HILTON HOTELS CORP
Form 10-K
February 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2006
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-3427

HILTON HOTELS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2058176** (I.R.S. Employer Identification Number)
9336 Civic Center Drive **Beverly Hills, California** (Address of principal executive offices)	**90210** (Zip Code)

Registrant s telephone number, including area code: **(310) 278-4321**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $2.50 per share	New York
8% Quarterly Interest Bonds due 2031	New York

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o

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

Based upon the June 30, 2006, New York Stock Exchange closing price of $28.28 per share, the aggregate market value of the Registrant s outstanding Common Stock held by non-affiliates of the Registrant was approximately $10.2 billion. There were 385,556,381 and 388,953,623 shares of Common Stock outstanding as of June 30, 2006 and January 31, 2007, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant s definitive proxy statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the Registrant s fiscal year, are incorporated by reference under Part III.

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PART I

Item 1. Business

GENERAL INFORMATION

Current Operations

Hilton Hotels Corporation is engaged, together with its subsidiaries, in the ownership, management and development of hotels, resorts and timeshare properties and the franchising of lodging properties. As of December 31, 2006, our system contained 2,935 properties with approximately 501,000 rooms in 78 countries and territories. Of such properties, we owned and operated 60 hotels, leased and operated 203 hotels, owned an interest in and operated 53 hotels, managed 343 hotels owned by others and franchised 2,242 hotels owned and operated by third parties. Also included in the number of properties in our system are 34 timeshare properties which we managed.

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

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

Acquisition of Hilton International

On February 23, 2006, we consummated the acquisition of the lodging assets of Hilton Group plc (the HI Acquisition) including its operating subsidiary, Hilton International Co. (HI), for approximately £3.3 billion, equivalent to approximately $5.7 billion on the transaction date, excluding acquisition costs, in an all-cash transaction. As a result of the HI Acquisition, we believe we are one of the largest and most geographically diverse lodging companies in the world. The HI properties that we acquired consisted of 392 hotels with approximately 102,000 rooms, including 39 owned, 201 leased, four partially owned through joint ventures, 118 managed and 30 franchised properties. The hotels we acquired in the HI Acquisition consisted of 249 properties operated under the Hilton brand, 131 properties operated under the mid-market Scandic brand, one property under the Conrad brand and 11 other properties. We also acquired 80 LivingWell health clubs, primarily in Europe, and six timeshare properties. As a result of the HI Acquisition, we now wholly own the Hilton HHonors Worldwide frequent guest program and the Hilton Reservations Worldwide reservation system, both of which were previously owned equally by us and HI. We also obtained worldwide ownership of the luxury Conrad hotel brand, which had been operated as a joint venture between us and HI since 2002. As a result of the HI Acquisition, we now own all the rights to the Hilton and Conrad brands, including the right to develop these brands, along with all of our other proprietary brands, on a worldwide basis. See Note 3: Purchase of Hilton International to the consolidated financial statements under Part II Item 8.

Recent Developments

Hotel Properties

- In 2006, we commenced management of the Grand Wailea Resort Hotel & Spa in Maui, Hawaii, the Arizona Biltmore Resort & Spa in Phoenix, Arizona, the La Quinta Resort & Club in La Quinta, California and the Qasr Al Sharq in Jeddah, Saudi Arabia. These properties, together with the Waldorf=Astoria in New York, New York, are included in our new Waldorf=Astoria Collection of luxury hotels.

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

- In 2006, we sold the following assets we acquired as part of the HI Acquisition for aggregate gross proceeds of approximately $1.281 billion as of the transaction dates: the Hilton London Metropole, the Hilton Birmingham Metropole and the Wembley hotel, all in the United Kingdom; the Hilton Toronto Airport, the Hilton Toronto Downtown, the Hilton Quebec City, the Hilton Montreal Airport and the Hilton Saint John, all in Canada; the stand alone LivingWell health clubs; and the leasehold for the Drake Hotel in Chicago, Illinois. We have retained multi-year management agreements on all of these dispositions except for LivingWell.

- In 2006, we sold three wholly owned domestic properties and our minority interest in joint ventures owning three properties. We retained management or franchise agreements on each of these properties, which included four Hiltons and two Embassy Suites.

Timeshare Properties

- We are continuing to develop a 1,582-unit timeshare resort in Las Vegas, Nevada, of which 45 percent of the planned four-tower project has been completed.

- We are developing or have developed three timeshare resorts in Orlando, Florida: a 440-unit resort at Tuscany Village on International Drive, of which 376 units are opened; a completed resort adjacent to Sea World, of which 48 units were added in 2006; and a new resort at Ruby Lake, of which the first phase is expected to contain 141 units.

- In Waikoloa, Hawaii, we have completed development of a 120-unit timeshare resort called Kohala Coast Vacation Suites, and commenced construction of a new timeshare project called Kings Land, of which 198 units are scheduled for completion in 2010.

- In Honolulu, Hawaii, we have commenced construction of the Waikikian Tower, a new 331-unit timeshare project adjacent to the Hilton Hawaiian Village, scheduled for completion in late 2008.

- In 2006, we announced the development of the 57th Street Tower, a new 161-unit timeshare project in New York City scheduled for completion in early 2009.

Additional Information

For a description of our planned expansion activities, see Operations Development. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Development and Capital Spending under Part II Item 7.

Industry Segments

As of December 31, 2006, we operated in three reportable business segments which are based on similar products or services: Hotel Ownership; Managing and Franchising; and Timeshare. For additional information, see Note 16: Segment Information to the consolidated financial statements under Part II Item 8.

OPERATIONS

Hotel Properties

Owned Hotels

As of December 31, 2006, we owned a majority or controlling financial interest in and operated 60 hotels, representing 29,647 rooms. The owned hotels include some of our largest and most profitable hotels, including:

- the 1,416-room Waldorf=Astoria;
- the 1,980-room Hilton New York;
- the 2,860-room Hilton Hawaiian Village;
- the 1,240-room Hilton Waikoloa Village;
- the 1,908-room Hilton San Francisco;
- the 1,544-room Hilton Chicago;
- the 1,119-room Hilton Washington; and
- the 1,616-room Hilton New Orleans Riverside.

Our owned hotels include six properties for which we lease the underlying land. The expiration dates of the leases range up to 2044, with certain leases containing renewal options for 10 to 40 years. Under these leases, we own the buildings and leasehold improvements and all furniture and equipment; we are responsible for repairs, maintenance, operating expenses and lease rentals; and we retain complete managerial discretion over operations. Lease terms generally require us to pay a fixed monthly base rent and may require us to pay additional rent based on a percentage of revenue or income from the hotel. Upon the expiration of such leases, the buildings and other leasehold improvements presently owned by us revert to the landlords. For additional information, see Note 17: Leases to the consolidated financial statements under Part II Item 8.

Leased Hotels

As of December 31, 2006, we leased 203 hotels, representing 46,663 rooms. Under these leases, we lease the hotel from its owner, manage the hotel and are generally responsible for all aspects of the hotel s operations and recognize all revenue and substantially all expenses associated with the hotel s operations. In general, replacement of furniture, fixtures and equipment is our responsibility. Our hotel leases may require the payment of fixed rent payments, variable rent payments based on a percentage of revenue or income, or the payment of rent equal to the greater of a minimum fixed rent or variable rent based on a percentage of revenue or income. The terms of our leases are for various periods expiring through 2097 and generally provide for certain renewal options, subject to certain termination rights. For additional information, see Note 17: Leases to the consolidated financial statements under Part II Item 8.

Joint Ventures

As of December 31, 2006, we had a minority or non-controlling financial interest in and operated 53 hotels, representing 17,232 rooms. We have a right of first refusal to purchase additional equity interests in certain of these joint ventures. We manage each of the partially owned hotels for the entity owning the hotel.

Managed Hotels

As of December 31, 2006, we managed 343 hotels, representing 97,536 rooms, which are wholly owned by others. Under our standard management agreement, we operate a hotel for the benefit of its owner, which either owns or leases the hotel and the associated personal property. Our management fee is generally based on a percentage of each hotel s gross revenue, operating profits, cash flow or a combination thereof. For the majority of properties, we may also earn an incentive fee based on operating performance. The terms of our management agreements are for various periods and generally contain renewal options, subject to certain termination rights.

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

Franchise Hotels

As of December 31, 2006, we franchised 2,242 hotels, representing 306,660 rooms, which are owned and operated by third parties. In general, franchisees pay us an initial fee based on the number of rooms in a franchise hotel and a continuing fee based on a percentage of the hotel s rooms revenue, which may be up to five percent of rooms revenue depending on the brand. Although we do not directly participate in the management or operation of franchise hotels, we conduct periodic inspections to ensure that our standards are maintained and render advice with respect to certain aspects of hotel operations. We generally approve the plans for, and the location of, franchise hotels and assist in their design.

Hotel Brands

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

Hilton

Hilton hotels are our upscale, full-service hotels that typically include swimming pools, gift shops and retail facilities, meeting and banquet facilities, restaurants and lounges, room service, parking facilities and other services. The Hilton brand also includes Hilton Suites hotels, which are upscale, all-suite hotels. As of December 31, 2006, there were 498 Hilton hotels, representing 172,605 rooms, located in 38 states, the District of Columbia and an additional 71 countries and territories throughout the world. As of December 31, 2006, 36 Hilton hotels were under construction, of which 20 are expected to be managed hotels and 16 are expected to be franchise hotels.

Hilton Garden Inn

Hilton Garden Inn hotels are our upper mid-market, focused service hotels that generally utilize a modular design constructed around a courtyard containing an indoor or outdoor swimming pool. In 2006, the Hilton Garden Inn brand earned the first place J.D. Power Award for Highest Customer Satisfaction in its category for a fifth consecutive year. As of December 31, 2006, there were 302 Hilton Garden Inn hotels, representing 41,669 rooms, located in 44 states, the District of Columbia, Canada, Germany, Italy and Mexico. As of December 31, 2006, 57 Hilton Garden Inn hotels were under construction, of which 55 are expected to be franchise hotels and two are expected to be managed hotels.

Doubletree

Doubletree hotels are our full-service hotels in the mid-market to upscale hotel category. The Doubletree brand also includes the Doubletree Guest Suites all-suite hotels and the moderately priced Doubletree Club hotels. As of December 31, 2006, there were 173 Doubletree hotels, representing 45,119 rooms, located in 39 states, the District of Columbia, Canada and Latin America. As of December 31, 2006, six Doubletree hotels were under construction, all of which are expected to be franchise hotels.

Embassy Suites

Embassy Suites are our upscale, all-suite hotels that feature two-room guest suites with a separate living room and dining/work area and a complimentary cooked-to-order breakfast. Most Embassy Suites hotels are built around a landscaped atrium. As of December 31, 2006, there were 185 Embassy Suites, representing 45,172 rooms, located in 38 states, the District of Columbia, Canada, Latin America and the Caribbean. As of December 31, 2006, eight Embassy Suites hotels were under construction, all of which are expected to be franchise hotels.

Homewood Suites by Hilton

Homewood Suites by Hilton are our upscale, extended-stay hotels that feature residential style accommodations including business centers, swimming pools, convenience stores and limited meeting facilities. As of December 31, 2006, there were 192 Homewood Suites, representing 21,141 rooms, located in 41 states, the District of Columbia and Canada. As of December 31, 2006, 28 Homewood Suites hotels were under construction, of which 26 are expected to be franchise hotels and two are expected to be managed hotels.

Hampton

Hampton Inn hotels are our moderately priced hotels with limited food and beverage facilities. The Hampton brand also includes Hampton Inn & Suites hotels which offer both traditional hotel room accommodations and apartment style suites within one property. As of December 31, 2006, there were 1,392 Hampton hotels, representing 138,487 rooms, located in 49 states, the District of Columbia, Canada, Latin America and the Caribbean. As of December 31, 2006, 127 Hampton hotels were under construction, all of which are expected to be franchise hotels.

Scandic

Scandic hotels are our mid-market, full-service hotels located in Northern Europe. As of December 31, 2006, there were 129 Scandic hotels, representing 22,808 rooms, located in Belgium, Denmark, Estonia, Finland, Germany, Italy, Lithuania, the Netherlands, Norway and Sweden. As of December 31, 2006, one Scandic hotel was under construction, which is expected to be a leased hotel.

Conrad

Conrad hotels are our upscale, full-service hotels located primarily outside the United States. As of December 31, 2006 we managed, and in some cases partially owned, 15 Conrad hotels, representing 5,152 rooms, located in Chicago, Illinois; Miami, Florida; Indianapolis, Indiana; and Belgium, China, Egypt, Indonesia, Ireland, Japan, Singapore, Thailand, Turkey and the United Kingdom. We have entered into agreements to manage new Conrad hotels in Shanghai, China and Koh Samui, Thailand.

Waldorf=Astoria Collection

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

Hotels By Region

The following table sets forth the number of properties and rooms in our hotel system, excluding timeshare properties, by region and country as of December 31, 2006. The inclusion of hotels in regions in the table below is consistent with the reporting of regional information throughout this annual report.

Region/Country	Hotels	Rooms
North America		
Canada	56	11,648
United States	2,416	376,700
Total	2,472	388,348
United Kingdom & Ireland		
Ireland	5	750
United Kingdom	70	15,727
Total	75	16,477
Continental Europe		
Austria	4	1,340
Belgium	8	1,684
Bulgaria	1	245
Croatia	1	147
Cyprus	2	492
Czech Republic	1	788
France	9	2,660
Germany	16	4,890
Greece	2	928
Hungary	2	552
Israel	2	1,064
Italy	14	3,265
Luxembourg	1	337
Malta	1	294
Netherlands	6	1,180
Romania	1	272
Spain	3	1,043
Switzerland	2	537
Turkey	8	2,607
Total	84	24,325

Africa		
Algeria	1	410
Cameroon	1	257
Ethiopia	1	379
Kenya	1	293
Madagascar	1	170
Mauritius	1	193
Morocco	1	269
Nigeria	1	670
Republic of Seychelles	1	40
South Africa	2	654
Total	11	3,335
Middle East		
Egypt	19	7,038
Kuwait	1	350
Oman	1	147
Saudi Arabia	4	2,207
United Arab Emirates	8	1,673
Total	33	11,415
Asia Pacific		
Australia	7	2,507
China	5	2,537
Guam	1	682
India	8	1,409
Indonesia	1	298
Japan	8	3,876
Korea	4	1,564
Malaysia	4	1,478
Maldives	1	150
New Zealand	2	197
Philippines	1	246
Republic of Fiji	1	218
Singapore	2	931
Sri Lanka	2	552
Thailand	4	1,909
Vietnam	1	269
Total	52	18,823
Latin America & Caribbean		
Argentina	1	418
Bahamas	1	291
Barbados	1	350
Brazil	2	846
Colombia	2	384
Costa Rica	1	100
Curacao	1	196
Dominican Republic	2	351
Ecuador	3	689

El Salvador	1	204
Honduras	1	120
Jamaica	1	303
Mexico	17	3,516
Nicaragua	1	104
Peru	1	110
Puerto Rico	5	1,739
Trinidad & Tobago	2	578
Venezuela	4	1,439
Total	47	11,738
Nordic		
Denmark	20	3,455
Estonia	3	206
Finland	21	4,056
Lithuania	1	60
Norway	15	2,487
Sweden	67	13,013
Total	127	23,277
Total Hotel Properties (78 countries and territories)	2,901	497,738

North America

As of December 31, 2006, there were 2,472 properties, representing 388,348 rooms, in our hotel system located in the United States and Canada. These properties consist of 239 Hiltons, 296 Hilton Garden Inns, 172 Doubletrees, 179 Embassy Suites, 192 Homewood Suites by Hilton, 1,381 Hamptons, three Conrads and ten other hotels. Our properties in North America consist of 27 owned, five leased, 46 joint venture, 205 managed and 2,189 franchised hotels.

United Kingdom and Ireland

As of December 31, 2006, there were 75 properties, representing 16,477 rooms, in our hotel system located in the U.K. and Ireland, consisting of 70 Hiltons, three Conrads and two other hotels. Our properties in the U.K. and Ireland consist of 14 owned, 32 leased, one joint venture and 28 managed hotels.

Continental Europe

As of December 31, 2006, there were 84 properties, representing 24,325 rooms, in our hotel system located in 19 countries in Continental Europe (exclusive of the Nordic region). These properties consist of 70 Hiltons, three Hilton Garden Inns, seven Scandics, two Conrads and two other hotels. Our properties in Continental Europe consist of 12 owned, 33 leased, three joint venture, 26 managed and ten franchised hotels.

Africa

As of December 31, 2006, there were 11 properties, representing 3,335 rooms, in our hotel system located in ten countries in Africa, each of which is a Hilton branded hotel. Our properties in Africa consist of one owned, three leased, six managed and one franchised hotel.

Middle East

As of December 31, 2006, there were 33 properties, consisting of 11,415 rooms, in our hotel system located in five countries in the Middle East, consisting of 30 Hiltons, two Conrads and one other hotel. Our properties in the Middle East consist of two leased, one joint venture and 30 managed hotels.

Asia Pacific

As of December 31, 2006, there were 52 properties, representing 18,823 rooms, in our hotel system located in 16 countries and territories in the Asia Pacific region, consisting of 47 Hiltons and five Conrad hotels. Our properties in the Asia Pacific region consist of one owned, five leased, two joint venture, 31 managed and 13 franchised hotels.

Latin America & Caribbean

As of December 31, 2006, there were 47 properties, representing 11,738 rooms, in our hotel system located in 18 countries and territories in Latin America and the Caribbean, consisting of 26 Hiltons, three Hilton Garden Inns, one Doubletree, six Embassy Suites, and 11 Hampton hotels. Our properties in Latin America and the Caribbean consist of two owned, four leased, 15 managed and 26 franchised properties.

Nordic

As of December 31, 2006, there were 127 properties, representing 23,277 rooms, in our hotel system located in 6 countries in the Nordic region, consisting of five Hiltons and 122 Scandic hotels. Our properties in the Nordic region consist of three owned, 119 leased, two managed and three franchised hotels.

Timeshare Operations

We conduct our domestic timeshare operations through Hilton Grand Vacations Company and its related entities (HGVC), which we wholly own. As of December 31, 2006, HGVC operated 34 timeshare resorts, consisting of 3,740 rooms, including 21 resorts in Florida, four in Hawaii, three in Nevada and one in each of Colorado and New York. We also operate three timeshare resorts in the United Kingdom and one in Egypt which we acquired in the HI Acquisition. HGVC operates HGVClub and Hilton Club, points-based reservation and exchange systems with 34 affiliated timeshare resorts.

Development

Hotel Properties

We intend to grow our hotel system through franchising and the addition of management contracts. We will also continue to invest in capital improvements and select projects at our owned hotels. In addition, we may seek to acquire ownership interests in hotel properties on a strategic and selective basis, either directly or through investments in joint ventures. See Management s Discussion and Analysis of Financial Condition and Results of Operations Development and Capital Spending under Part II Item 7.

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

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

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

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

In 2007, we expect to add approximately 255 hotels and 35,000 rooms to our hotel system. We expect virtually all of this growth to be through franchise and management agreements.

Our current development pipeline is our largest to date, with more than 775 hotels, primarily franchises, with 110,000 rooms at December 31, 2006. Approximately 90 percent of the hotels in the current development pipeline are in the Americas (U.S., Canada, Mexico and South America), though international development is expected to comprise an increasingly larger percentage of our development pipeline within the next few years. The consummation of transactions in our development pipeline is subject to various conditions and uncertainties.

Our ability to grow the number of managed and franchised hotels is affected by the factors set forth under Item 1A Risk Factors, including but not limited to international, national and regional economic conditions; the effects of actual and threatened terrorist attacks and international conflicts; acts of God, such as natural disasters; credit availability; relationships with franchisees and property owners; and competition from other hotel brands.

Timeshare Properties

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

- We are continuing to develop a 1,582-unit timeshare resort located at the north end of the Las Vegas Strip in Las Vegas, Nevada. Phase two of this project, consisting of 431 units, opened in 2006. Approximately 45 percent of the planned four-tower project has been completed.

- We are continuing to develop a timeshare resort at Tuscany Village on International Drive in Orlando, Florida, with seven phases and a total of 440 units. We have opened the first six phases of this project, consisting of 376 units, including 70 units opened in January 2007. The final phase of this project, consisting of 64 units, is scheduled for completion in spring 2008. Also in Orlando, we have added 48 units to our existing property adjacent to Sea World. In 2007, we began construction of our new timeshare project at Ruby Lake in Orlando. Phase I of the Ruby Lake project is expected to contain 141 units and is scheduled for completion in 2009.

- In 2006, we completed the remaining 98 units of a 120-unit timeshare resort called Kohala Coast Vacation Suites in Waikoloa, Hawaii, near the Hilton Waikoloa Village. We are also developing a new timeshare project in Waikoloa called Kings Land, the first phase of which is expected to consist of 198 units and is scheduled for completion in 2010.

- In 2006, we began construction of the Waikikian Tower, a new timeshare project in Honolulu, Hawaii, adjacent to the Hilton Hawaiian Village. The Waikikian Tower is expected to contain 331 units upon completion which is scheduled for late 2008.

- In 2006, we announced the development of a new timeshare project in New York City on West 57th Street. The 57th Street Tower is expected to contain 161 units and is scheduled for completion in early 2009.

Property Dispositions

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

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

For additional information, see Note 5: Acquisitions and Dispositions to the consolidated financial statements under Part II Item 8.

Development Financing

We have established franchise financing programs with third party lenders to support the growth of our brands. As of December 31, 2006, we have provided guarantees of $16 million on loans outstanding under these programs. In addition, we have guaranteed $27 million of debt and other obligations of unconsolidated affiliates and third parties, bringing our total guarantees to approximately $43 million. Our outstanding guarantees have terms ranging from one to 14 years. We also have commitments under letters of credit totaling $110 million as of December 31, 2006. We believe it is unlikely that material payments will be required under these guarantees or letters of credit. See Note 18: Commitments and Contingencies to the consolidated financial statements under Part II Item 8.

Territorial Restrictions

Prior to the HI Acquisition, we were subject to certain restrictions on our right to operate hotels outside the U.S. identified as Hilton hotels. As a result of the HI Acquisition, we now own the right to develop each of our brands on a worldwide basis. See General Information Acquisition of Hilton International above.

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

Potential Acquisitions

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

Property Transactions

We will continue to review our owned hotel portfolio for potential repositioning or rebranding opportunities and we may seek to sell certain assets, including assets acquired in the HI Acquisition. It is our intention to be opportunistic when evaluating potential asset sales and we will look to sell particular hotel properties to the extent we can obtain premium prices. We are currently marketing for sale certain of our owned and leased hotels, including ten hotels in continental Europe, the Hilton Caledonian in Scotland and six properties in the U.S. We are also marketing for sale the Scandic brand of hotels.

Seasonality

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

Statistical Information

The following table sets forth certain system-wide information for our properties with respect to the number of properties and rooms as of December 31, 2005 and 2006:

	2005 Number of		2006 Number of		Change in Number of	
	Properties	Rooms	Properties	Rooms	Properties	Rooms
Hilton						
Owned	57	32,369	47	26,347	(10)	(6,022)
Leased	79	23,460	80	23,798	1	338
Joint Venture	16	6,844	14	6,156	(2)	(688)
Managed	137	47,709	152	56,633	15	8,924
Franchised	193	54,784	205	59,671	12	4,887
	482	165,166	498	172,605	16	7,439
Hilton Garden Inn						
Owned	1	162	1	162		
Joint Venture	1	128	1	128		
Managed	7	886	7	886		
Franchised	250	34,347	293	40,493	43	6,146
	259	35,523	302	41,669	43	6,146
Doubletree						
Owned	3	1,349	3	1,349		
Leased	5	1,746	4	1,554	(1)	(192)
Joint Venture	14	4,306	12	3,761	(2)	(545)
Managed	30	8,060	27	7,487	(3)	(573)
Franchised	108	26,707	127	30,968	19	4,261
	160	42,168	173	45,119	13	2,951
Embassy Suites						
Owned	3	663	3	664		1
Joint Venture	25	6,586	23	5,788	(2)	(798)
Managed	56	14,832	56	14,918		86
Franchised	98	22,348	103	23,802	5	1,454
	182	44,429	185	45,172	3	743
Homewood Suites by Hilton						
Owned	1	140	1	140		
Managed	41	4,706	41	4,706		
Franchised	122	13,287	150	16,295	28	3,008
	164	18,133	192	21,141	28	3,008
Hampton						
Owned	1	133	1	133		
Managed	34	4,453	34	4,447		(6)
Franchised	1,301	129,535	1,357	133,907	56	4,372
	1,336	134,121	1,392	138,487	56	4,366
Scandic						
Owned	1	325	3	528	2	203
Leased	121	21,405	118	21,182	(3)	(223)
Managed	3	429	3	429		
Franchised	5	715	5	669		(46)
	130	22,874	129	22,808	(1)	(66)
Conrad						
Joint Venture	3	1,395	3	1,399		4
Managed	12	3,660	12	3,753		93
	15	5,055	15	5,152		97
Other						
Owned	2	630	1	324	(1)	(306)
Leased	2	666	1	129	(1)	(537)
Managed	6	1,311	11	4,277	5	2,966
Franchised	6	2,434	2	855	(4)	(1,579)
	16	5,041	15	5,585	(1)	544
Timeshare	40	4,272	34	3,740	(6)	(532)
Total						
Owned	69	35,771	60	29,647	(9)	(6,124)
Leased	207	47,277	203	46,663	(4)	(614)
Joint Venture	59	19,259	53	17,232	(6)	(2,027)
Managed	326	86,046	343	97,536	17	11,490
Franchised	2,083	284,157	2,242	306,660	159	22,503
Timeshare	40	4,272	34	3,740	(6)	(532)

TOTAL PROPERTIES	**2,784**	**476,782**	**2,935**	**501,478**	**151**	**24,696**

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

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

	2005(1)	2006(1)	Change
Hilton			
Occupancy	71.8 %	72.8 %	1.0 pts
Average Rate	$ 138.55	$ 149.86	8.2 %
RevPAR	$ 99.50	$ 109.11	9.7 %
Hilton Garden Inn			
Occupancy	70.0 %	71.4 %	1.4 pts
Average Rate	$ 103.89	$ 111.34	7.2 %
RevPAR	$ 72.70	$ 79.55	9.4 %
Doubletree			
Occupancy	70.4 %	71.6 %	1.2 pts
Average Rate	$ 112.58	$ 122.32	8.7 %
RevPAR	$ 79.30	$ 87.60	10.5 %
Embassy Suites			
Occupancy	73.8 %	74.9 %	1.1 pts
Average Rate	$ 129.93	$ 140.18	7.9 %
RevPAR	$ 95.85	$ 105.05	9.6 %
Homewood Suites by Hilton			
Occupancy	75.2 %	75.8 %	0.6 pts
Average Rate	$ 101.31	$ 108.31	6.9 %
RevPAR	$ 76.19	$ 82.14	7.8 %
Hampton			
Occupancy	71.6 %	72.5 %	0.9 pts
Average Rate	$ 87.80	$ 94.69	7.8 %
RevPAR	$ 62.87	$ 68.66	9.2 %
Scandic			
Occupancy	64.0 %	65.1 %	1.1 pts
Average Rate	$ 104.86	$ 109.92	4.8 %
RevPAR	$ 67.11	$ 71.58	6.7 %
Conrad			
Occupancy	70.4 %	69.6 %	(0.8)pts
Average Rate	$ 153.35	$ 173.75	13.3 %
RevPAR	$ 107.90	$ 120.94	12.1 %
Other			
Occupancy	75.2 %	79.5 %	4.3 pts
Average Rate	$ 132.99	$ 145.13	9.1 %
RevPAR	$ 99.98	$ 115.36	15.4 %
Total			
Occupancy	71.4 %	72.5 %	1.1 pts
Average Rate	$ 115.43	$ 124.58	7.9 %
RevPAR	$ 82.46	$ 90.27	9.5 %

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

For additional information regarding our hotel brands, see Hotel Brands above.

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

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

In the table above, statistics are presented pro forma as if the HI Acquisition occurred January 1, 2005. This table includes hotels in our system as of December 31, 2006 which were in our hotel system or in the hotel system of HI since January 1, 2005. Comparable hotels exclude data for HI franchise hotels and our owned hotels in New Orleans due to the interruption in operations as a result of Hurricane Katrina. For additional information regarding our number of properties, number of available rooms and statistical information, see Five Year Summary under Part II Item 8.

ADDITIONAL INFORMATION

Casino Windsor

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

Design and Furnishing Services

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

Reservation System

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

HHonors

Hilton HHonors Worldwide, LLC (HHW) operates our guest loyalty program (HHonors). Prior to the HI Acquisition, Hilton and Hilton Group plc each owned a 50% interest in HHW. As a result of the HI Acquisition, HHW is now wholly owned by us. The HHonors program is operated for the benefit of our family of brands worldwide. Members of the HHonors program earn points based on their spending at most of the hotel properties operated and franchised by us. HHonors accumulates and tracks points on the member s behalf and fulfills awards upon request. Points can be redeemed for hotel stays at participating properties and for a variety of other awards such as airline tickets, cruises and car rentals. We expect HHonors to continue to have a positive impact on our brands. See Note 2: Summary of Significant Accounting Policies Hilton HHonors to the consolidated financial statements under Part II Item 8.

Technology and Distribution

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

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

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

Trademarks

The following trademarks used herein are owned by us and are either registered or have been filed for registration as trademarks in the United States and/or in certain foreign countries: Conrad®, Double Dip®, Doubletree®, Doubletree Club Hotel®, Doubletree Guest Suites®, Doubletree by Hilton , Embassy Suites Hotels®, Embassy Suites by Hilton , Finn & Porter®, Garden Inn®, Hampton®, Hampton Inn®, Hampton Inn & Suites®, Hampton by Hilton , Hawaiian Village®, HGVClub®, HHonors®, Hilton®, Hilton Garden Inn®, Hilton Grand Vacations Club®, Hilton Hawaiian Village®, Hilton Suites®, Homewood Suites by Hilton®, LivingWell®, OnQ , Points & Miles®, Scandic®, Senior HHonors®, Waldorf=Astoria® and Waldorf=Astoria Collection®. We consider all of these trademarks, and the associated name recognition, to be valuable to our business. See Note 2: Summary of Significant Accounting Policies Brands to the consolidated financial statements under Part II Item 8.

Marketing

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

Our metropolitan and airport properties primarily serve the convention and meeting market and the business traveler market (business persons traveling as individuals or in small groups). Our resort properties primarily serve the tour and leisure market (tourists traveling either as individuals or in groups) and the convention and meeting market. Our suburban properties primarily serve the leisure and business traveler markets. As indicated in Risk Factors under Item 1A, these sources of business are sensitive to general economic and other conditions.

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

Competition

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

We believe that our position as a multi-branded owner, operator, manager and franchisor of hotels makes us one of the largest and most geographically diverse lodging companies in the world. Competition in the industry is based primarily on the level of service, quality of accommodations, convenience of locations and room rates. Competition from other hotels, motels and inns, including facilities owned by local interests and facilities owned by national and international chains, is vigorous in all areas in which we operate or franchise our facilities. Our hotels also generally compete with facilities offering similar services in cities and other locations where our hotels are not present. If hotel capacity is expanded by others in a city where our branded hotels are located, competition will increase. Our management agreements are generally for long-term periods, but most allow the hotel owner to terminate the arrangement if certain financial or performance standards are not met. Competition in the timeshare business is based primarily on the quality and location of timeshare resorts, the pricing of timeshare intervals and the availability of program benefits, such as exchange programs. We believe that our focus on core business strategies, combined with our financial strength, diverse market presence, strong brands and strategically located properties, will enable us to remain competitive. For additional information, see Risk Factors under Item 1A.

Environmental Matters

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

(i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous or toxic wastes; or

(ii) may impose liability for the costs of cleaning up, and certain damages resulting from, sites of past spills, disposals or other releases of hazardous or toxic substances or wastes (together, Environmental Laws).

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Environmental Laws could make us liable for costs of removing or cleaning up hazardous or toxic substances on, under or in property we currently own or operate or that we previously owned or operated. Those laws could impose liability without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances or waste. We endeavor to maintain compliance with Environmental Laws but, from time to time, our operations may have resulted or may result in noncompliance or liability for cleanup pursuant to Environmental Laws. In that regard, as of December 31, 2006, we had been notified of contamination resulting from past disposals of waste at eight sites to which hazardous or non-hazardous waste may have been sent from our facilities in the past. Based on information reviewed by and available to us, including:

(i) uncertainty whether our facilities in fact shipped any waste to such sites;

(ii) the number of potentially responsible parties at such sites; and

(iii) where available, the volume and type of waste sent to such sites;

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

Regulation and Licensing

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

Other Laws and Regulations. We are subject to the laws and regulations of 78 countries and territories. The hotels and timeshare resorts we operate are subject to extensive state, local and national regulations and, on a periodic basis, must obtain various licenses and permits, including those required to sell alcoholic beverages. National and state laws and regulations also require certain registration, disclosure statements and other practices with respect to the franchising of hotels. We believe that we have obtained all required licenses and permits and our businesses are conducted in substantial compliance with applicable laws.

Employees

At December 31, 2006, we had approximately 105,000 employees, of whom approximately 28,000 were covered by various collective bargaining agreements providing, generally, for basic pay rates, working hours, other conditions of employment and orderly settlement of labor disputes. We believe that the aggregate compensation benefits and working conditions afforded our employees compare favorably with those received by employees in the hotel industry generally. See Risk Factors under Item 1A.

Forward-Looking Statements

Forward-looking statements in this report, including without limitation, those set forth under the captions Item 1 Business Hotel Brands, Operations Development, Development Financing, Territorial Restrictions, Potential Acquisitions, Property Transactions and Sea Additional Information Reservation System, HHonors, Competition, Environmental Matters and Regulation and Licensing, Item 2 Item 3 Legal Proceedings and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and other statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believes, anticipates, expects, intends, plans, estimates, p will, should, continues and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance and are subject to risks and uncertainties, including those identified under Item 1A Risk Factors below and under Operations Territorial Restrictions and Management s Discussion and Analysis of Financial Condition an Results of Operations. Any of these risks and uncertainties could cause actual results to differ materially from historical results or those anticipated. We undertake no obligation to publicly update or revise any forward-looking statements to reflect current or future events or circumstances except as required by law.

Available Information

Our internet website is located at www.hiltonworldwide.com. We make available free of charge through this website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our internet website also contains our Code of Business Conduct and Ethics for officers, employees and directors, including our Chief Executive Officer and senior finance officers (the Code of Ethics), our Corporate Governance Guidelines, Charters for our Audit, Compensation and Corporate Governance and Nominating Committees and information regarding communications with our Board of Directors. See hiltonworldwide.com, click on Investor Relations, then Corporate Governance. See also Directors, Executive Officers and Corporate Governance under Part III Item 10. The information made available through our website is not incorporated by reference in this Form 10-K.

We will provide without charge to any person, on the written or oral request of such person, a copy of our annual report on Form 10-K, Code of Ethics, Corporate Governance Guidelines and Charters for our Audit, Compensation and Corporate Governance and Nominating Committees. Requests should be directed to our Corporate Secretary, Hilton Hotels Corporation, 9336 Civic Center Drive, Beverly Hills, California 90210 (telephone number (310) 278-4321).

Executive Officers of the Registrant

The following table sets forth certain information with respect to our executive officers.

Name	Positions with the Company	Age
Stephen F. Bollenbach	Co-Chairman of the Board and Chief Executive Officer since May 2004, and prior thereto, President and Chief Executive Officer	64
Matthew J. Hart	President and Chief Operating Officer since May 2004, and prior thereto, Executive Vice President and Chief Financial Officer	54
Ian R. Carter	Executive Vice President and Chief Executive Officer Hilton International Co. (a subsidiary of Hilton Hotels Corporation) since March 2006, Chief Executive Officer Hilton International Co. (a subsidiary of Hilton Group plc) from January 2005 until March 2006, and prior thereto, President Europe, Middle East and Asia Pacific, Black & Decker Corporation	45
Tim Harvey	Executive Vice President Global Distribution Services and Chief Information Officer since January 2007, Executive Vice President and Chief Information Officer from January 2006 until January 2007, and prior thereto, Senior Vice President and Chief Information Officer	48
Thomas L. Keltner	Executive Vice President and Chief Executive Officer Americas and Global Brands, since January 2007, and prior thereto, Executive Vice President and President Brand Performance and Development Group	60
Madeleine A. Kleiner	Executive Vice President, General Counsel and Corporate Secretary	55
Robert M. La Forgia	Executive Vice President and Chief Financial Officer since January 2006, Senior Vice President and Chief Financial Officer from May 2004 until January 2006, and prior thereto, Senior Vice President and Controller	48

Unless otherwise noted in the table, all positions and offices indicated have been continuously held since January 2002. The executive officers are responsible for all major policy making functions and all other corporate and divisional officers are responsible to, and are under the supervision of, the executive officers. None of the executive officers listed above are related.

Messrs. Bollenbach and Hart also serve as directors of Hilton. Additional information for our directors will be included under Election of Directors in our definitive proxy statement to be used in connection with our annual meeting of stockholders scheduled to be held on May 24, 2007 (the Proxy Statement), and this information is incorporated by reference in this Form 10-K. See Cover Page Documents Incorporated by Reference.

Item 1A. Risk Factors

We are subject to all of the operating risks common in the lodging and timeshare industries and our results may be adversely impacted if any of these risks materialize. Our results are significantly affected by occupancy and room rates achieved by our hotels, our ability to manage costs, foreign currency exchange rate movements related to our international operations, our relative mix of owned, leased, managed and franchised hotels, supply and demand changes for hotel rooms and timeshare intervals in our markets, the quantity and pricing of timeshare interval sales and changes in the number of available hotel rooms and timeshare intervals through acquisition, development and disposition. Unfavorable changes in these factors, as well as the occurrence of other events described below, could negatively impact hotel room demand and pricing which, in turn, could limit our ability to pass through operating cost increases in the form of higher room rates. Our ability to manage costs could be adversely impacted by significant increases in operating expenses, such as wages and other labor costs, healthcare, insurance, property taxes and energy, as well as increases in construction costs, resulting in lower operating margins. In addition, economic factors beyond our control in the U.S. and internationally may create challenges for the lodging industry and us in 2007 and beyond. A downturn in economic conditions could impact the demand for hotel rooms and put pressure on room rates. Increases in transportation and fuel costs, the financial condition of the airline industry and its impact on air travel and sustained recessionary periods in the U.S. and internationally could also unfavorably impact future results.

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

We derive a significant portion of our revenue from operations of our owned hotels and events in the markets where these properties are located could adversely affect our overall financial results. We derived approximately 31% of our revenue in 2006 from the operations of our owned hotels. A significant portion of this revenue was derived from our large convention hotels located in major U.S. cities. See Operations Hotel Properties Owned Hotels under Item 1. In addition, we acquired 39 owned properties in the HI Acquisition. Although we sold a number of owned properties since the HI Acquisition and are continuing to market certain properties for sale, soft economic conditions and reduced business travel in any of the markets where we currently own properties could adversely affect our results from these properties and, therefore, our overall financial results. Our owned properties are also subject to risks that generally relate to investments in commercial real estate, including governmental regulations; real estate, insurance, zoning, tax and eminent domain laws; the ongoing need for capital improvements to maintain or upgrade properties; fluctuations in real estate values; and the relative illiquidity of real estate compared to other investments. If our owned properties do not generate sufficient revenue to meet operating expenses, including debt service and capital requirements, our financial results will be adversely affected.

We face challenges in integrating the operations of HI, as well as risks related to owning and operating real estate and hotels in international locations. We may experience difficulties in completing the integration of HI s operations, including combining technology and distribution activities, consolidating regional infrastructure, integrating personnel with disparate business backgrounds and corporate cultures and managing relationships with hotel owners, lessors and other business partners on a worldwide basis. As a result of the HI Acquisition, we are subject to varying degrees of risk relating to international real estate generally, including risks related to changes in local, political, economic and market conditions, interest rates, zoning laws, currency exchange rate fluctuations, compliance with environmental laws, costs and terms of financing and the potential for uninsured casualty and other losses. A number of the leased properties we acquired in the HI Acquisition are subject to long-term contracts requiring fixed payments to the lessor. If these properties do not generate sufficient revenue, we may be required to fund shortfalls to the lessors which could adversely impact our financial results. We have assumed certain obligations and liabilities related to the business acquired in the HI Acquisition and have limited rights of indemnification with respect to such matters. As a result of the HI Acquisition, we are subject to the laws and regulations of 78 countries and territories, which exposes us to risks relating to changes in franchise, tax, environmental, zoning, employment, repatriation of money, liquor license and other laws in the countries in which we operate. As a U.S. company operating globally, we may be subject to inconsistent requirements resulting from conflicts between U.S. laws and the laws of the countries in which we operate. If taxation authorities in the countries in which we operate interpret our tax position in a manner that is materially different than our assumptions, our tax liabilities could increase which could materially adversely impact our financial results. Some international jurisdictions restrict the repatriation of non-U.S. earnings. Various international jurisdictions also have laws limiting the ability of non-U.S. entities to pay dividends and remit earnings to affiliated companies unless specified conditions have been met. Sales in international jurisdictions typically are made in local currencies, which subject us to risks associated with currency fluctuations. Currency devaluations and unfavorable changes in international monetary and tax policies could have a material adverse effect on our profitability and financing plans, as could other changes in the international regulatory climate and international economic conditions. In addition, the U.S. government prohibits U.S. companies from operating in certain countries that are subject to economic sanctions or are on the terrorist countries list. We will not do business in such countries, unless we develop or acquire a non-U.S. affiliate that is capable of managing hotels or we obtain authorization from the U.S. Treasury Department s Office of Foreign Assets Control to do so. Some investors would be prohibited by state law or self-imposed policies from investing in our securities if we were to do business in such countries.

We are more highly leveraged as a result of the HI Acquisition. If we are unable to complete planned dispositions of certain of our owned hotels acquired in the HI Acquisition, our ability to reduce our indebtedness could be impacted. We have sold certain hotel properties we acquired in the HI Acquisition and are continuing to market additional properties for sale. See Note 5: Acquisitions and Dispositions to the consolidated financial statements under Part II Item 8. We are required to use the net proceeds from such dispositions to repay amounts outstanding under our credit facilities which were incurred to finance the HI Acquisition. If we are unable to complete such dispositions on commercially reasonable terms within anticipated timeframes, our ability to reduce our outstanding borrowings may be adversely affected, which could negatively impact our cost of borrowings, our financial results and our ability to raise new capital to finance future growth. Our senior debt is currently rated Ba1 by Moody s Investor Services and BB by Standard & Poor s Ratings Group. A downgrade by any rating agency of our credit rating could adversely impact the cost and availability of capital to us. Our higher level of debt and resulting interest expense may place us at a competitive disadvantage to competitors with lower amounts of indebtedness and/or higher credit ratings.

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

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

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

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

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

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

Reported profits from our timeshare business may be negatively impacted by deferrals required under percentage-of-completion accounting. ***During periods of construction, profits from timeshare sales are recognized under the percentage-of-completion accounting method.*** As we are currently constructing several new timeshare projects, we anticipate that this required accounting will negatively impact the reported profits from our timeshare business in 2007. We expect the impact of percentage-of-completion accounting on 2007 results to reverse in 2008. See Note 2: Summary of Significant Accounting Policies New Accounting Standards to the consolidated financial statements under Part II Item 8.

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

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

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

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

In addition, see the cautionary factors set forth under Item 1 Business Additional Information Competition and Environmental Matters.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We consider our hotels to be leading establishments with respect to desirability of location, size, facilities, physical condition, quality and the variety of services offered in most of the areas in which they are located. Obsolescence arising from age and condition of facilities is a factor in the hotel industry. Accordingly, we spend, and intend to continue to spend, substantial funds to maintain the condition of our owned facilities in order to remain competitive.

Hotels and timeshare properties owned, leased, managed and franchised by us are briefly described under Item 1 and, in particular, under the caption Operations, and are incorporated by reference herein. In addition, new properties presently under construction that we will operate are briefly described under Operations Development under Item 1.

Item 3. Legal Proceedings

The description of legal proceedings in Note 18: Commitments and Contingencies to the consolidated financial statements included under Part II Item 8 is incorporated by reference herein.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is listed on the New York Stock Exchange and is traded under the symbol HLT. As of December 31, 2006, we had approximately 11,500 stockholders of record, although we believe that there are a significantly larger number of beneficial holders of our Common Stock. The high and low reported sales prices per share of our Common Stock and dividends declared per share of Common Stock are set forth in the following table for the periods indicated:

	High	**Low**	**Dividend Per Share**
2005			
1st Quarter	23.36	20.93	.02
2nd Quarter	25.06	21.37	.02
3rd Quarter	25.81	21.10	.04
4th Quarter	24.35	18.78	.04
2006			
1st Quarter	26.05	22.76	.04
2nd Quarter	29.22	25.06	.04
3rd Quarter	28.53	23.19	.04
4th Quarter	35.79	27.16	.04
2007			
1st Quarter (through February 23, 2007)	37.82	33.27	.04

Rights Agreement

On November 29, 1999, we adopted a preferred share purchase rights plan (the Rights Plan) and declared a dividend distribution of one preferred share purchase right (a Right) on each outstanding share of our Common Stock. We have entered into a rights agreement, dated as of November 29, 1999, which was amended as of February 15, 2001 to provide for the substitution of The Bank of New York as Rights Agent (as amended, the Rights Agreement). The Rights are transferred only with the Common Stock, unless and until they become exercisable. The Rights will expire on November 29, 2009, subject to our right to extend, unless earlier redeemed or exchanged by us or terminated.

Generally, the Rights become exercisable only if a person or group (other than Hilton Interests, as defined below):

(i) acquires beneficial ownership of 20 percent or more of the Common Stock (such person or group, an Acquiring Person); or

(ii) announces a tender offer, the consummation of which would result in ownership by a person or group of 20 percent or more of the Common Stock.

When exercisable, each Right entitles a shareholder to purchase from us one one-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $80, subject to adjustment (the Purchase Price).

After a person becomes an Acquiring Person, each holder of a Right (other than Rights owned by the Acquiring Person) will have the right to receive, upon exercise of such Right, a number of shares of Common Stock having a market value equal to two times the then current Purchase Price of the Right. After a person becomes an Acquiring Person, if we engage in certain mergers or transfers of assets, each holder of a Right (other than Rights owned by the Acquiring Person) will have the right to receive upon exercise, at the Right s exercise price, a number of the acquiring company s common shares having a market value of twice the Right s Purchase Price.

Once a person becomes an Acquiring Person, but prior to their acquisition of 50 percent or more of the outstanding Common Stock, our Board of Directors may cause us to exchange the Rights (other than Rights owned by an Acquiring Person), in whole or in part, for shares of Common Stock at an exchange ratio based on the value of the Common Stock at that time, subject to adjustment.

Prior to a person or group becoming an Acquiring Person, the Rights are redeemable for $.001 per Right at the option of our Board of Directors.

Hilton Interests refer to Barron Hilton and the Conrad N. Hilton Fund and the shares of Common Stock beneficially owned by them.

The Rights Agreement, as amended, has been filed as Exhibits 4.8 and 4.9 to this Form 10-K, and the foregoing summary is qualified in its entirety by reference thereto.

Performance Graph

The graph below shows the cumulative total stockholder return for the five years ended December 31, 2006, assuming the investment of $100 on December 31, 2001 (and the reinvestment of dividends and common stock equivalents) in each of our Common Stock, the S&P 500 Stock Index and the S&P 500 Hotels, Resorts and Cruise Lines Index.

Comparison of Five-Year Cumulative Total Return of the Company, S&P 500 Stock Index and S&P 500 Hotels, Resorts and Cruise Lines Index

	12/01	12/02	12/03	12/04	12/05	12/06
Hilton Hotels Corporation	$ 100.00	117.13	158.76	211.65	225.59	328.43
S&P 500 Stock Index	$ 100.00	77.90	100.25	111.15	116.61	135.03
S&P 500 Hotels, Resorts & Cruise Lines Index	$ 100.00	89.56	136.22	198.37	201.40	230.83

Item 6. Selected Financial Data

The following selected financial data as of and for the years ended December 31, 2002 through 2006 has been derived from our consolidated financial statements. The following data should be read in conjunction with our consolidated financial statements, the related notes thereto contained under Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(in millions, except per share amounts)				