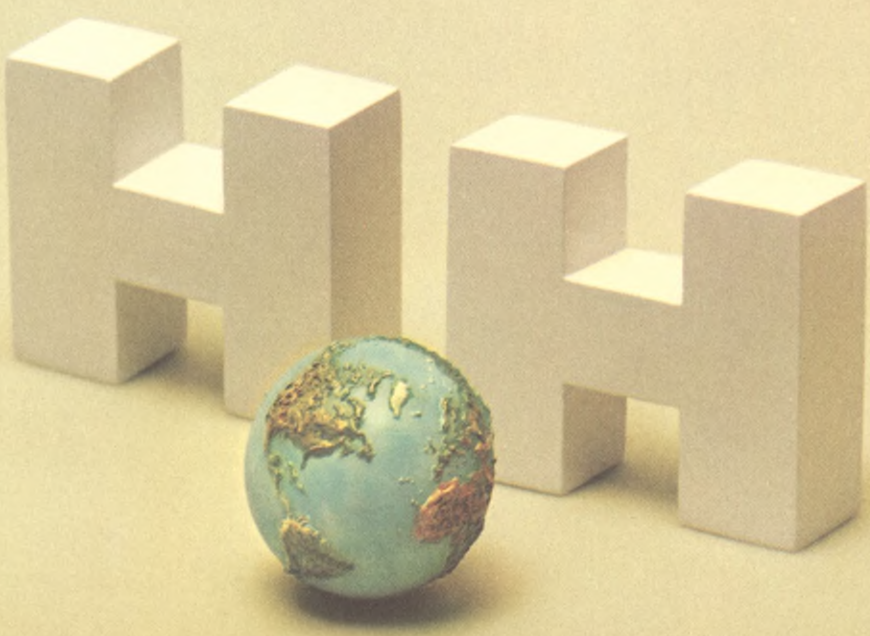
Hilton Hotels Corporation Annual Report 1960



HILTON HOTELS CORPORATION 720 SOUTH MICHIGAN AVENUE CHICAGO 5, ILLINOIS

REPORT FOR THE YEAR 1960

CONTENTS

TO OUR SHAREHOLDERS

In 1960, Hilton Hotels Corporation's revenues rose to a new record for the fourteenth successive year since the firm's formation. However, consolidated earnings were off from 1959. Principal contributing factors were development costs for additional hotels and higher depreciation associated with nine recently opened or acquired units, higher interest expense, increased operating costs, and a general listlessness in the nation's economy. Only by taking rigorous cost reduction measures were consolidated earnings maintained at a reasonably satisfactory level.

Of prime importance, however, is the progress made toward strengthening the Corporation's position in each of its three major fields: large hotels in principal convention cities with a rising growth trend; moderate-size inn-type hotels at high density traffic points; and hotels abroad where swiftly improving economies and increasing travel give new first-class hotel facilities a good profit potential.

Our most recently opened domestic hotels, The Pittsburgh Hilton and The Denver Hilton, are excellent examples of carefully-designed hotels located in energetic cities. Others which meet these criteria are the 500-room Portland Hilton, now under construction; the 1,200-room San Francisco Hilton; and a proposed 2,200-room New York luxury hotel. Start of the San Francisco structure was delayed by litigation to obtain a building permit. In late December the State Supreme Court ruled in our favor. We now have a building permit and construction should commence in the near future. Purchase of the 1,100-room Hawaiian Village Hotel, Honolulu, in January, 1961, has added substantial earning power to the Corporation.

We anticipate considerable activity in the development of inns. The majority will be near major airports where we know that as time goes on, air traffic will bring increased business. Other inns will be in suburban areas of those cities with indicated high population growth, especially where large business organizations have located their office headquarters and factories. These inns provide facilities for local needs such as banquets and meeting places for community and business affairs as well as rooms for automobile travelers who want to avoid city traffic and congestion. Construction costs per room are considerably lower for the inns than for the multi-storied downtown structures.

Improving occupancy rates at our first four inns indicate the program is soundly conceived. Three more inns now under construction will be opened this year with at least one more planned for 1962. Negotiations are well along for a number of other locations. We will add further inns as quickly as sound judgment permits.

In the international field, it now appears that our careful groundwork is paying off at an accelerating pace. There is an increasing recognition, all over the world, of the need for additional hotel accommodations. This is attributable to the impact of jet transportation on the economies of well-established nations and to the emergence of many new nations which are seeking first-class hotel facilities for their capitals and principal cities.

It has been extremely gratifying to start construction on hotels in two of the great, old capitals of Europe—London and Rome—cities bustling with renewed vigor. We now have a total of 27 International hotel projects, either in operation, under construction or under contract. These will give us excellent representation in Europe, the Caribbean and Latin America and more moderate representation in Africa, the Middle East, the Pacific and Asia.

Some will be in the highly developed countries, such as Canada where we are planning an inn at Montreal's Dorval Airport. Others will be in the newly-developing countries where the profit potential is high. In these countries, we will follow our traditional International lease agreement, the essence of which is offering management services in return for a share of the profits.

The outlook for the immediate future is difficult to assess in view of the somewhat unsettled domestic economy. Nevertheless, improvements in methods and procedures should have a salutary effect on the cost-price relationship. More effective sales and promotional efforts should generate new business, especially in the many new units which have now had a period of seasoning. A number of vigorous young executives have been elevated to positions of greater responsibility and further promotions will follow.

The year 1961 should show a further increase in revenues and bring a recovery in profits from operations over 1960. We are enthusiastic about long range prospects as our investment dollars are being effectively channeled into domestic and international hotels and inns.

We wish to express our appreciation to our valued patrons and to our employees, stockholders and business associates for their assistance and cooperation during the year just past.

Conrad N Hilton

PRESIDENT AND CHAIRMAN

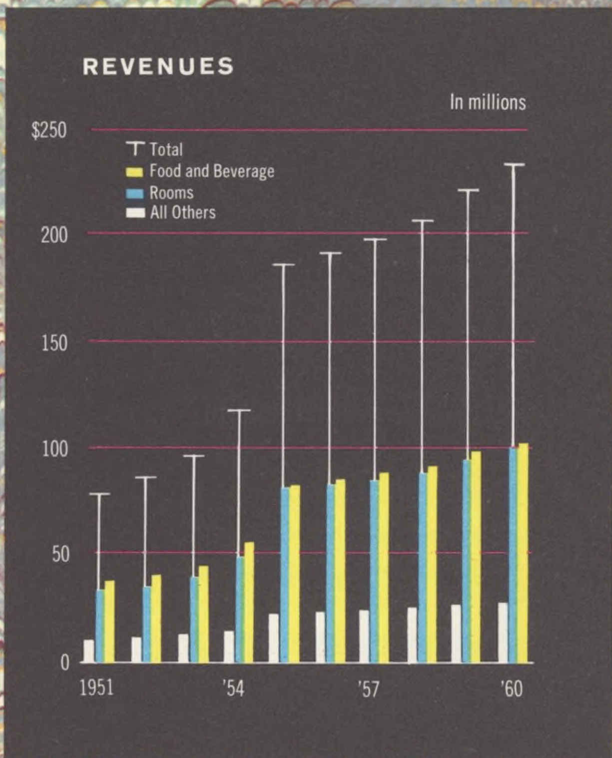
March 3, 1961

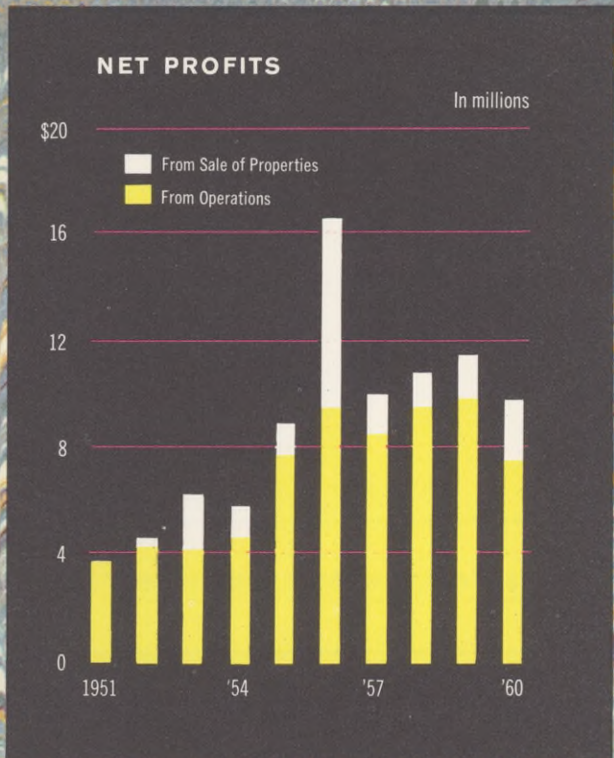
YEARS ENDED DECEMBER 31,	1960
GROSS REVENUE	$231,502,403
NET PROFIT OR (LOSS) (excluding minority interest)	
From operations	7,544,982
From sale of properties	2,247,028
Total	9,792,010
EARNINGS PER COMMON SHARE*	
From operations	1.86
From sale of properties	.60
Total	2.46
WORKING CAPITAL AT DECEMBER 31	25,010,132
EARNED SURPLUS AT DECEMBER 31 (excluding surplus reserves)	57,904,979
COMMON SHARES OUTSTANDING AT DECEMBER 31*	3,731,228
BOOK VALUE PER COMMON SHARE AT DECEMBER 31*	24.37

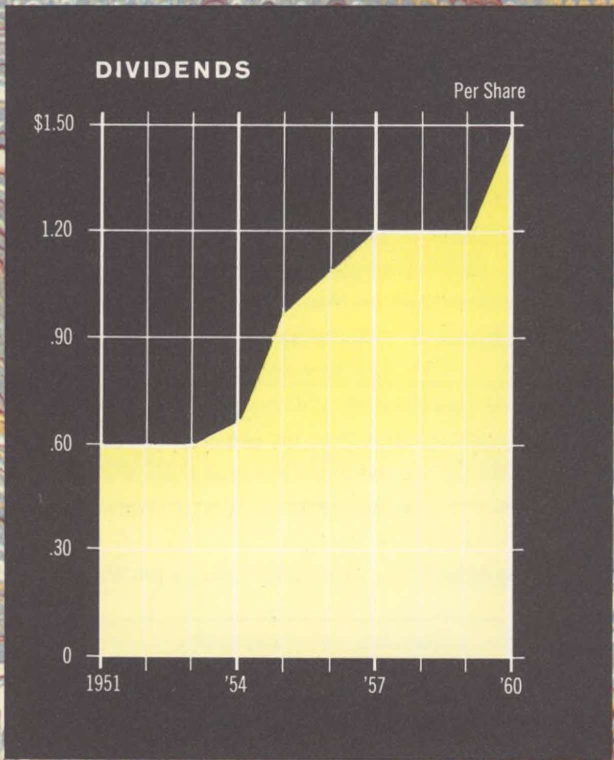
*Adjusted for the two-for-one stock split in 1956

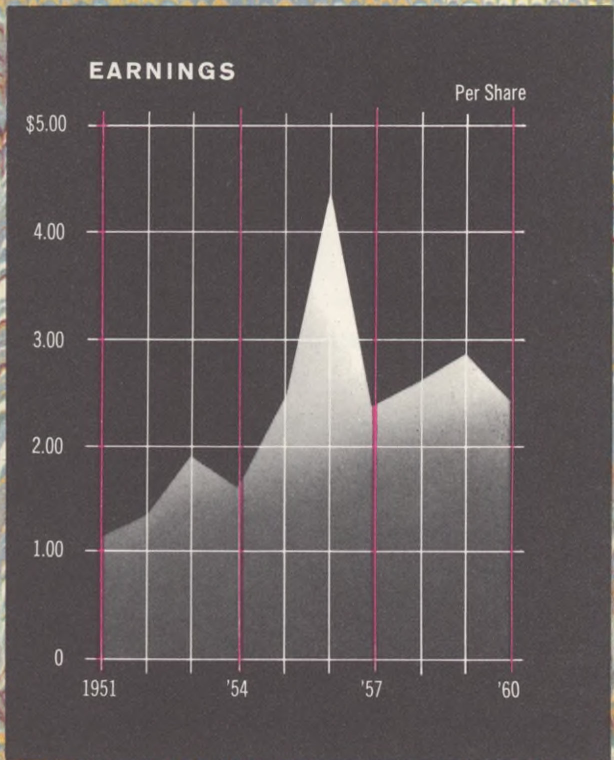
TEN YEARS OF FINANCIAL HIGHLIGHTS

1959	1958	1957	1956	1955	1954	1953	1952	1951
221,057,350	206,789,520	198,618,333	193,010,746	186,183,172	119,909,085	97,256,713	87,218,524	80,222.215
10,049,857	9,446,204	8,564,610	9,440,042	7,811,703	4,803,855	4,110,570	4,251,170	3,940,815
1,533,007	1,399,424	1,454,554	7,165,155	1,102,501	916,003	2,278,710	270,245	—
11,582,864	10,845,628	10,019,164	16,605,197	8,914,204	5,719,858	6,389,280	4,521,415	3,940,815
2.49	2.30	2.04	2.49	2.14	1.35	1.26	1.29	1.19
.41	.36	.37	1.95	.32	.28	.70	.08	—
2.90	2.66	2.41	4.44	2.46	1.63	1.96	1.37	1.19
32,925,130	19,815,494	14,011,090	14,913,485	9,606,653	16,676,012	10,753,887	8,298,896	7,154,309
58,361,381	52,377,889	46,829,082	42,042,913	29,732,872	24,654,242	21,623,005	17,187,648	14,447,174
3,790,817	3,856,166	3,938,671	3,671,602	3,440,478	3,297,520	3,227,280	3,241,688	3,185,756
24.22	21.72	20.24	18.86	15.18	13.49	12.49	11.07	9.94


REVENUES
In millions
$250
200
150
100
50
0
Total
Food and Beverage
Rooms
All Others
1951
'54
'57
'60


NET PROFITS
In millions
$20
16
12
8
4
0
From Sale of Properties
From Operations
1951
'54
'57
'60


DIVIDENDS
Per Share
$1.50
1.20
.90
.60
.30
0
1951
'54
'57
'60


EARNINGS
Per Share
$5.00
4.00
3.00
2.00
1.00
0
1951
'54
'57
'60

REVENUE: Gross revenues of Hilton Hotels Corporation continued to climb as they have done each year since the organization of the Corporation in 1946. In 1960, the total was $231,502,403, up 4.7 per cent from 1959 revenues of $221,057,350.

Hotels in operation during the full twelve months of both years had revenues of $206,173,748 in 1960 and $202,833,089 in 1959. Nine currently operating units which were opened or acquired at some point during the 24-month span produced revenues of $19,456,832 in 1960 and $2,244,821 in 1959. Units no longer a part of the Hilton system contributed $4,232,623 in 1960 compared with $14,922,451 the preceding year. It is evident therefore that the newer units accounted for the bulk of the gain in revenues.

An analysis of total revenues indicates each of the principal operating departments—rooms, food and beverage—assisted in the gains. A two-year comparison follows:

	1960	1959
Rooms	$100,259,521	94,580,703
Food and beverage	102,737,737	99,709,479
Other operated departments	17,545,670	16,686,079
Store rentals	3,429,103	3,144,339
Office building rentals	996,898	1,057,325
Interest on investments	1,544,360	1,042,852
Other income	4,989,114	4,836,573
Total	$231,502,403	221,057,350

During 1960, the Corporation had a room occupancy rate in its domestic operations averaging 66.7 per cent compared with 69.1 per cent in 1959. This was slightly better than the U. S. hotel industry's average occupancy which was 65 per cent in 1960 compared with 66 per cent in 1959. The rate reflects such traditionally slack periods as weekends and mid-summer as well as many "sold out" weekdays during conventions. Our promotional efforts are beamed at groups and individuals and our expansion efforts are geared towards achieving a better year-round occupancy pattern.

EARNINGS: Consolidated net profit in 1960 was $9,792,010, equal after preferred dividends to $2.46 per share on the 3,731,228 shares of common stock outstanding at December 31. This compares with $11,582,864, equal after preferred dividends to $2.90 per share on the 3,790,817 shares outstanding at the 1959 year end.

Net income from operations was $7,544,982, or $1.86 a share, compared with $10,049,857, or $2.49 a share, for the preceding year. Operating earnings for 1960 amounted to 3.3 per cent of revenues and to 7.4 per cent of equity capital invested.

The Corporation also realized net profit from sales of property, most of which took place in prior years. Capital gains taken into earnings in 1960 were $2,247,028, or 60 cents a share, compared with $1,533,007, or 41 cents a share, the year before.

Operating costs of the nine newest hotels and inns were high in relation to volume generated. This was anticipated during their period of building towards full potential. In addition, depreciation and amortization charges in 1960 were $1,623,257 above 1959, principally due to the new properties. Many labor and material costs were greater in relation to volume, a trend which prevails throughout the hotel industry and which is common to much of American industry.

Net interest expense, that is interest paid in excess of interest earned, was $905,432 higher in 1960 than in the year before. This increase resulted primarily from the $30 million in 6% subordinated sinking fund debentures issued in October, 1959.

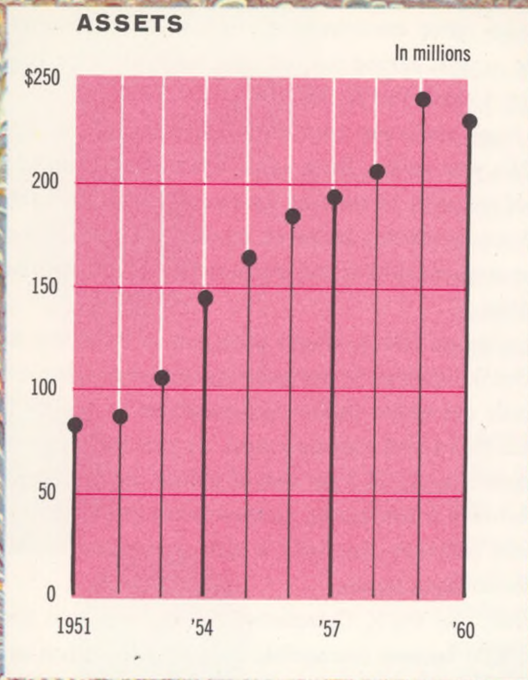
Property sales in 1960 included the 473-room San Antonio hotel and inn in Texas and the Waldorf-Astoria laundry in Jersey City. Profit of approximately $1,400,000 on the San Antonio sale will be taken into earnings as realized over the next ten years while the total profit of $354,649 on the laundry sale is included in 1960 consolidated earnings.

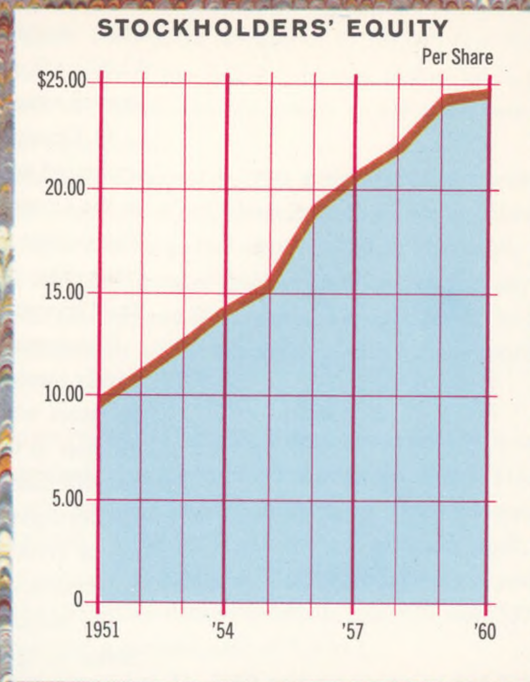
Unrealized profits from property sales totaled $12,078,790 at December 31, 1960. This equalled $2.43 a share based on the common shares outstanding at year-end, after provision for taxes at the current capital gains rate. The major portion of these profits will be taken into earnings as realized over the next six years.

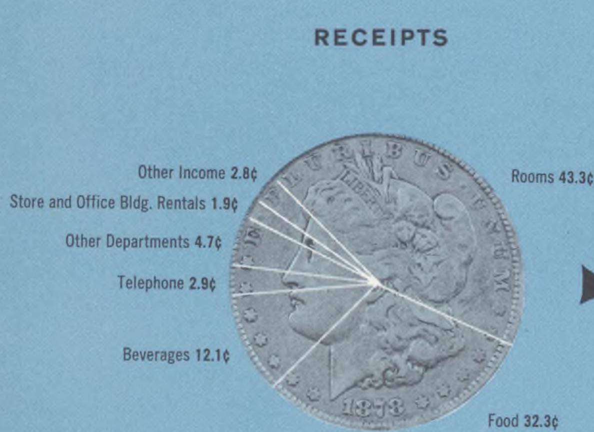
QUARTERLY DIVIDENDS: During the year, four dividends on the common stock, each of 37½ cents a share, were paid on March 1, June 1, September 1 and December 1, for a total of $1.50 a share. Regular quarterly dividends also were paid totalling $5.00 a share on the 5% First Preferred Stock, Series A (par value $100) and $1.37½ a share on the 5½% Cumulative Voting Preferred Stock, Series A (par value $25). Payments to holders of all classes of capital stock during 1960 totaled $6,250,979, compared with $5,191,253 the year before.

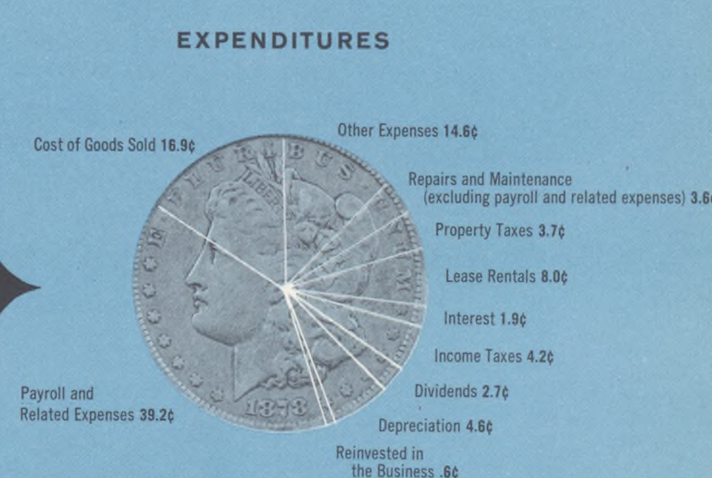
CAPITAL CHANGES: The number of common shares outstanding at December 31, 1960 decreased by 59,589 from a year earlier to 3,731,228. This was accomplished by repurchasing shares of stock in the open market. The established policy, in effect since early 1958, is to reacquire stock issued for acquisition of properties which were subsequently sold.

Earned surplus at the 1960 year-end was $57,904,979 as compared with $58,361,381 a year earlier. Net profit retained from 1960 consolidated earnings, after payment of all dividends, amounted to $3,541,031. The investment of Hilton Hotels International, Inc., of $1,854,575 in its Cuban subsidiary, which originally operated The Habana Hilton, has been written off against earned surplus. In addition, the Board of Directors felt that it was


ASSETS
In millions
$250
200
150
100
50
0
1951
'54
'57
'60


STOCKHOLDERS' EQUITY
Per Share
$25.00
20.00
15.00
10.00
5.00
0
1951
'54
'57
'60


RECEIPTS
Other Income 2.8¢
Store and Office Bldg. Rentals 1.9¢
Other Departments 4.7¢
Telephone 2.9¢
Beverages 12.1¢
Rooms 43.3¢
Food 32.3¢


EXPENDITURES
Cost of Goods Sold 16.9¢
Other Expenses 14.6¢
Repairs and Maintenance (excluding payroll and related expenses) 3.6¢
Property Taxes 3.7¢
Lease Rentals 8.0¢
Interest 1.9¢
Income Taxes 4.2¢
Dividends 2.7¢
Depreciation 4.6¢
Reinvested in the Business .6¢
Payroll and Related Expenses 39.2¢

prudent policy at this time to provide for possible adjustments for taxes, other investments, and other contingencies. Accordingly, a charge of $2,000,000 was made against earned surplus and the reserve for contingencies increased from $500,000 to $2,500,000.

At December 31, book value per share of common stock was $24.37 compared with $24.22 a year earlier. Book value reflects the historical cost to the Corporation of its assets as reduced by accumulated depreciation. The market value of our properties, however, is substantially higher than book value due to the upward trend in real estate values since formation of the Corporation in 1946.

The investment quality of Hilton Hotels securities is becoming more widely recognized. This is indicated by the growing interest of institutional investors who generally are rather tightly circumscribed by law or their charters as to the securities which they may own. At year end, there were 614,478 shares or approximately 16.5 per cent of Hilton common stock in the portfolios of investment trusts, banks, pension funds and other institutional investors. These concerns also hold a high proportion of Hilton debentures and preferred stock issues.

On January 1, 1960, the 5½% Cumulative Voting Preferred Stock, Series A, (par value $25) became convertible into common stock at the rate of 1.42 shares of preferred stock for each share of common stock. Thus the 242,611 shares of this preferred issue outstanding at December 31, 1960 are currently convertible into approximately 170,852 shares of common stock. The 5½% preferred stock was originally issued in connection with the acquisition of Savoy-Plaza, Inc. When this corporation was merged into Hilton Hotels Corporation on December 31, 1958, holders of 11,419 shares of Savoy-Plaza, Inc. stock dissented from the exchange

ANALYSIS OF CONSOLIDATED LONG-TERM DEBT

	BALANCE DECEMBER 31, 1959	ADDITIONS DURING 1960	REDUCTIONS DURING 1960	BALANCE DECEMBER 31, 1960
MORTGAGE BONDS AND NOTES				
The Palmer House	$10,880,000	—	560,000	10,320,000
The Conrad Hilton	4,600,000	—	300,000	4,300,000
Waldorf-Astoria Laundry	172,481	—	172,481	—
The Shamrock Hilton	11,651,000	—	308,000	11,343,000
Hilton Hotel, San Antonio	262,500	—	262,500	—
The Terrace Hilton	7,178,879	—	285,976	6,892,903
The Savoy Hilton	2,122,251	—	116,848	2,005,403
The Pittsburgh Hilton	10,000,000	2,000,000	—	12,000,000
DEBENTURES				
2% Hilton, Due 11/1/64	1,500,000	—	—	1,500,000
4% Hilton, Due 7/1/77	4,384,000	—	129,000	4,255,000
4½% Hilton, Due 1/1/70	2,127,000	—	—	2,127,000
6% Hilton, Due 10/15/84	28,800,000	—	—	28,800,000
4% Metropolitan Hotel Corporation	2,750,000	—	—	2,750,000
OTHER NOTES				
Installment Purchase Contract	2,050,000	—	100,000	1,950,000
Waldorf-Astoria Laundry	478,460	—	40,720	437,740
Hilton Hotels International	196,712	—	50,000	146,712
Hilton Hotels Corporation	4,000,000	—	2,005,297	1,994,703
Hilton Hotels International	175,000	—	175,000	—
Hilton Hotels Corporation	3,490,239	—	3,490,239	—
Hilton Hotels International	444,445	—	222,223	222,222
Sundry	92,500	125,919	72,932	145,487
TOTAL	$97,355,467	2,125,919	8,291,216	91,190,170

offer made in connection with the merger agreement. A cash settlement was made in August, 1960 in the amount of $1,769,945 plus $169,572 in interest. This was in lieu of the 28,547 shares of Hilton 5½% preferred and 22,838 shares of Hilton common which would have been issuable under the merger agreement.

In the final session of Congress in 1960, a law was passed providing for special federal tax treatment of real estate investment trusts. Hilton Hotels, like other companies with large real estate holdings, is carefully studying the implications and provisions of this law to determine if in any way the Corporation could qualify, and if there would be any benefit in doing so. Any further developments will be discussed in subsequent reports.

FINANCIAL CONDITION: During 1960, sums expended on new properties (as distinguished from modernization projects) totaled $11,270,874. The Corporation's working capital position at year-end was strong, amounting to $25,010,132, or $6.70 per share of common stock. Current assets were 1.8 times current liabilities. Comparable figures a year earlier, which reflected the $30 million debenture issue in late 1959, were $32,925,130 of working capital and a current ratio of 1.9 to 1.

Included in the December 31, 1960 current assets of $54,728,054 are cash of $27,056,626 and $2,498,924 in highly liquid short term securities which are the equivalent of cash. These securities earn interest, but can readily be converted into cash when needed.

In January 1961 the Corporation borrowed $21,000,000 at 5¼ per cent interest of which $19,000,000 was used for the purchase of The Hawaiian Village and $2,000,000 was used to reduce other bank indebtedness. The funds were drawn under a $25,000,000 standby credit agreement with a group of 17 leading banks. The Corporation has until September 15, 1961 to borrow the remaining $4,000,000 under the agreement.

Long-term indebtedness was decreased during the year by $8,291,216 through payments on mortgages and other notes. This is detailed in the table entitled "Analysis of Consolidated Long-Term Debt." The year-end total was equal to 46.2 per cent of the book value of fixed assets, investments at cost and working capital.

The following is a condensed consolidated statement of source and application of funds for the year ended December 31, 1960:

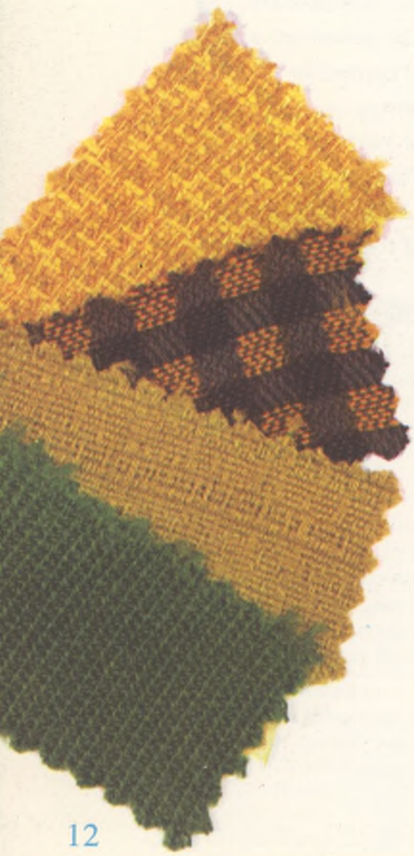
SOURCE OF FUNDS:		
Net profit	$ 9,792,010	
Less: Net profit from property sales	2,247,028	
Net profit from operations	7,544,982	
Depreciation and amortization	10,740,575	
Collections on notes receivable	3,596,922	
Maturing short-term investments	10,000,000	
New financing	2,000,000	
Decrease in cash	6,488,784	
Decrease in other net assets	195,116	$40,566,379
FUNDS APPLIED TO:		
Reduction of long-term debt	$ 8,291,216	
Capital expenditures	22,093,715	
Purchase of treasury stock	1,990,952	
Payment to Savoy-Plaza dissenters	1,939,517	
Dividends	6,250,979	$40,566,379

CURRENT OPERATIONS: At December 31, 1960, Hilton Hotels owned, leased or operated under management contracts, 40 hotels and inns, with a total of 28,917 guest rooms. Of these properties, 29 are domestic operations while 11 are operated by the International company. With the addition of The Hotel Carrera in Santiago, Chile, and The Hilton Hawaiian Village in Honolulu, subsequent to the year end, hotels and inns now number 42. The Corporation also operates office buildings comprising 578,549 square feet as part of three of the hotels.

Business promotional efforts were intensified during the year both on a corporate level and for each individual property. Because many of the hotels are the largest in major cities, the Corporation is well equipped to take care of group meetings which tend to gravitate toward strategically located centers of population. In most cases, national conventions are booked into the hotels several years in advance. Equally important, especially with the inns, is the attention given to local sources of group meetings, ranging from small, social luncheons and weddings to large banquets.

One of the most valuable sales tools is the Hilton Reservation System wherein one Hilton hotel makes reservations at others for its guests. Currently Hilton averages about 60,000 such reservations per month, a substantial increase from the monthly reservation average of 10,000 in 1955 when the present system was initiated.

Our entire organization is alert to the value of persuasive ingenuity in generating business. Personal sales efforts are sharpened by advertising—both national and local; by intensive cooperation with travel agents and tour operators, including the incentive-sales movements of large companies; and by other types of sales support demonstrating the superiority of Hilton Hotels.



MODERNIZATION: Hilton properties are constantly being modernized to maintain them as leaders in their respective communities. Expenditures for modernization in 1960 amounted to $8,002,732, compared with $6,084,035 the year before.

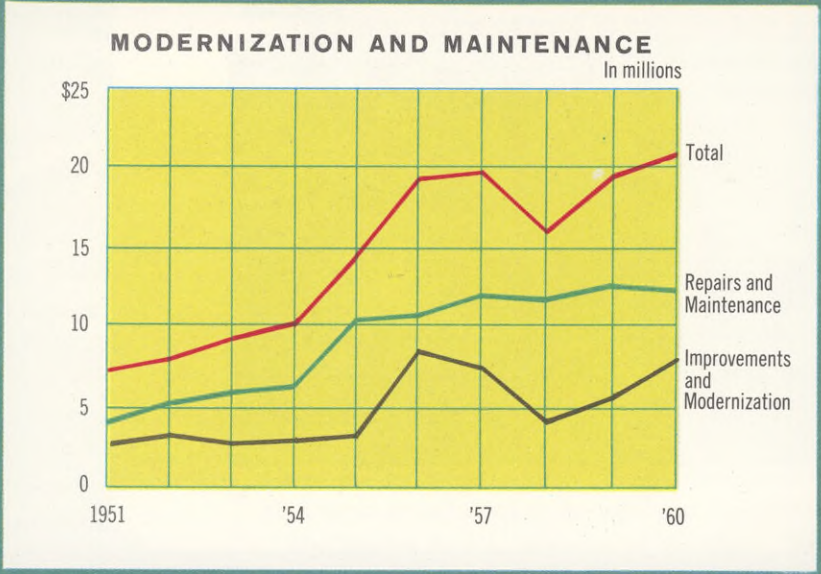
The Waldorf-Astoria's restaurant facilities have been remodeled. New restaurants are the Bull and Bear, which has a genuine Victorian flavor, opened late in the summer, and the Walldorfkeller, which reflects the romance of Heidelberg and the spirit of Vienna, opened in December. The name is derived from the village of Walldorf, Germany, ancestral home of the Astor family, builders of the original Waldorf-Astoria.

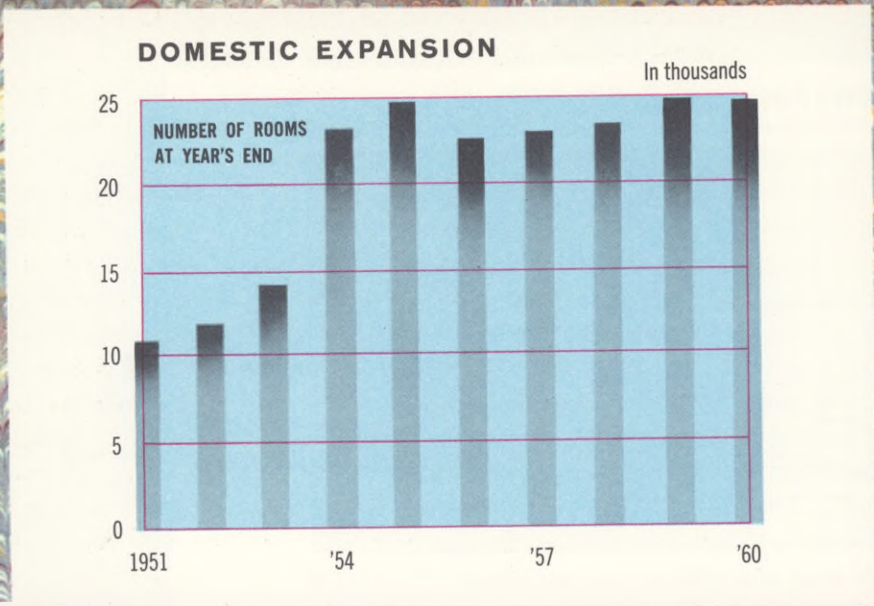
At the New York Statler Hilton, the mezzanine floor was extended over the lobby thereby doubling convention exhibit space. A big, new air-conditioned function room was completed on the Sky Top floor. The lobby was air-conditioned and the laundry was rehabilitated with the addition of new machinery. Many guest rooms were refurnished. Total modernization expenditures at this hotel during the year were about $1 million.

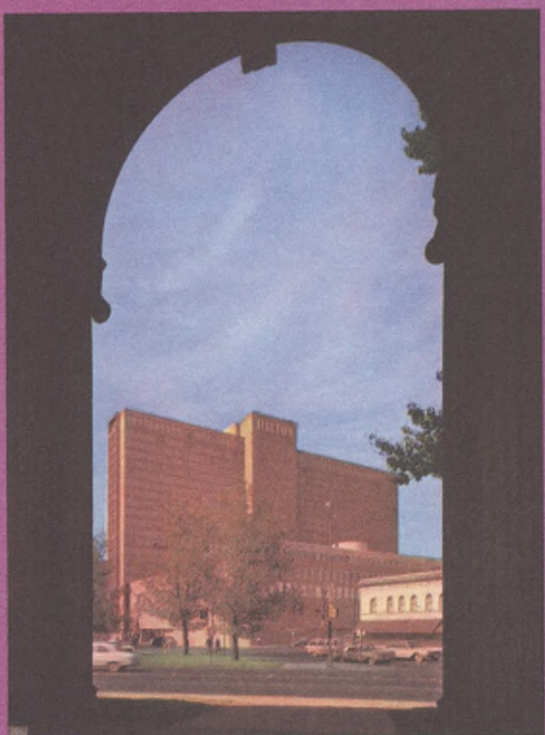
At the Washington Statler Hilton, a new restaurant dedicated to the press and military, the Pen and Sword, was opened in the autumn of 1960. Construction is well along on a Trader Vic restaurant which is scheduled to open in the summer of 1961.

Many guest rooms also were redecorated and refurnished at the Boston

The Lanais at The Beverly Hilton (top), a section of the Bull and Bear at the Waldorf-Astoria (bottom)

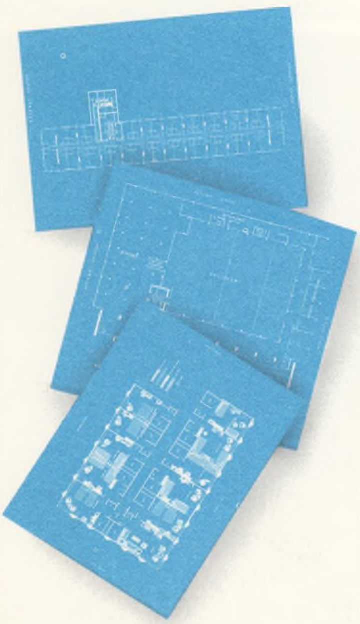

MODERNIZATION AND MAINTENANCE
In millions
$25
20
15
10
5
0
1951
'54
'57
'60
Total
Repairs and Maintenance
Improvements and Modernization


DOMESTIC EXPANSION
In thousands
NUMBER OF ROOMS AT YEAR'S END
25
20
15
10
5
0
1951
'54
'57
'60



and Buffalo Statler Hiltons and at The Netherland Hilton in Cincinnati as well as in other hotels.

The Palmer House enlarged its ballroom from a capacity of approximately 1,200 to 1,800 for dinner, making it the largest in Chicago. The Conrad Hilton has begun construction on a $3.5 million exhibition, convention and banquet facility in a separate but interconnecting building. Target completion date is December, 1961. When completed, the ballroom will be one of the largest in any hotel in the world, seating 2,600 for a banquet and 4,000 for a meeting. The bi-level exhibition and meeting area will provide an additional 52,000 square feet, bringing total hotel exhibition space to 85,000 square feet. The Conrad Hilton's electric power generating station was replaced with a modern power station. As the new equipment takes much less space, it has been possible to consolidate various mechanical shops and storerooms which were previously separated.



A luxurious two-story addition, known as the Lanais, has been completed at The Beverly Hilton. The 41 rooms and suites feature sliding glass doors giving access to the patio and Aqua Star pool.

The Empire Room restaurant at the Dallas Statler Hilton was redecorated. Passenger elevators at the Los Angeles Statler Hilton and the Albuquerque Hilton were converted to self-operation and a similar conversion is nearing completion at The Shamrock Hilton. A $250,000 expansion project is under way at the San Francisco Hilton Inn to increase dining, banquet and meeting facilities. Of the 269 guest rooms at El Panama Hilton, 110 have been redecorated in a colorful native Panamanian theme with the remainder to be completed in 1961. A Trader Vic restaurant is nearing completion at The Caribe Hilton.

DOMESTIC EXPANSION: Furthering its program to operate large hotels in important convention centers, the Corporation opened The Denver Hilton in April, 1960. This exceptional 21-story, 880 room hotel is part of the Courthouse Square development. It is our first hotel in the Rocky Mountain states. The convention area, the largest and most complete in the region, occupies approximately 25,000 square feet and may be used in conjunction with the ballroom facilities for exhibits. The ballroom can seat 2,000 people for a meeting and 1,500 for banquets. Facilities are arranged so that two conventions can be accommodated simultaneously in distinctly different areas. The hotel has six private dining rooms and six restaurants and bars. Hilton Hotels is operating the hotel under a 35-year lease with renewal options.

Now under construction is the 27-story, $10 million Portland Hilton. The hotel site is a full city block bounded by Southwest Broadway, Sixth Avenue, Salmon and Taylor Streets. The tallest in Portland when completed, the building will consist of a five-story base containing public areas, main lobby, ballrooms, private dining rooms, restaurants, shops and outdoor swimming pool, service areas and parking. The 22-story tower above will include a total of 500 guest rooms, a private club, and a rooftop restaurant and cocktail lounge. Panoramic views of the Willamette River, Mt. Hood and other peaks of the Cascades can be seen from the upper levels. Opening is scheduled for 1962.

The beginning of construction on the 1,200-room, $25 million San

The Denver Hilton (left), The San Francisco Hilton including the proposed office building (right)

Francisco Hilton Hotel was delayed during the past year by litigation over issuance of a building permit. The California Supreme Court has ruled in our favor, and a permit has been issued. The dispute was over the unique design which ingeniously combines the best features of a hotel and a motel. On seven of the 18 floors, rooms will surround garage areas and be serviced by a spiral ramp. A guest will be able to drive in and pick up his key without getting out of his car. He then can drive to his room floor and park his car. Construction of a 22-story office building is being considered as part of the San Francisco project.

Hilton Hotels Corporation will be associated with Rockefeller Center, Inc. and Uris Buildings Corporation in the 45-story, 2,200-room luxury hotel planned for the Rockefeller Center area of New York City on the west side of the Avenue of Americas between 53rd and 54th streets. Under terms of the agreement, Hilton will manage the hotel and will purchase a 25 per cent interest in the equity in the venture. Estimated cost of construction and furnishing, exclusive of the land which will be leased, is $47 million. A $30 million loan has been arranged with the New York Life Insurance Company. Construction will begin in the spring and formal opening is scheduled for January, 1963.

The Corporation began operating restaurant facilities at Chicago's McCormick Place with the opening of that $35 million, 10-acre lakefront exposition center in November, 1960. The dining areas include The Presidents' Walk, a full service dining room seating 650; a self service restaurant with a capacity of 1,800 persons an hour; and complete banquet facilities for groups up to 25,000. Our lease is for six years with three successive renewal options of three years each and can be cancelled at our election after three years. This is our first venture in operating restaurants not connected directly with our hotels.

On February 1, Hilton took over operation of the famed Hawaiian Village in Honolulu, purchased the preceding month from Kaiser-Burns Corporation. It has in excess of 1,100 rooms and suites in nine buildings. Purchased in fee were 5½ acres of land with an additional 12½ acres leased with options to purchase. All of this prime ocean front property is ideal for immediate development. The price was $19,341,951 in cash and 62,500 shares of Hilton Hotels Corporation common stock.

HILTON INN PROGRAM: The Hilton Inn program continued to make progress during 1960 as the 302-room Atlanta Inn was opened in June following inns already in operation in San Francisco, New Orleans and El Paso. The Atlanta Inn is located opposite the Municipal Airport, only 15 minutes from downtown via the expressway. The inn's five interconnecting buildings, with wide galleries and overhanging eaves running around the second-story level, pitched roofs and ironwork railings, recall the gracious and weatherwise southern plantation architecture. Hilton is operating the inn under a 25-year lease, subject to a renewal option.

Roadside inns at Tarrytown, New York and Aurora, Illinois and an airport inn at Seattle are under construction. The 200-room Tarrytown structure is on a ten-acre site near the Tappan Zee Bridge on the New York State Thruway. Completion is anticipated in the summer of 1961. The Corporation is constructing the building but has leased the ground through

Dining room at a Hilton Inn, pool and garden at a Hilton Inn


HILTON
INN
ENTRANCE


INTERNATIONAL GROWTH
In hundreds
NUMBER OF ROOMS AT YEAR'S END
45
30
15
0
1951
'54
'57
'60

1983, subject to three successive renewal options of 20 years each.

The 300-room Aurora Inn is located on a 14-acre site at the junction of the Illinois Tollway and Route 31. It is also scheduled for a summer opening. Hilton is constructing the building on a site leased for a term expiring in 1984, with two successive renewal options of 25 years each and an option to purchase.

The Seattle Inn is located on a ten-acre site across U.S. Highway 99 from the Seattle-Tacoma International Airport, and a mid-year opening is planned. It will have 150 guest rooms with ample space to add another 150 rooms as required. Hilton is constructing the inn on land leased for 20 years with five renewal options totaling 55 years.

An inn is in the planning stage for Miami, Florida. A site has been purchased adjacent to the Miami International Airport. A number of other sites across the country are under consideration.

All inns attract a diverse patronage. They feature maximum flexibility of all facilities and incorporate the best features of a resort, private club, convention and business center, hotel and restaurant.

As the domestic Hilton Inn program has broadened in scope, its administration was turned over to a new Inn Division formed early in the year. It is charged with operation of existing units, the construction of new units and the negotiating for additional units.

INTERNATIONAL EXPANSION: The pace of international expansion is quickening as a large number of opportunities have been presented to us in recent months. The basic tests which each proposal must satisfy are: need for new hotel facilities in the locality, assurances of operating the hotels in accordance with Hilton standards and customs, excellent possibility of profit both for the owners and for Hilton International and assurance that Hilton profit and expense reimbursement can be transferred to the United States. Each hotel venture must be justified either as an independent unit or as part of a related group of hotels throughout an area, such as the Caribbean.

Two hotels were added to the International system during 1960, bringing the number to 11 with 4,162 guest rooms. On July 1, 1960, we assumed management of The Virgin Isle Hilton Hotel in Charlotte Amalie, St. Thomas, U.S. Virgin Islands. The 184-room hotel, which overlooks the harbor and town, has been leased for 20 years with renewal options. It is only 25 minutes by air from San Juan, Puerto Rico, location of The Caribe Hilton. Both The Caribe Hilton and The Virgin Isle Hilton have an international flavor and appeal; yet they are located in lands under United States jurisdiction.

Hilton International in association with Stanhill Consolidated Ltd. of Australia opened the first 195-room section of The Chevron Hilton Sydney in September, 1960. On January 1, 1961, we leased the 364-room Hotel Carrera in Santiago, Chile, our first in South America, for a period of 11 years with an option for an additional five years.

Hotels in seven other cities, including two of the world's great capitals, London and Rome are now under construction. In March, after eight years of negotiations, we reached the final agreement to lease and operate

The Trinidad Hilton (top), Hilton Hawaiian Village in Honolulu (bottom)

The London Hilton. This hotel is being constructed by a British company at a cost of about $17 million. Hilton Hotels International will furnish the hotel at a cost of approximately $2.5 million and will pay a fixed percentage rental on the cost of the building and land. The 27-story building will have 530 air-conditioned rooms, a ballroom to hold 900 persons and adequate underground parking. Situated on Park Lane, facing Hyde Park, it will be the largest and most luxurious hotel in London when completed in 1962.

Cornerstone ceremonies for the Albergo Cavalieri Hilton took place in September, 1960, culminating ten years of negotiations in Rome. The site of the 400-room hotel will be on a slope in Monte Mario with an impressive view of the city. New roads insure a quick trip from the center of town in less than fifteen minutes. Completion is scheduled for 1963.

Also under construction are hotels in Trinidad, Athens, Amsterdam, Rotterdam, Teheran and a 140-room addition at Istanbul. The "upside-down" Trinidad Hilton will open late this year. This hotel is built down the slope of Belmont Hill and guests will enter from the top. It overlooks Port-of-Spain and the ocean. The Amsterdam and Athens hotels are scheduled for completion in 1962 and the Rotterdam and Teheran hotels in 1963. The 140-room Istanbul addition, when completed in 1962, will be an integral part of the original structure with an identical exterior. Hotels under construction will have a total of 2,643 guest rooms.

Under contract are eight hotels located respectively in Tokyo, Japan; Paris, France (Orly Airport); Bogota, Colombia; Addis Ababa, Ethiopia; Mayaguez, Puerto Rico; Montreal, Canada (Dorval Airport); Tunis, Tunisia; and Geneva, Switzerland. Guest rooms in these hotels will total approximately 2,050 when completed.

When all of the projects mentioned are completed, the International system will have 27 hotels and inns around the world, with a total of 9,219 guest rooms. Geographically, they will be divided as follows: ten in Europe, nine in the Caribbean and Latin America, two in Canada, three in Africa, and three in the Pacific and Asia.

Hilton International's net income in 1960 was $1,259,821 compared with 1959 earnings of $918,812 and 1958 net of $430,925. Four of the 11 properties—those in Istanbul, Berlin, Madrid and Cairo—are carried as investments; the income from them is not entered on the Hilton books until received in dollars in the United States.

CARTE BLANCHE: Hilton Credit Corporation, a non-consolidated 34% owned affiliate, has developed wide acceptance for its Carte Blanche all-purpose credit card. However, earning power has not yet been developed as had been anticipated at the time that Hilton Credit Corporation began operations in April, 1959.

At the end of February, 1961, new top management was provided for this company. Benno M. Bechhold, a director of Hilton Hotels Corporation, became president, director and member of the Executive Committee of Hilton Credit Corporation. He brings to the position many years of experience in international banking and industrial activities. Charles L. Fletcher, vice president and treasurer of Hilton Hotels Corporation, was elected to the same post with Hilton Credit Corporation.

Arrangements were made at the same time to replenish the company's

The Amsterdam Hilton (top), The London Hilton (bottom left), The Albergo Cavalieri Hilton, Rome (bottom right)


LONDON HILTON

treasury with $5,000,000 of new funds to compensate for credit losses and high initial organization and operating expenses. These funds are being provided to Hilton Credit Corporation, against their subordinated notes, by a group consisting of Hilton Hotels Corporation and several of its directors acting as individuals.

The new management, aided by new funds, will exert every effort to achieve better operating efficiency and improved operating results.

EXECUTIVE CHANGES: Several top management changes were effected during 1960. In December, Conrad N. Hilton, president, was elected to the additional post of chairman of the board. Robert P. Williford, formerly executive vice president, was named to the newly created post of vice chairman of the board.

At the same time, Robert J. Caverly was elected executive vice president and a director of Hilton Hotels Corporation. Mr. Caverly joined the Corporation in 1947 and was elected a vice president in 1956. Since 1958 he has been in charge of the International Division.

In August, Edward C. Johnson, 2nd, of Boston, president of the Fidelity Fund group of investment trusts, was elected a director of Hilton Hotels Corporation.

In other key changes, Vernon Herndon, and Conrad N. Hilton, Jr., vice presidents, were placed in charge of the Central Division and Inn Division respectively. Curt R. Strand, vice president of Hilton Hotels International, Inc., was made general manager of that subsidiary in January of this year.

EMPLOYEE RELATIONS: Staff benefit programs, training and opportunities for advancement assist in maintaining excellent relations with the company's 30,000 employees throughout the world. Under the Hilton Hotels Pension plan a measure of financial security is provided for employees upon their retirement. Hilton Hotels assumes the total cost of a group insurance plan for hospital, surgical and medical insurance benefits for its domestic employees. Qualified employees also are aided in paying for supplementary life insurance.

Management helps in the employee's career planning by acquainting him with different phases of operations through transfers between departments and between hotels. Guidance and strengthening of personnel performance throughout the entire organization, at every level, is a continuing effort of the Executive Development Committee. We cooperate with colleges in the development of outstanding young men and women to become junior hotel executives. Home and group study courses, sponsored by the American Hotel Institute, are made available to Hilton employees. Nationals of foreign countries are brought to the United States for thorough on-the-job training and some are awarded Hilton scholarships at Cornell University's Hotel School. The growth of the Hilton system creates new positions and serves as an incentive for competent employees.

Hilton uniforms around the world

ASSETS

	December 31 1960	1959
CURRENT ASSETS		
Cash	$ 27,056,626.35	33,545,410.70
Accounts and Notes Receivable	11,722,893.61	11,478,835.21
Less: Reserve for Doubtful Accounts	385,315.13	392,002.15
	11,337,578.48	11,086,833.06
Inventories of Merchandise and Supplies—(At Cost)	4,310,097.24	4,059,334.27
Other Current Assets		
Installment Sales Contract and Other Notes— Payments Receivable Within One Year—(Note 2)	5,307,160.79	16,300,250.68
Due from Affiliated Companies	3,860,838.61	823,008.74
Prepaid Expenses	2,272,989.98	2,076,956.86
Sundry—Other	582,762.43	403,928.74
Total	12,023,751.81	19,604,145.02
Total Current Assets	54,728,053.88	68,295,723.05
INVESTMENTS—(Notes 1 and 2)		
Capital Stocks	2,026,522.72	2,026,662.72
Installment Sales Contract and Other Notes	18,613,864.32	18,523,008.39
Securities and Indebtedness of Affiliate—Not Current	4,500,000.00	4,500,000.00
Other Investments	3,392,814.90	13,498,209.47
	28,533,201.94	38,547,880.58
Less: Amounts Due Within One Year—(Above)	5,307,160.79	16,300,250.68
	23,226,041.15	22,247,629.90
Investments in and Advances to Non-Consolidated Foreign Subsidiaries and Divisions of Hilton Hotels International, Inc.—(Note 1)	458,585.15	2,720,794.42
Total Investments	23,684,626.30	24,968,424.32
FIXED ASSETS—(Note 3)		
Land	29,108,963.51	27,317,125.16
Buildings	84,021,955.96	86,708,131.47
Furniture and Equipment	48,506,190.38	44,812,916.83
Leaseholds and Improvements	39,860,240.40	35,708,583.82
	201,497,350.25	194,546,757.28
Less: Reserve for Depreciation and Amortization	72,479,251.84	68,575,077.36
Total	129,018,098.41	125,971,679.92
Revisions and Alterations	9,858,270.04	7,737,500.37
Operating Equipment	5,916,205.66	5,191,110.39
Total	144,792,574.11	138,900,290.68
OTHER ASSETS AND DEFERRED CHARGES		
Non-Operating Property—Land	324,416.27	324,416.27
Preopening and Preliminary Investigation Expenses	1,788,328.73	1,656,883.70
Organization Expenses	420,389.31	414,283.96
Unamortized Mortgage and Loan Expenses and Discount	5,143,994.39	5,385,005.87
Other Assets and Deferred Charges	1,058,226.15	1,145,169.72
Total	8,735,354.85	8,925,759.52
TOTAL ASSETS	$231,940,609.14	241,090,197.57

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

COMPARATIVE BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1960	December 31 1959
CURRENT LIABILITIES		
Accounts Payable	$ 7,979,148.15	10,071,452.55
Accrued Expenses and Charges	12,732,211.18	12,982,658.79
Long-Term Debt Due Within One Year	4,174,105.41	8,235,085.48
Sundry—Other	607,513.33	635,835.84
	25,492,978.07	31,925,032.66
Estimated Federal, State, City, District and Foreign Taxes on Income—(Based on Separate Returns of the Consolidated Companies)—(Note 4)	4,224,943.76	5,920,360.22
Less: U.S. Treasury Tax Anticipation Bills	—	2,474,800.12
	4,224,943.76	3,445,560.10
Total Current Liabilities	29,717,921.83	35,370,592.76
LONG-TERM DEBT—(Notes 5, 7 and 9)		
Mortgage Bonds and Notes	46,861,305.51	46,867,111.15
4% Debentures	4,255,000.00	4,384,000.00
2% Debentures	1,500,000.00	1,500,000.00
4½% Fifteen-Year Convertible Debentures	2,127,000.00	2,127,000.00
4% Twenty-Five Year Sinking Fund Debentures	2,750,000.00	2,750,000.00
6% Subordinated Sinking Fund Debentures	28,800,000.00	28,800,000.00
Bank Loans and Other Notes Payable	4,777,296.09	10,834,856.12
Sundry—Other	119,568.13	92,500.00
	91,190,169.73	97,355,467.27
Less: Amount Due Within One Year—(Above)	4,174,105.41	8,235,085.48
Total Long-Term Debt	87,016,064.32	89,120,381.79
DEFERRED CREDIT—FEDERAL TAXES ON INCOME	599,559.94	—
DEFERRED INCOME		
Unrealized Profit on Property Sales—(Note 2)	12,078,789.84	13,207,904.46
Sundry—Other	121,033.55	111,168.24
Total Deferred Income	12,199,823.39	13,319,072.70
RESERVES—SUNDRY	105,826.94	120,606.03
CAPITAL STOCK AND SURPLUS		
Capital Stock—(Notes 6 and 9)		
Cumulative First Preferred, Issuable in Series, Par $100.00. Authorized, 54,520 Shares, Issued and Outstanding—5% Series "A"—52,900 Shares	5,290,000.00	5,290,000.00
Cumulative Preferred, Issuable in Series, Par $25.00, Authorized 500,000 Shares. 5½% Series "A" Authorized 278,733 Shares, Issued and Outstanding 242,611 Shares at December 31, 1960 and 242,609 Shares at December 31, 1959	6,065,275.00	6,065,225.00
Common, Par $2.50, Authorized 8,000,000 Shares, Issued 4,465,266 Shares at December 31, 1960 and 4,465,255 Shares at December 31, 1959 (Including 734,038 and 674,438 Shares in Treasury—See Below)	11,163,165.00	11,163,137.50
Scrip	462.50	541.50
Total Capital Stock	22,518,902.50	22,518,904.00
Surplus		
Capital Surplus	31,912,878.41	32,323,655.01
Earned Surplus—(Note 9)	57,904,979.48	58,361,380.63
Reserve for Contingencies—(Note 10)	2,500,000.00	500,000.00
Total Surplus	92,317,857.89	91,185,035.64
Total	114,836,760.39	113,703,939.64
Deduct: Common Stock in Treasury—(At Cost) 734,038 Shares at December 31, 1960 and 674,438 Shares at December 31, 1959	12,535,347.67	10,544,395.35
Total Capital Stock and Surplus	102,301,412.72	103,159,544.29
COMMITMENTS AND CONTINGENT LIABILITIES—(Notes 7 and 8)		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$231,940,609.14	241,090,197.57

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

	Year Ended December 31 1960	1959
GROSS OPERATING REVENUE		
Rooms Department	$100,259,521.18	94,580,702.81
Food and Beverage Department	102,737,737.41	99,709,479.02
Other Operated Departments	17,545,669.65	16,686,079.39
Other Income	4,989,114.37	4,836,573.23
Store Rentals	3,429,103.27	3,144,339.17
	228,961,145.88	218,957,173.62
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses	126,341,840.47	119,488,933.29
Administrative and General Expenses	15,292,387.92	13,805,150.10
Advertising and Business Promotion	5,869,238.13	5,034,617.90
Heat, Light and Power	9,074,448.94	8,403,704.64
Maintenance and Repairs	12,995,775.81	13,072,321.77
Lease Rentals	18,482,839.93	18,158,106.80
Real Estate and Personal Property Taxes	8,579,405.65	8,109,758.53
Interest	4,357,289.43	2,950,349.18
Depreciation and Amortization	10,740,575.21	9,117,318.23
Corporate Expenses and Sundry Capital Charges	3,188,483.06	2,237,564.76
	214,922,284.55	200,377,825.20
NET OPERATING PROFIT	14,038,861.33	18,579,348.42
ADDITIONS TO OR (DEDUCTIONS) FROM INCOME		
Interest on Investment Securities	1,544,360.09	1,042,851.85
Profit from Office Buildings and Other Real Estate Operations	996,898.16	1,057,325.39
Contribution to Pension Trust	(37,370.17)	(1,005,310.00)
Property Tax Refunds and Assessments	257,694.53	(13,486.25)
Sale or Abandonment of Capital Assets	(325,851.14)	20,517.41
Income from Royalties	68,273.93	72,580.60
Income from Non-Consolidated Foreign Operations Received in United States	219,392.06	144,605.91
Dividends	40,950.00	23,625.00
Sundry—Other	(162,941.38)	(381,338.98)
	2,601,406.08	961,370.93
PROFIT BEFORE INCOME TAXES	16,640,267.41	19,540,719.35
PROVISION FOR INCOME TAXES		
Federal Taxes	8,442,411.62	9,044,911.55
State, City, District and Foreign Taxes	652,873.91	445,950.12
	9,095,285.53	9,490,861.67
NET INCOME	7,544,981.88	10,049,857.68
REALIZED PROFIT ON SALE OF PROPERTIES	2,985,958.20	2,044,008.95
LESS: TAXES APPLICABLE THERETO	738,930.11	511,002.24
	2,247,028.09	1,533,006.71
TOTAL NET INCOME AND PROFITS	$ 9,792,009.97	11,582,864.39

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, 1959		$32,323,655.01
DEDUCT:		
Adjustment of Surplus Arising from Conversion of 4½% Fifteen Year Convertible Debentures Into Common Stock	19.72	
Net Decrease in Surplus Arising from Adjustment of Fixed Assets and Related Depreciation Reserves of Savoy-Plaza, Inc. to Tax Basis, as the Result of Additional Costs and Credits in 1960	410,756.88	410,776.60
BALANCE—DECEMBER 31, 1960		$31,912,878.41

EARNED SURPLUS

BALANCE—DECEMBER 31, 1959		$58,361,380.63
ADD:		
Net Income and Profits for the Year Ended December 31, 1960		9,792,009.97
		68,153,390.60
DEDUCT:		
Loss on Investment in Cuban Subsidiary Arising from Seizure of The Habana Hilton Hotel by the Cuban Government	1,854,574.60	
Loss on Second Mortgage Note Receivable Resulting from Devaluation of Foreign Currency	142,857.14	
Provision for Reserve for Contingencies	2,000,000.00	
Dividends:		
Cumulative First Preferred Stock, 5% Series "A"	264,500.00	
Cumulative Preferred Stock, 5½% Series "A"	333,592.91	
Common Stock	5,652,886.47	
		10,248,411.12
BALANCE—DECEMBER 31, 1960		$57,904,979.48

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and
Shareholders of Hilton Hotels Corporation:

We have examined the balance sheet of Hilton Hotels Corporation and its Consolidated Subsidiaries at December 31, 1960 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 other independent accountants who have submitted to us their certificates 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 opinions expressed in the certificates of other independent accountants pertaining to the examinations made 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 Consolidated Subsidiaries at December 31, 1960, and the results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HARRIS, KERR, FORSTER & COMPANY

Chicago, Illinois
February 20, 1961

NOTES TO FINANCIAL STATEMENTS

1—BASIS OF CONSOLIDATION

The consolidated statements include all divisions and subsidiaries of the Company with the exception that the wholly-owned subsidiary, Hilton Hotels International, Inc., included in consolidation, excludes from its consolidation four foreign divisions and subsidiaries due either to unstable political situations or to currency restrictions, or both. These operations are carried as investments and income therefrom will be included in consolidation when received in the United States.

Investments in and advances to non-consolidated foreign divisions and subsidiaries at December 31, 1960 aggregated $458,585, whereas the Company's equity in the net assets of such divisions and subsidiaries was $1,004,497.

Consolidated earned surplus at December 31, 1960 included $8,828,149, representing the combined undistributed net earnings of consolidated subsidiaries.

2—INVESTMENTS

Installment sales contracts and other notes received in connection with sales of various properties since 1952 were secured by either first, second, chattel or real estate leasehold mortgages. These contracts and notes require various periodic payments and their maturities range from October 1, 1961 to July 1, 1976. The required payments receivable for the next five years approximate $2,595,733, 1961; $1,768,207, 1962; $1,804,635, 1963; $1,166,732, 1964, and $1,288,552, 1965.

It is the policy to defer the profit on those sales that qualify as installment sales under Treasury regulations, taking into income that portion of the profits as applies to payments on the installment sales contracts in the year in which such payments are received. At December 31, 1960, $12,078,790 of such profit was deferred, and accordingly, during the next five years as the aforementioned payments are received, there will be included in income (taxable at the then effective long-term capital gains rate) the following: $1,696,443, 1961; $1,292,066, 1962; $1,535,640, 1963; $896,851, 1964, and $985,246, 1965.

During 1959 the Company entered into a credit agreement with a banking institution providing for a loan of $25,000,000 to be advanced to the Company on or before September 15, 1961 with interest at the rate of 5¼% per annum and a commitment fee of ½ of 1% on the undrawn balance. At December 31, 1960 the Company had not drawn any of the funds available, but subsequent thereto drew down $21,000,000, $2,000,000 of which was used to reduce other bank indebtedness and $19,000,000 of which was applied against the purchase price of the Hawaiian Village Hotel in Honolulu, Hawaii. (Reference is made to Note 7.) Under the terms of the credit agreement, fixed quarterly payments on this loan are to be reduced by payments received from installment sales contracts and other notes which have been deposited with the lender for purposes of collection and application of the proceeds under the terms of the credit agreement.

3—FIXED ASSETS

A major portion of these assets are pledged to secure mortgages or other long-term debt of the consolidated companies. Furniture, furnishings and equipment owned by the Company in "Statler Hilton Hotels" under lease from an affiliate, Statler Hotels Delaware Corporation, are pledged as additional security under a mortgage of that Company. Fixed assets were carried at cost, or were carried over from predecessor companies together with related depreciation reserves at predecessor's basis, plus additions at cost. With one minor exception, depreciation of fixed assets has been computed on the basis of the straight-line method.

4—FEDERAL TAXES ON INCOME

Federal income tax returns of the Company subsequent to 1953 and returns of subsidiaries and predecessor companies for 1954 and subsequent years are either under or subject to examination by the Internal Revenue Service.

5—LONG TERM DEBT

The trust indenture securing the 4½% fifteen-year convertible debentures of the Company (conversion privileges expired January 2, 1958) requires annual sinking fund payments on January 15th of each year in an amount sufficient to redeem at the principal amount without premium, 3% for each of the years through 1962 and 4% for each of the years thereafter. The Company has complied with this provision.

The Company's 6% subordinated debentures are entitled to the benefit of an annual sinking fund 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, and thereafter annually, 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 4% twenty-five year sinking fund debentures of a subsidiary are entitled to the benefits of an annual sinking fund, beginning July 1, 1962, in an amount sufficient to redeem, at their principal amount, without premium, in each year, 2% of the highest principal amount at any time outstanding.

The aggregate annual sinking fund and maturity requirements on the total long-term debt at December 31, 1960 for each of the next five years ending December 31, follows: 1961, $4,174,105; 1962, $2,109,504; 1963, $2,356,068; 1964, $2,532,606; and 1965, $2,560,311.

6—CAPITAL STOCK

The 5% cumulative first preferred series "A" shares are subject to redemption, without premium, out of sinking fund payments, made on or before January 1st in each year in an amount sufficient to redeem 2% of the maximum number of shares theretofore issued and outstanding. The Company has complied with this sinking fund provision.

The 5½% Series "A" preferred shares are convertible at the option of the holders into common stock of the Company at a conversion ratio of 1.42 shares of preferred for each share of common (170,852 common shares of the Company have been reserved for this purpose), and at the option of the Company, such Series "A" shares will be redeemable at $26.25 plus accured dividends on and after January 1, 1961 to the date fixed for redemption.

450,000 shares of common stock of the Company have been reserved for the exercise of warrants which were originally attached to the $30,000,000 issue in 1959 of 6% subordinated sinking fund debentures of the Company. Each $1,000 debenture unit carried a warrant to purchase 15 shares of common stock. The warrants provide that this stock may be purchased at $42 per share until October 15, 1963; $46 per share thereafter to October 15, 1967; and, $50 per share thereafter to October 15, 1971, the expiration date of the warrants.

7–COMMITMENTS AND CONTINGENT LIABILITIES

The Company and its Subsidiaries were committed to approximately $15,000,000 at December 31, 1960 in connection with construction of hotels and inns and alterations and revisions in existing properties.

A subsidiary entered into an agreement providing for a first mortgage construction loan in the amount of $5,000,000 of which $1,666,667 is to be guaranteed by the Company. At December 31, 1960 the subsidiary had not drawn any of the funds available under this agreement. Under the terms of an agreement with this subsidiary, the Company has agreed to purchase from time to time, as the subsidiary shall request, but not later than December 31, 1961, 99,000 additional shares of $1.00 par value common stock at an aggregate price of $499,000 and a 4% twenty-five year subordinated note of the subsidiary, in the principal amount of $1,500,000 at a price equal to the principal amount. The Company is guarantor to the extent of $1,000,000 under a $3,000,000 long-term obligation of this subsidiary.

The Company has agreed to purchase all of the authorized $10.00 par capital stock of Hilton Inns, Inc., totaling $10,000,000. At December 31, 1960 the Company had purchased 610,000 shares of such stock at a cost of $6,100,000.

The Company was contingently liable to the extent of approximately $4,350,000 as it did not receive releases from mortgagees under certain mortgages assumed by buyers of properties, who, however, agreed to hold the Company harmless against any liability thereon.

The Company entered into an agreement dated September 12, 1958 with respect to a Hilton Inn, guaranteeing payment to the lessor, by Hilton Inns, Inc., of sufficient annual rental (not to exceed $192,000 per annum) to discharge debt service on the lessor's first mortgage, and guaranteeing payment by Hilton Inns, Inc. of real estate taxes and insurance premiums on the Inn.

On January 19, 1961, the Company entered into an agreement to purchase the Hawaiian Village Hotel in Honolulu, Hawaii for cash of $19,341,951 and 62,500 shares of common stock of the Company. In connection with this transaction certain land was leased for a term of 7½ years with rental at $180,000 per annum for the first two years; $240,000 per annum for the next two years; $300,000 per annum for the next year and one-half; and, $360,000 per annum for the last two years, with an option to purchase such land on or before the termination of the lease term for $6,000,000. In addition, another tract consisting of two parcels of land was leased with rental based upon a percentage of gross business conducted in facilities existing thereon, with an option to purchase at a price of $22.50 per square foot if both parcels are purchased, and $25.00 per square foot if either parcel is purchased.

In connection with two hotels under construction in The Netherlands, Hilton Hotels International, Inc. subscribed to 1,000,000 guilders ($265,275 at current exchange) in the share capital of each landlord company. "International" subscribed to purchase stock, at a cost approximating $250,000, in the Italian corporation constructing a hotel in Rome. In accordance with the lease being negotiated for a hotel in London, England, "International" is required to furnish the hotel at a $2,500,000 estimated cost.

The transfer of profits from foreign divisions and subsidiaries of "International" to the United States would be subject to dividend and/or distribution taxes imposed by the country of origin.

8–LONG TERM LEASES

The Company and its Subsidiaries operate or will operate certain properties under leases ranging from one year and one month to thirty-eight years five and one-half months from December 31, 1960, with options to renew in some instances. The total minimum annual fixed or basic rentals payable (exclusive of real estate taxes, insurance and other occupancy charges) under such leases for each of the next five years ending December 31, follows: 1961, $10,334,492; 1962, $9,822,956; 1963, $9,480,733; 1964, $9,484,483; and, 1965, $9,484,483.

Rentals and other obligations of a Canadian Subsidiary of Hilton Hotels International, Inc., are guaranteed by both "International" and by the Company. Under the terms of the assignment of the Caribe Hilton lease to the Caribe Hilton Hotel Corporation of Delaware, "International" and the Company continued liable for the tenant's obligations under the lease. Under an agreement to lease a hotel in construction at Rome, Italy, "International" and the Company jointly guaranteed the tenant's obligations. "International" remained contingently liable for performance under all other leases entered into by or assigned to its foreign subsidiaries.

The wholly-owned subsidiary, Hilton Hotels International, Inc., has negotiated preliminary contracts or agreements for the operation of hotels under construction, or under consideration, on sites outside the continental United States, subject to fulfillment of conditions precedent and execution of final leases. In general, "International" or its subsidiaries is required to furnish initial operating inventories and maintain sufficient working capital. The leases basically provide for a rental based on a percentage of gross operating profit with certain specific rental obligations.

9–LIMITATIONS AND RESTRICTIONS

Under the most restrictive covenants of "International's" long-term financing, "International" must maintain its consolidated working capital at not less than $1,250,000 of which one-half is available in the United States or "hard currency" areas; and is restricted as to dividends, borrowings, investments, leasing and fixed asset purchases.

Indentures and loan agreements of the Company and an affiliate, as amended, contain certain restrictive provisions providing for the Company and certain subsidiaries, on a consolidated basis, to maintain working capital of not less than $7,000,000; a ratio of current assets to current liabilities of not less than 125%, and include limitations upon the declaration and payment of cash dividends and the payment for purchase, redemption or retirement of shares of any class of capital stock. In accordance with the agreements, earned surplus in the amount of $56,771,231 was restricted at December 31, 1960.

10–RESERVE FOR CONTINGENCIES

The Board of Directors of the Company increased this reserve from $500,000 to $2,500,000 to provide for possible adjustments for taxes, investments and other contingencies.

STATEMENT OF FINANCIAL CONDITION

at December 31

	1960	1959	1958	1957	1956
CURRENT ASSETS					
Cash	$ 27,056,626	33,545,411	30,021,144	20,579,639	22,693,331
Receivables (net)	11,337,579	11,086,833	14,037,814	13,823,164	12,954,277
Inventories	4,310,097	4,059,334	3,665,907	3,233,518	3,158,603
Others	12,023,752	19,604,145	4,810,714	4,600,906	5,352,766
TOTAL CURRENT ASSETS	54,728,054	68,295,723	52,535,579	42,237,227	44,158,977
CURRENT LIABILITIES					
Accounts payable	7,979,148	10,071,453	8,875,262	5,978,727	5,805,400
Accrued liabilities	12,732,211	12,982,659	9,275,288	8,587,730	7,856,037
Provision for income taxes	4,224,944	3,445,560	6,390,713	7,130,460	9,877,207
Payment of funded debt and long-term liabilities due within one year	4,174,105	8,235,085	7,055,288	5,505,313	4,514,680
Others	607,514	635,836	1,123,534	1,023,907	1,192,168
TOTAL CURRENT LIABILITIES	29,717,922	35,370,593	32,720,085	28,226,137	29,245,492
WORKING CAPITAL	25,010,132	32,925,130	19,815,494	14,011,090	14,913,485
OTHER ASSETS					
Investments in non-consolidated foreign units	458,585	2,720,794	2,566,961	498,787	465,485
Non current receivables and investments	23,226,041	22,247,630	24,847,740	29,723,149	32,580,125
Fixed assets (net)	144,792,574	138,900,291	124,899,249	119,368,354	104,691,531
Deferred charges	8,735,355	8,925,760	2,794,291	3,378,667	3,335,525
TOTAL	202,222,687	205,719,605	174,923,735	166,980,047	155,986,151
OTHER LIABILITIES, DEFERRED INCOME AND RESERVES					
Funded debt and long-term liabilities (less payments due within one year)	87,016,064	89,120,382	64,225,351	57,430,324	62,265,338
Deferred income and credits	12,799,383	13,319,073	15,431,439	17,260,177	19,160,320
Sundry reserves	105,827	120,606	168,221	58,992	24,058
TOTAL	99,921,274	102,560,061	79,825,011	74,749,493	81,449,716
NET ASSETS	102,301,413	103,159,544	95,098,724	92,230,554	74,536,435
NET ASSETS REPRESENTED IN					
First Preferred stock, Series A	5,290,000	5,290,000	5,290,000	5,290,000	5,290,000
Cumulative Voting Preferred stock, Series A	6,065,275	6,065,225	6,035,475	5,830,350	—
Common stock	11,163,165	11,163,137	11,160,708	11,089,303	10,288,567
Scrip	463	541	51	76	56
Surplus reserves	2,500,000	500,000	500,000	500,000	500,000
Capital surplus	31,912,878	32,323,655	27,853,327	26,505,820	20,584,171
Earnings retained in the business	57,904,979	58,361,381	52,377,889	46,829,082	42,042,913
Minority interest	—	—	—	1,399,792	—
TOTAL	114,836,760	113,703,939	103,217,450	97,444,423	78,705,707
Deduct: Common stock in treasury (at cost)	12,535,347	10,544,395	8,118,726	5,213,869	4,169,272
TOTAL AS ABOVE	$102,301,413	103,159,544	95,098,724	92,230,554	74,536,435

SUMMARY OF CONSOLIDATED EARNINGS

Years Ended December 31

	1960	1959	1958	1957	1956
GROSS REVENUE					
Rooms department	$100,259,521	94,580,703	88,621,222	85,289,337	83,062,721
Food and beverage department	102,737,737	99,709,479	93,141,935	88,759,338	86,052,866
Other operated departments	17,545,670	16,686,079	15,352,986	15,025,795	14,963,584
Other income	4,989,114	4,836,573	4,646,225	4,540,579	4,758,445
Store rentals	3,429,103	3,144,339	2,999,609	2,953,070	2,602,412
Office building rentals	996,898	1,057,325	1,051,240	1,038,372	929,189
Interest on investments	1,544,360	1,042,852	976,303	1,011,842	641,529
TOTAL GROSS REVENUE	231,502,403	221,057,350	206,789,520	198,618,333	193,010,746
EXPENSES					
Operated departments	126,341,840	119,488,933	112,242,417	101,455,452	98,650,655
Administrative and general	15,292,388	13,805,150	12,835,908	20,258,306	19,139,051
Advertising and business promotion	5,869,238	5,034,618	5,298,317	4,855,240	4,529,105
Heat, light and power	9,074,449	8,403,705	7,852,634	7,055,984	6,519,771
Maintenance and repairs	12,995,776	13,072,322	11,151,513	11,808,153	10,534,638
Lease rentals	18,482,840	18,158,107	16,469,604	15,029,814	14,782,786
Real estate and personal property taxes	8,579,406	8,109,758	7,237,595	6,799,571	5,943,901
Depreciation and amortization	10,740,575	9,117,318	8,658,153	8,162,106	7,932,463
Interest	4,357,289	2,950,349	2,943,521	2,631,748	2,675,215
Other capital charges	3,188,483	2,237,565	2,311,056	2,573,440	2,210,542
TOTAL EXPENSES	214,922,284	200,377,825	187,000,718	180,629,814	172,918,127
PROFIT BEFORE OTHER ADDITIONS OR DEDUCTIONS	16,580,119	20,679,525	19,788,802	17,988,519	20,092,619
OTHER ADDITIONS OR (DEDUCTIONS)					
Contribution to pension trust	(37,370)	(1,005,310)	(1,051,475)	(1,061,866)	(962,900)
Income from non-consolidated foreign units	219,392	144,606	487,119	380,922	169,153
Sundry others—net	(121,874)	(278,102)	(112,498)	81,317	221,905
TOTAL OTHER ADDITIONS OR (DEDUCTIONS)	60,148	(1,138,806)	(676,854)	(599,627)	(571,842)
Net profit before income taxes	16,640,267	19,540,719	19,111,948	17,388,892	19,520,777
Provision for income taxes	9,095,285	9,490,862	9,564,734	8,703,872	10,044,894
NET PROFIT FROM OPERATIONS	7,544,982	10,049,857	9,547,214	8,685,020	9,475,883
SALE OF PROPERTIES					
Gain on sale of properties	2,985,958	2,044,009	1,865,899	1,939,405	9,635,578
Provision for applicable taxes	738,930	511,002	466,475	484,851	2,470,423
NET PROFIT ON SALE OF PROPERTIES	2,247,028	1,533,007	1,399,424	1,454,554	7,165,155
TOTAL NET PROFIT	9,792,010	11,582,864	10,946,638	10,139,574	16,641,038
Deduct minority interest	—	—	101,010	120,410	35,841
NET PROFIT	$ 9,792,010	11,582,864	10,845,628	10,019,164	16,605,197

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

BENNO M. BECHHOLD, *President, Hilton Credit Corporation*

JOSEPH P. BINNS, *Vice President*

ROBERT J. CAVERLY, *Executive Vice President*

HENRY CROWN, *Chairman, Material Service Division (Chicago) of General Dynamics Corporation*

SPEARL ELLISON, *Vice President*

HORACE C. FLANIGAN, *Chairman Manufacturers Trust Company, New York*

Y. FRANK FREEMAN, *Vice President, Paramount Pictures Corporation, Hollywood*

CONRAD N. HILTON, *President and Chairman*

EDWARD C. JOHNSON 2D, *President, Fidelity Fund, Inc., Boston*

WILLARD W. KEITH, *President, Marsh & McLennan-Cosgrove & Company of Los Angeles*

LAWRENCE STERN, *Chairman, American National Bank & Trust Company of Chicago*

ROBERT P. WILLIFORD, *Vice Chairman*

SAM D. YOUNG, *President, El Paso National Bank, El Paso*

OFFICERS

CONRAD N. HILTON	*President and Chairman*
ROBERT P. WILLIFORD	*Vice Chairman*
ROBERT J. CAVERLY	*Executive Vice President*
JOSEPH P. BINNS	*Vice President*
HENRY CROWN	*Vice President*
SPEARL ELLISON	*Vice President*
CHARLES L. FLETCHER	*Vice President and Treasurer*
WILLIAM J. FRIEDMAN	*Vice President and Secretary*
VERNON HERNDON	*Vice President*
BARRON HILTON	*Vice President*
CONRAD N. HILTON, JR.	*Vice President*
JAMES H. MCCABE	*Vice President*
LYNN H. MONTJOY	*Vice President*
ROBERT F. QUAIN	*Vice President*
FRANK G. WANGEMAN	*Vice President*

TRANSFER AGENTS AND REGISTRARS

COMMON STOCK

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

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

5% FIRST PREFERRED STOCK, SERIES A

Transfer Agent
Manufacturers Trust Company, New York

Registrar
Chemical Bank New York Trust Company, New York

5½% CUMULATIVE VOTING PREFERRED STOCK, SERIES A

Transfer Agents
The First National Bank of Chicago
Manufacturers Trust Company, New York

Registrars
American National Bank and Trust Company of Chicago
Chemical Bank New York Trust Company, New York

EXECUTIVE OFFICES

Hilton Hotels Corporation,
720 South Michigan Avenue, Chicago 5, Illinois

Hilton Hotels
THE ROUND WORLD

CORPORATION

Conrad N. Hilton, President

EXECUTIVE OFFICES
720 SOUTH MICHIGAN AVENUE
CHICAGO 5, ILLINOIS

EASTERN DIVISION	THE WALDORF-ASTORIA	*New York, New York*
	THE STATLER HILTON	*New York, New York*
	THE SAVOY HILTON	*New York, New York*
	THE STATLER HILTON	*Washington, D. C.*
	THE STATLER HILTON	*Boston, Massachusetts*
	THE STATLER HILTON	*Buffalo, New York*
	THE STATLER HILTON	*Hartford, Connecticut*
	THE PITTSBURGH HILTON	*Pittsburgh, Pennsylvania*
CENTRAL DIVISION	THE CONRAD HILTON	*Chicago, Illinois*
	THE PALMER HOUSE	*Chicago, Illinois*
	THE STATLER HILTON	*Detroit, Michigan*
	THE NETHERLAND HILTON	*Cincinnati, Ohio*
	THE TERRACE HILTON	*Cincinnati, Ohio*
	THE STATLER HILTON	*Cleveland, Ohio*
	THE DESHLER HILTON	*Columbus, Ohio*
	THE DAYTON BILTMORE	*Dayton, Ohio*
	THE STATLER HILTON	*St. Louis, Missouri*
WESTERN DIVISION	THE BEVERLY HILTON	*Beverly Hills, California*
	THE STATLER HILTON	*Los Angeles, California*
	THE HILTON HAWAIIAN VILLAGE	*Honolulu, Hawaii*
	THE SHAMROCK HILTON	*Houston, Texas*
	THE STATLER HILTON	*Dallas, Texas*
	THE DENVER HILTON	*Denver, Colorado*
	HILTON HOTEL	*Fort Worth, Texas*
	HILTON HOTEL	*El Paso, Texas*
	HILTON HOTEL	*Albuquerque, New Mexico*
INN DIVISION	THE HILTON INN	*San Francisco, California*
	THE HILTON INN	*New Orleans, Louisiana*
	THE HILTON INN	*El Paso, Texas*
	THE HILTON INN	*Atlanta, Georgia*
INTERNATIONAL DIVISION	THE CARIBE HILTON	*San Juan, Puerto Rico*
	THE CASTELLANA HILTON	*Madrid, Spain*
	THE ISTANBUL HILTON	*Istanbul, Turkey*
	THE CONTINENTAL HILTON	*Mexico City, Mexico*
	EL PANAMA HILTON	*Panama, Republic of Panama*
	THE QUEEN ELIZABETH	*Montreal, Canada (a C.N.R. Hotel)*
	THE BERLIN HILTON	*West Berlin, Germany*
	THE NILE HILTON	*Cairo, Egypt, U.A.R.*
	LAS BRISAS HILTON	*Acapulco, Mexico*
	THE VIRGIN ISLE HILTON	*St. Thomas, Virgin Islands*
	THE CHEVRON HILTON SYDNEY	*Sydney, Australia*
	THE HOTEL CARRERA	*Santiago, Chile*