

*Hilton W. Hammett*



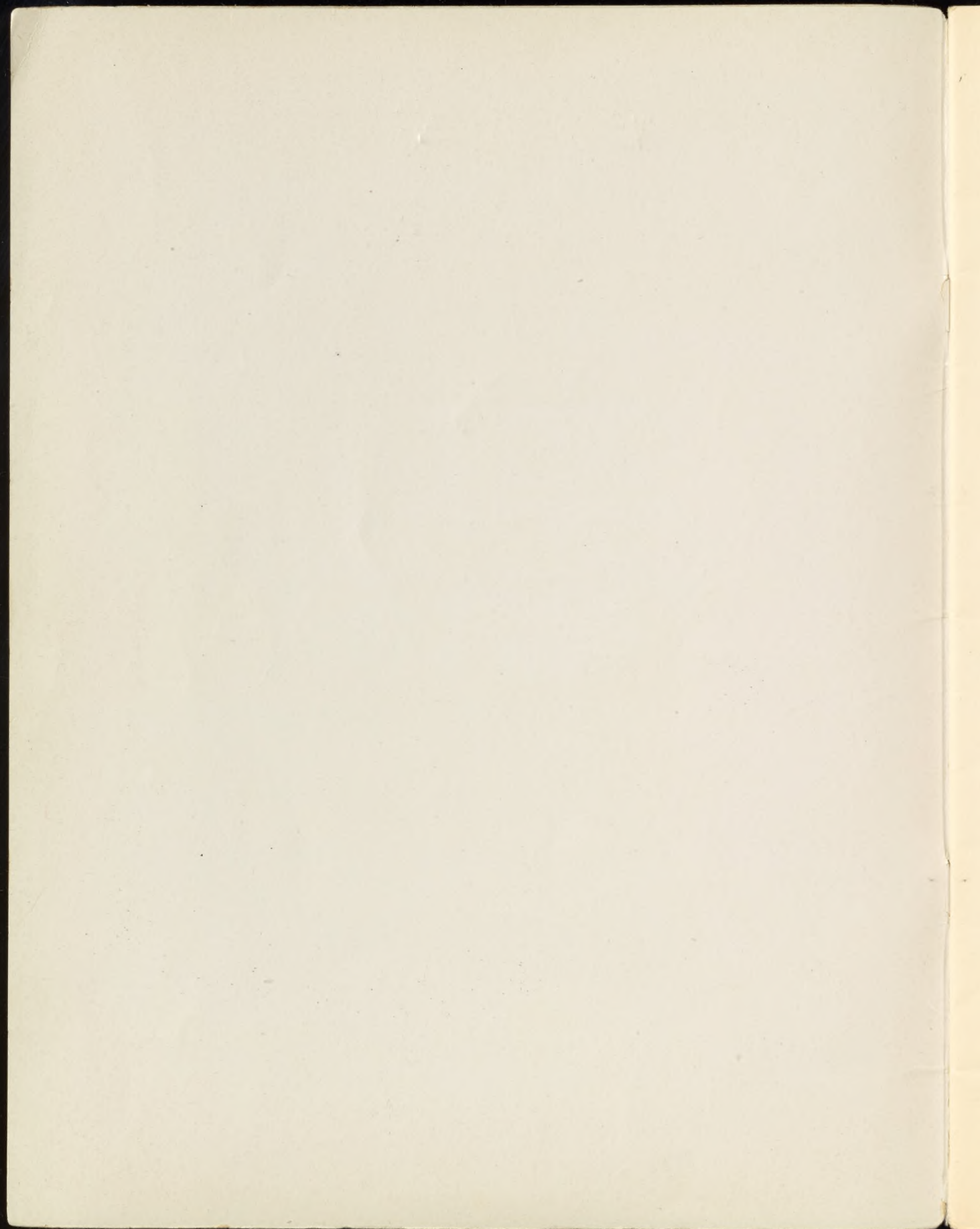
EXECUTIVE OFFICES: THE STEVENS, CHICAGO 5, ILLINOIS



# Annual Report

1946

HILTON HOTELS CORPORATION



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Hilton Hotels Corporation

Annual Report  
to  
Stockholders

Seven Months Ended December 31, 1946

Corporation Created June 1, 1946  
By Consolidation

*The sole purpose of this report is to give present stockholders information about their Corporation. This report is not a representation, prospectus or circular in respect to any stock of this Corporation and is not transmitted in connection with any sale or offer to sell or to buy any stock or security to be issued now or hereafter, nor in connection with any preliminary negotiation for such sale.*

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## HILTON HOTELS CORPORATION

The Stevens Hotel, Chicago 5, Ill.  
100 West 10th St., Wilmington 99, Delaware

### BOARD OF DIRECTORS

HENRY CROWN

*Chairman, Material Service Corporation, Chicago*

ROBERT W. DOWLING

*President, City Investing Company, New York City*

Y. FRANK FREEMAN

*Executive Vice President, Paramount Pictures, Hollywood*

L. BOYD HATCH

*Executive Vice President, Atlas Corporation, New York City*

CONRAD N. HILTON

*President*

WILLARD W. KEITH

*President, Cosgrove and Company, Los Angeles*

LAWRENCE STERN

*President, American National Bank & Trust Company of Chicago*

SAM D. YOUNG

*President, El Paso National Bank, El Paso, Texas*

### OFFICERS

CONRAD N. HILTON

*President*

ROBERT P. WILLIFORD

*Vice President*

JOSEPH P. BINNS

*Vice President*

SPEARL ELLISON

*Vice President*

LYNN H. MONTJOY

*Vice President*

JAMES B. HERNDON, JR.

*Vice President*

HARRY L. LUDWIG

*Vice President and Treasurer*

SERGE OBOLENSKY

*Vice President*

WILLIAM J. FRIEDMAN

*Secretary*

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### COMMON STOCK

#### TRANSFER AGENTS

THE FIRST NATIONAL BANK OF CHICAGO  
MANUFACTURERS TRUST COMPANY OF  
NEW YORK

#### REGISTRARS

AMERICAN NATIONAL BANK AND TRUST  
COMPANY OF CHICAGO  
TITLE GUARANTY & TRUST CO. OF NEW YORK

### PREFERRED STOCK

#### TRANSFER AGENT

MANUFACTURERS TRUST COMPANY OF  
NEW YORK

#### REGISTRAR

THE MARINE MIDLAND TRUST COMPANY  
OF NEW YORK

# Hilton Hotels Corporation

CHICAGO 5, ILL.

February 28, 1947.

*To the Stockholders of*

HILTON HOTELS CORPORATION:

Your Directors and Officers take pleasure in submitting to you the first annual report of Hilton Hotels Corporation for the seven months' period ending December 31, 1946 (the first fiscal year), including Balance Sheet, and Summaries of Profit and Loss and Surplus Accounts, as certified by Harris, Kerr, Forster & Company.

## EARNINGS

Net earnings for the seven months ended December 31, 1946 were \$2,113,336.25. After deduction for dividends paid on the outstanding Convertible Preference Stock, the net earnings per share, on each of the 1,618,377 outstanding shares of the Common Capital Stock as of December 31, 1946 was \$1.15. During this period, depreciation in the amount of \$1,037,713.15 and provision for income taxes in the amount of \$1,300,000 were deducted in computing net earnings, which amounted to 64 cents and 80 cents respectively per share of outstanding Common Capital Stock.

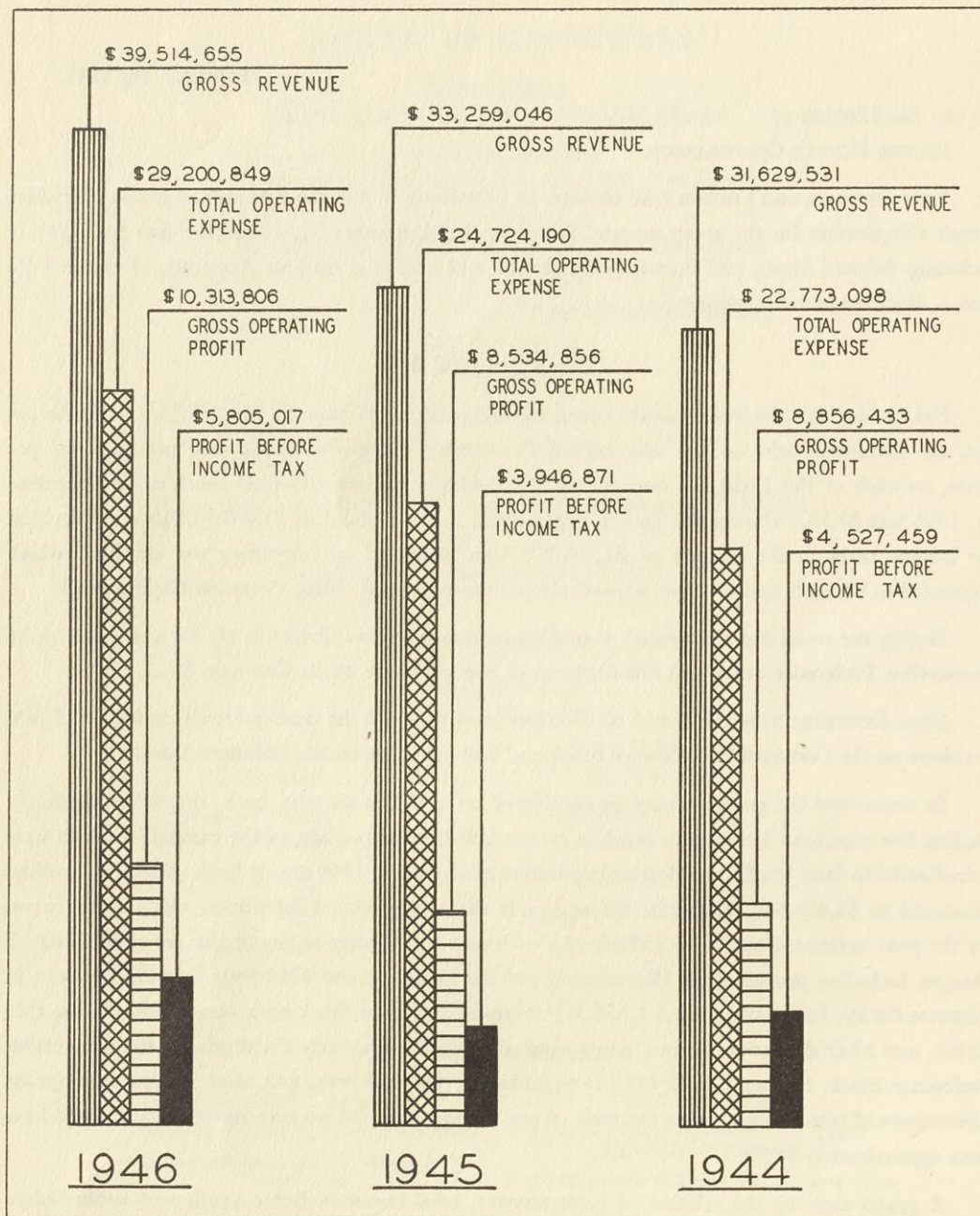
During the seven months' period, your Corporation paid two dividends of 50¢ per share on its Convertible Preference Stock and one dividend of 25¢ per share on its Common Stock.

Since December 31st, the Board of Directors have declared the next quarterly dividends of 50¢ per share on the Convertible Preference Stock and 25¢ per share on the Common Stock.

In order that the earnings may be considered on a twelve months' basis, the net earnings for the first five months of 1946, on as nearly a comparable basis as possible, of the companies which were consolidated to form the Hilton Hotels Corporation as of June 1, 1946 are set forth. Such net earnings amounted to \$1,464,816.63. Thus, the aggregate earnings of your Corporation and its predecessors for the year amounted to \$3,578,152.88. In each case, the figures represent the net result after all charges, including provisions for depreciation and for income taxes. Had your Corporation been in existence for the full year and had 1,618,377 shares of Common Stock been outstanding during that period, and after deduction of an amount equivalent to the quarterly dividends on the Convertible Preference Stock, had such stock been outstanding for the full year, and after making appropriate adjustments of interest charges on the basis of our present debt, the net earnings per share would have been approximately \$1.99.

A graph showing the relation of gross revenue, total expenses, house profit and profit before income taxes for the year 1946 and the two previous years of the consolidating companies and their predecessors, is presented on the following page:

# HILTON HOTELS CORPORATION AND CONSOLIDATING COMPANIES

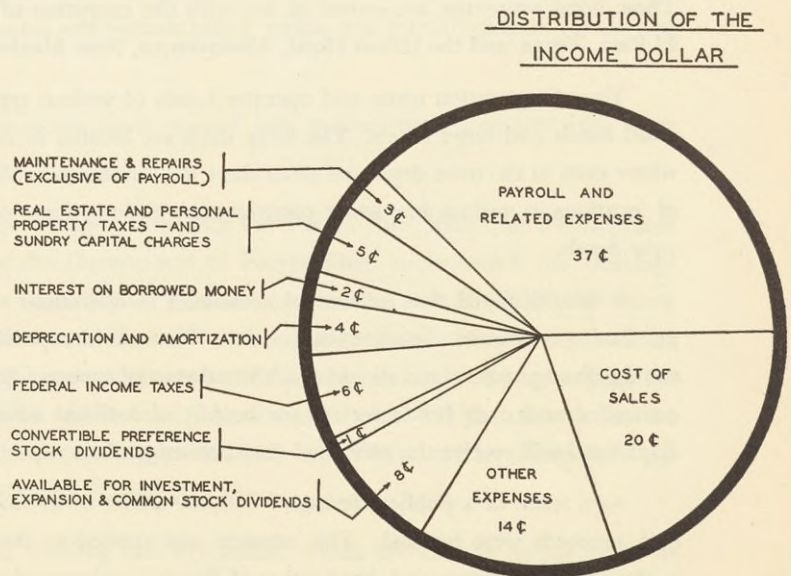
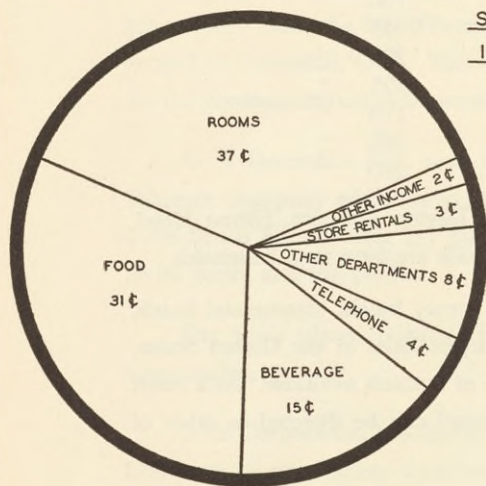


The percentages of occupancy and average daily room rates for the last three years of the various hotels now owned by your Corporation were as follows:

	<u>Percentage of Occupancy</u>			<u>Average Daily Room Rate</u>		
	<u>1946</u>	<u>1945</u>	<u>1944</u>	<u>1946</u>	<u>1945</u>	<u>1944</u>
Palmer House .....	92.0	85.0	78.7	\$6.59	\$6.18	\$6.14
Stevens .....	94.6	88.2	79.8	5.01	4.73	4.99
Plaza .....	92.3	89.6	86.0	7.04	6.57	6.19
Long Beach Hilton .....	94.5	96.6	94.8	4.53	4.68	4.35
Town House .....	96.9	97.0	95.0	6.44	6.17	6.04
Dayton Biltmore .....	89.8	94.6	97.1	3.63	3.51	3.41
Albuquerque Hilton .....	94.9	101.9	98.7	4.24	3.64	3.47
El Paso Hilton .....	95.7	97.2	96.8	3.78	3.59	3.60
Lubbock Hilton .....	94.9	95.0	93.6	3.15	3.05	3.00

As a result of the decontrol of transient room rates, as of February 15, 1947, the average transient room rates were increased approximately 15%.

The diagrams immediately following show the sources of your Corporation's income dollar, and its distribution, for the seven months ended December 31, 1946.



## CORPORATE HISTORY AND ORGANIZATION

Under the terms of Agreement of Consolidation dated May 23, 1946, the following companies were consolidated to form Hilton Hotels Corporation:

Plaza Hotel Company  
Palmer House Company  
Stevens Hotel Corporation  
Dayton Biltmore Hotel Company

Hilton Hotels Corporation commenced operations on June 1, 1946. Pursuant to the provisions of the consolidation, shares of Convertible Preference Stock and Common Capital Stock of the Hilton Hotels Corporation were exchanged, upon agreed ratios, for certain securities of the consolidating companies. All of the assets of said consolidating companies were acquired by Hilton Hotels Corporation, which assumed the liabilities of such companies. Contemporaneously, Hilton Hotels Corporation acquired the assets of and assumed the liabilities of Lubbock Hilton Hotel Company and New Mexico Hilton Hotel Company in exchange for shares of Common Capital Stock.

As a result, your Corporation has operated the following hotels since its inception:

Plaza	New York City	1035 Rooms
Dayton Biltmore	Dayton, Ohio	475 "
The Stevens	Chicago, Illinois	2700 "
Palmer House	Chicago, Illinois	2245 "
Hilton Hotel	Lubbock, Texas	200 "
Hilton Hotel	El Paso, Texas	295 "
Hilton Hotel	Albuquerque, New Mexico	170 "
Hilton Hotel	Long Beach, California	285 "
Town House	Los Angeles, California	280 "

These hotel properties are owned in fee with the exception of the Dayton Biltmore, Hilton Hotel, El Paso, Texas, and the Hilton Hotel, Albuquerque, New Mexico, which are long term leaseholds.

Your Corporation owns and operates hotels of various types; luxury hotels, commercial hotels, small hotels and large hotels. The large units are located in the largest cities of the United States, where even in the most depressed times there is a substantial volume of business available. As a result of locations in various important communities, business from one hotel can be directed to other of your hotels.

It is anticipated that substantial economies in operations will be developed through centralized purchasing as markets become competitive. Centralized supervision and management make possible standardized practices and should result in substantial savings. Expenditures for advertising are readily controlled and each hotel receives the benefit of national advertising at a materially reduced rate. Each hotel will receive the benefit of the knowledge of an expert group of hotel operators.

As a result of a public offering of 350,000 shares of its Common Capital Stock, \$5,600,000 net cash proceeds were realized. This amount was applied to the general funds and its use is shown in the caption, "Source and Application of Funds", as hereinafter set forth.

In addition, 44,342 shares of Common Capital Stock were sold to key employees, excluding Directors of the Corporation, and including key employees of the Roosevelt Hotel in New York City, at the public offering price. The purchasers made a down payment of not less than 20% with the balance payable in four annual installments, subject, however, to call prior thereto up to the par value of the shares. Such shares were issued as partially paid shares entitled to dividends only to the extent to which the purchase price therefor has been paid. At a meeting of the Board of Directors held on January 24, 1947, all future payments on stock so purchased were extended for a period of one year.

## ACQUISITIONS AND SALES

On December 18, 1946, your Corporation acquired a controlling stock interest in the Mayflower Hotel Corporation. An offer to purchase was made to other shareholders at the same price paid for the stock so purchased and as of December 31, 1946, Hilton Hotels Corporation had purchased 203,392 shares out of a total of the outstanding issue of 389,738 shares of Common Capital Stock of said company. Since this date, 51,707 additional shares have been purchased. The Mayflower Hotel Corporation owns the Mayflower hotel in Washington, D. C., in fee. The hotel has 888 guest rooms and various public rooms which are used for the accommodation of its guests and the public.

On December 23, 1946, your Corporation acquired a one-half interest in the Neil House Company which owns the Neil House hotel and the long term leasehold estate upon which the hotel is located in Columbus, Ohio. This hotel has 640 guest rooms and various public rooms which are used for the accommodation of its guests and the public.

As of December 31st, your Corporation owned 50% of the Capital Stock of the Palm Beach Biltmore Company which owns in fee the Palm Beach Biltmore hotel in Palm Beach, Florida. The Palm Beach Biltmore has 537 guest rooms and various public rooms and formal gardens for the use of its guests and the public.

The three above mentioned companies have entered into management contracts with your Corporation.

Your Corporation has entered into an agreement with the Puerto Rico Industrial Development Company, a corporation organized by the Government of Puerto Rico, under which the Development Company will build a 300 room hotel in San Juan at an estimated cost of \$3,000,000 which will be leased to your Corporation for a term of 20 years. Hilton Hotels Corporation will be obligated to provide the operating equipment and to provide inventories and working capital for the efficient and uninterrupted operation of the hotel. Your Corporation will pay as rent for the said hotel two-thirds of the hotel's gross operating profits, plus an amount not to exceed 5% per annum of the installed cost of furniture and fixtures.

The Palmer House Garage, land, building and equipment, which are carried on the books of your Corporation for \$230,849.78 has been sold for \$600,000. This transaction is not reflected in

the financial statements for 1946 submitted herewith as it was consummated in February of 1947. Satisfactory arrangements have been made for garage facilities for the guests of the Palmer House.

An original agreement dated November 8, 1945, to purchase from the Voting Trustees, all of the outstanding Capital Stock of Ambassador Hotel Company in Los Angeles for a total consideration of \$2,037,000 was cancelled. Subsequently, your Corporation entered into an agreement to purchase all of said stock for a total consideration of \$2,560,800. Upon submission of this proposal by the Voting Trustees to the holders of Voting Trust Certificates, the proposal did not meet with the requisite approval of the Voting Trust Certificate holders and your Corporation at the present has no agreement for the purchase of the stock of Ambassador Hotel Company of Los Angeles. Your Corporation's deposit of \$500,000 later increased to \$582,000 has been repaid to your Corporation. Your Corporation purchased for an aggregate consideration of \$896,859.12 and is the owner of \$571,400 principal amount of Income Mortgage Sinking Fund Bonds of Ambassador Hotel Company and Voting Trust Certificates for 7,397 shares of its Capital Stock.

#### RETIREMENT OF DEBT AND PURCHASE OF CONVERTIBLE PREFERENCE STOCK

Since its organization \$847,020.24 of the funded debt of your Corporation has been paid. Your Corporation was only obligated during this period to retire \$622,414.96 of such debt. This reduction of debt amounts to 52 cents per share of Common Capital Stock outstanding as of December 31, 1946.

Notes of the consolidating companies in the amount of \$6,750,378.94 were exchanged for Convertible Preference Stock; thus reducing the long term indebtedness by this amount and increasing the number of shares of Convertible Preference Stock issued since the organization of your Corporation. Stevens Hotel Corporation Ten Year Three Percent Convertible Debentures in the amount of \$350,000 have been converted into Common Stock in accordance with the Agreement of Consolidation, bringing the total outstanding Common Stock of your Corporation, as of December 31, 1946 to 1,618,377 shares. The remaining \$25,000 of such Debentures was converted in January 1947.

During the period from August 1 to December 31, 1946, your Corporation has purchased in the open market, 29,918.43 shares of Convertible Preference Stock at an aggregate cost of \$1,160,994.81; thus reducing the total number of outstanding shares of such stock as of December 31, 1946 to 237,012.54 shares.

By action of the Board of Directors 7,314.43 shares of such stock have been permanently retired and cancelled and the par value thereof will be applied against the Convertible Preference Stock Sinking Fund due April 15, 1947. The balance of such stock is being held as Treasury Stock and it is contemplated that it will be held for application on future sinking funds requirements. The amount expended for purchase of Convertible Preference Stock amounts to 72 cents per share of Common Capital Stock outstanding as of December 31, 1946. Since this date 3,932.18 additional shares have been purchased.

## SOURCE AND APPLICATION OF FUNDS

For the Period June 1 to December 31, Incl., 1946

### FUNDS PROVIDED:

Transfer of Cash in Bank and on Hand of Predecessor Companies as of June 1, 1946.....		\$4,182,783.64
Proceeds Received from Sale of Common Capital Stock:		
350,000 Shares to Underwriters at \$16.00 per share...	\$5,600,000.00	
44,342 Shares to Employees at \$17.50 per share, less unpaid balance on subscriptions in the amount of \$512,135.00 .....	263,850.00	5,863,850.00
Refund on Deposit on Ambassador Hotel Purchase Contract .....		500,000.00
Marketable Securities Converted into Cash.....		133,608.96
Interest on Investments and Other Assets Converted into Cash .....		144,854.30
From Increase in Current Liabilities.....		501,656.53
Profit on Operations:		
Net Profit After Federal Income Taxes.....	\$2,113,336.25	
Add Back Accrued Property Taxes, Interest, Depreciation and Federal Income Taxes.....	3,634,232.30	
Profit Before Property Taxes, Interest, Depreciation and Federal Income Taxes .....		5,747,568.55
<b>TOTAL FUNDS PROVIDED.....</b>		<b>\$17,074,321.98</b>

### FUNDS APPLIED:

Payment of Property Taxes, Interest, Federal and State Income Taxes .....		\$2,223,772.38
Capital Additions to Buildings, Furniture, Fixtures and Leasehold Improvements .....		656,486.35
Expenditures for Deferred Rehabilitation, Alterations and Revisions .....		312,712.35
Purchase of Operating Equipment in Excess of Write-Off to Operations .....		198,914.96
Payments on Funded and other Long Term Indebtedness .....		854,520.24
Payments on Organization Expense and Sundry Items...		260,986.59
Advances to Affiliated Companies.....		117,806.37
To Increase Current and Other Sundry Assets.....		471,778.31
Payment of Dividends on:		
Convertible Preference Stock .....	\$ 254,756.00	
Common Stock .....	397,166.04	651,922.04
Purchase of Convertible Preference Stock:		
Treasury Stock—22,604 Shares (at Cost) .....	\$ 897,175.33	
Retired and Cancelled—7,314.43 Shares (at Cost)....	263,819.48	1,160,994.81
Investments—Securities at Cost.....		4,571,176.87
<b>TOTAL FUNDS APPLIED .....</b>		<b>11,481,071.27</b>
<b>CASH IN BANK AND ON HAND—DECEMBER 31, 1946.....</b>		<b>\$ 5,593,250.71</b>

The current assets of your Corporation as of December 31, 1946 aggregated \$8,505,280.52; the current liabilities as of that date aggregated \$6,427,862.87. Accordingly, the ratio of current assets to current liabilities was 1.32 to 1.

As shown, the current liabilities include all accrued taxes and installments due on long term debt, within the year 1947.

Despite the difficulties of procuring critical materials and the shortage of labor, your Corporation has been able to maintain, and in many instances to improve, its properties. Your Corporation will continue this policy and authorize such expenditures as may be necessary to maintain our properties in a first class condition.

A rehabilitation program for the Plaza Hotel, New York City, was started in 1943. At the time of consolidation the cost of completion of this program amounted to approximately \$1,500,000. To date, we have expended about 50% of this amount and it is our intention to complete the program within the next two years.

## THE FUTURE

During the year 1946, permanent and transient hotel rooms were still subject to ceiling rates established by the Office of Price Administration, which rates were based principally upon charges made in 1942. In only two relatively minor instances was any relief from these rates granted to your Corporation. Operating costs increased in 1946 largely as a result of wage increases, and the price of materials also increased. Operating costs will continue to increase in 1947 as a result of further increases in wages which have already been agreed upon. In October, 1946, the prices of food and beverages sold by your Corporation were decontrolled. Ceilings on transient hotel rooms have been removed effective February 15, 1947. It is believed that the removal of ceiling rates upon transient rooms, in conjunction with the prior decontrol of food and beverage prices, will counteract to a substantial degree, the estimated increase in the cost of operations during 1947 over the cost of operations in 1946.

It is anticipated that the shortage of transient accommodations in most of the major cities of the United States will continue in 1947. The aggregate room revenue of all the hotels of your Corporation for the month of January 1947 exceeded that of January 1946. The cost of construction of new hotels and the scarcity of materials is such that it almost precludes the building of new hotels at this time.

Conventions are an important part of American business life and an important source of hotel revenue. With few exceptions during the war period, large conventions were prohibited. At the present time there is no restriction upon conventions. During the latter part of 1946 the hotels operated by your Corporation enjoyed a substantial convention business. The present bookings for

1947 indicates that the volume of convention business will exceed 1946, and will be greater than the volume during any of the prewar years.

During the war time period travel was severely restricted and at present there is a large pent-up demand for travel. This will persist as long as national income continues at its present high level. Accordingly, your Corporation will derive substantial revenues from this source.

The results of the acquisitions set forth under the caption "Acquisitions and Sales" have not been reflected in the income statements of your Corporation. The income from the managements contracts and the available earnings of the companies in which your Corporation has acquired substantial interests will, it is anticipated, further increase its earnings.

There have been no stoppages in operations of any consequence and employee relations are satisfactory.

The Corporation plans to continue its activities devoted to improving its operations, and it is endeavoring to accommodate the maximum number of guests and to furnish the utmost in service and hospitality.

Every effort will be made during the coming year to improve your Corporation's financial position, and to simplify its capital structure. The consolidation of several different companies into one corporate entity entails a difficult transitional period. This period is now almost concluded, and your Corporation will realize the greater benefits of unified management and supervision, and the operating savings incident thereto.

The Directors of your Corporation wish to express their appreciation for the whole-hearted loyalty and co-operation of the officers and approximately 8,000 employees during this difficult transitional period.

By Order of the Board of Directors.

C. N. HILTON  
*President*

Chicago, Illinois  
February 20, 1947

HILTON HOTELS CO.

COMPARATIVE BALANCE SHEET

As of December 31, 1946

ASSETS

	<u>Dec. 31, 1946</u>	<u>June 1, 1946</u>	<u>Increase Decrease*</u>
<b>CURRENT ASSETS</b>			
Cash			
On Hand—In Banks—Demand Deposits .....	\$ 5,593,250.71	\$ 4,182,783.64	\$ 1,410,467.07
U. S. Government Bonds and Post-War Excess Profits Tax Re- fund Credits .....	\$ 79,299.15	\$ 212,908.11	\$ 133,608.96*
Illinois 'Retailers' Occupation Tax Certificate of Credit.....	\$ 61,808.13	\$ —	\$ 61,808.13
Accounts Receivable			
Trade .....	\$ 1,356,435.97	\$ 978,403.75	\$ 378,032.22
Less: Reserve for Doubtful Accounts.....	97,994.71	78,999.11	18,995.60
Net Accounts Receivable.....	\$ 1,258,441.26	\$ 899,404.64	\$ 359,036.62
Accrued Interest Receivable.....	\$ 18,051.24	\$ 1,602.37	\$ 16,448.87
Inventories of Saleable Merchandise and Supplies — At Cost (Note 1) .....	\$ 1,449,006.94	\$ 1,364,851.78	\$ 84,155.16
Other Current Assets.....	\$ 45,423.09	\$ 126,721.84	\$ 81,298.75*
Total Current Assets.....	\$ 8,505,280.52	\$ 6,788,272.38	\$ 1,717,008.14
DUE FROM AFFILIATED COMPANIES.....	\$ 117,806.37	\$ —	\$ 117,806.37
INVESTMENTS—AT COST (Schedule A-1).....	\$ 4,859,992.47	\$ 813,787.55	\$ 4,046,204.92
<b>FIXED ASSETS—Valued at Cost Basis to Predecessor Consolidating Companies with Subsequent Additions at Cost (Note 2)</b>			
Land .....	\$11,754,605.76	\$11,754,605.76	\$ —
Buildings .....	43,080,841.19	43,000,473.87	80,367.32
Furniture and Equipment.....	8,256,983.08	7,977,462.20	279,520.88
Leasehold .....	480,000.00	480,000.00	—
Leasehold Improvements .....	68,052.65	54,300.87	13,751.78
Total .....	\$63,640,482.68	\$63,266,842.70	\$ 373,639.98
Less: Reserve for Depreciation and Amortization.....	22,457,155.39	21,719,700.35	737,455.04
Rehabilitation Revisions and Alterations—Unamortized Balance	\$41,183,327.29	\$41,547,142.35	\$ 363,815.06*
Operating Equipment			
Reserve Stocks and In Use.....	845,118.45	630,428.64	214,689.81
Total Fixed Assets.....	\$42,381,472.13	\$42,253,768.57	\$ 127,703.56
Totals—(Carried forward) .....	\$55,864,551.49	\$49,855,828.50	\$6,008,722.99

\*Denotes red figure.

## ELS CORPORATION

## VE BALANCE SHEET

31, 1946 and June 1, 1946

## LIABILITIES

	<u>Dec. 31, 1946</u>	<u>June 1, 1946</u>	<u>Increase Decrease*</u>
<b>CURRENT LIABILITIES</b>			
Notes Payable to Banks.....	\$ —	\$ 24,000.00	\$ 24,000.00*
Contracts Payable .....	\$ —	\$ 6,162.71	\$ 6,162.71*
Accounts Payable .....	\$ 1,447,350.74	\$ 1,202,903.77	\$ 244,446.97
Accrued Liabilities			
Salaries and Wages.....	\$ 392,818.87	\$ 236,173.33	\$ 156,645.54
Real Estate and Personal Property Taxes.....	1,041,249.91	862,205.84	179,044.07
Social Security and Other Taxes.....	392,133.22	259,880.18	132,253.04
Interest on Mortgages and Notes Payable.....	100,902.38	602,421.21	501,518.83*
Employees' Retirement Fund Contributions.....	—	72,916.67	72,916.67*
Other .....	182,767.41	197,795.62	15,028.21*
Total Accrued Liabilities.....	\$ 2,109,871.79	\$ 2,231,392.85	\$ 121,521.06*
Other Current Liabilities			
Provision for Federal and State Taxes on Income (Note 6)...	\$ 1,839,303.62	\$ 1,510,810.88	\$ 328,492.74
Payment of Funded Debt and Long-Term Indebtedness Due Within One Year.....	832,902.43	846,035.19	13,132.76*
Other .....	198,434.29	142,178.43	56,255.86
Total Other Current Liabilities.....	\$ 2,870,640.34	\$ 2,499,024.50	\$ 371,615.84
Total Current Liabilities.....	\$ 6,427,862.87	\$ 5,963,483.83	\$ 464,379.04
<b>FUNDED DEBT AND LONG-TERM INDEBTEDNESS</b>			
(Issued and Outstanding)			
First Mortgage Bonds and Notes.....	\$22,263,758.93	\$22,886,173.89	\$ 622,414.96*
Second Mortgage Bonds and Notes.....	—	135,000.00	135,000.00*
Third Mortgage Bonds and Notes.....	—	89,605.28	89,605.28*
Notes Payable—Exchangeable for Convertible Preference Stock	159,640.89	6,910,019.83	6,750,378.94*
Notes Payable—Other .....	234,833.33	408,999.99	174,166.66*
Convertible Debenture Notes.....	25,000.00	375,000.00	350,000.00*
Installment Payments Under Terminated Management Con- tract .....	100,315.24	100,315.24	—
Total Funded Debt and Long-Term Indebtedness...	\$22,783,548.39	\$30,905,114.23	\$8,121,565.84*
Less: Amortization Payments Due Within One Year.....	832,902.43	846,035.19	13,132.76*
Total .....	\$21,950,645.96	\$30,059,079.04	\$8,108,433.08*
<b>OTHER LIABILITIES</b>			
Deposits for Collections from Employees for Purchase of United States Savings Bonds.....	\$ 10,524.16	\$ 13,050.11	\$ 2,525.95*
<b>RESERVES</b>			
For Organization Expenses (Note 7).....	\$ 39,815.34	\$ 180,000.00	\$ 140,184.66*
For Contingencies (Note 8).....	1,700,000.00	1,700,000.00	—
Lease Liability—Replacement of Equipment.....	13,017.54	16,824.87	3,807.33*
Other .....	16,095.89	16,511.49	415.60*
Total Reserves .....	\$ 1,768,928.77	\$ 1,913,336.36	\$ 144,407.59*
Totals—(Carried forward).....	\$30,157,961.76	\$37,948,949.34	\$7,790,987.58*

Notes relating to balance sheet are on pages 16 and 17.

## ASSETS

	<u>Dec. 31, 1946</u>	<u>June 1, 1946</u>	<u>Increase Decrease*</u>
Totals—(Brought forward) .....	\$55,864,551.49	\$49,855,828.50	\$6,008,722.99
<b>PREPAID EXPENSES AND DEFERRED CHARGES</b>			
Unexpired Insurance Premiums.....	\$ 208,383.33	\$ 192,633.96	\$ 15,749.37
Organization Expense .....	222,648.41	180,242.93	42,405.48
Contributions to Employees' Retirement Plan—Deferred (Note 3)	83,333.33	249,999.99	166,666.66*
Other .....	171,968.90	153,083.20	18,885.70
Total Prepaid Expenses and Deferred Charges.....	<u>\$ 686,333.97</u>	<u>\$ 775,960.08</u>	<u>\$ 89,626.11*</u>
<b>OTHER ASSETS</b>			
Security Deposit Under Lease and Escrow Agreement.....	\$ 25,703.13	\$ 25,703.13	\$ —
Cash on Deposit—Employees' Purchases of United States Savings Bonds .....	6,752.79	8,175.13	1,422.34*
Lease Guarantee Fund Deposit (Note 4).....	224,658.39	214,324.98	10,333.41
Due from C. N. Hilton for Sale of Corporate Stock.....	—	108,333.33	108,333.33*
Due from Employees for Stock Purchases (Note 5).....	512,135.00	—	512,135.00
Total Other Assets.....	<u>\$ 769,249.31</u>	<u>\$ 356,536.57</u>	<u>\$ 412,712.74</u>
<b>TOTAL ASSETS .....</b>	<u><u>\$57,320,134.77</u></u>	<u><u>\$50,988,325.15</u></u>	<u><u>\$6,331,809.62</u></u>

\*Denotes red figure.

Notes relating to balance sheet are on pages 16 and 17.

LS CORPORATION

VE BALANCE SHEET

31, 1946 and June 1, 1946

LIABILITIES

	<u>Dec. 31, 1946</u>	<u>June 1, 1946</u>	<u>Increase Decrease*</u>
Totals—(Brought forward) .....	\$30,157,961.76	\$37,948,949.34	\$7,790,987.58*
<b>CAPITAL STOCK</b>			
Preferred—(Note 9)			
First Preferred of a Par Value of \$100.00 per Share— Authorized and Unissued 100,000 Shares.....	\$ —	\$ —	\$ —
Convertible Preference of a Par Value of \$50.00 per Share— Authorized Shares .....			400,000.00
Deduct:			
Unissued .....			133,069.03
Treasury Stock (Purchased at a cost of \$897,175.33) ..			22,604.00
Retired and Cancelled (Purchased at a cost of \$263,819.48) ..			7,314.43
			<u>162,987.46</u>
Balance Outstanding .....	11,850,627.00	6,300,000.00	5,550,627.00
			<u>237,012.54</u>
Common—(Note 10)			
4,000,000 Shares of a Par Value of \$5.00 per Share—Authorized .....			4,000,000.00
Deduct:			
Unissued Shares Reserved for Conversion Privileges of Holders of Stevens Hotel Corporation 10-Year 3% Convertible De- bentures .....			5,625.00
Shares Reserved for Conversion Privileges of Convertible Preference Stock .....			474,025.08
Unreserved .....			1,901,972.92
			<u>2,381,623.00</u>
Balance Outstanding .....	8,091,885.00	5,726,425.00	2,365,460.00
			<u>1,618,377.00</u>
Total Capital Stock.....	<u>\$19,942,512.00</u>	<u>\$12,026,425.00</u>	<u>\$7,916,087.00</u>
<b>SURPLUS</b>			
Capital Surplus (Exhibit B).....	\$ 5,758,246.80	\$ 1,012,950.81	\$4,745,295.99
Earned Surplus (Exhibit C).....	1,461,414.21	—	1,461,414.21
Total Surplus .....	<u>\$ 7,219,661.01</u>	<u>\$ 1,012,950.81</u>	<u>\$6,206,710.20</u>
<b>TOTAL LIABILITIES</b> .....	<u>\$57,320,134.77</u>	<u>\$50,988,325.15</u>	<u>\$6,331,809.62</u>

Notes relating to balance sheet are on pages 16 and 17.

# HILTON HOTELS CORPORATION

## NOTES RELATING TO BALANCE SHEET

As of December 31, 1946

### NOTE 1—INVENTORIES

Inventories of saleable merchandise and operating supplies were ascertained by physical count as of the close of business December 31, 1946 and were priced at cost, which basis has been consistently followed by the various operating units of the Corporation.

### NOTE 2—FIXED ASSETS

Fixed asset values and depreciation reserves have been carried over from the predecessor companies, continuing the same basis and rates of depreciation and amortization. The fixed asset values at December 31, 1946 represent the cost basis to predecessor companies plus additions since June 1, 1946 at cost. In accordance with the Corporation's general policy, expenditures for new acquisitions, for replacements and renewals of capital assets, and for improvements which extend the ultimate useful life of existing assets are capitalized; expenditures for repairs and replacements which do not extend the ultimate useful life of the assets are charged to repairs and maintenance expense accounts; expenditures for rehabilitation and for revisions and alterations are charged to a special classification under fixed assets designated as Rehabilitation Revisions and Alterations and amortized over varying periods of from three to five years.

Current depreciation rates being applied to cost basis, by individual properties, appear to be reasonable and adequate and in accordance with industry-wide practice.

Operating equipment reserve stocks represent inventoried quantities of unused linens, china, glassware and silverware at cost. Operating equipment in use represents stocks in service at net values after reserves covering estimated depreciation and depletion of such stocks through wear and tear, loss and discard.

### NOTE 3—CONTRIBUTIONS TO EMPLOYEES' RETIREMENT PLAN—DEFERRED

The item of \$83,333.33, carried as a deferred charge, covering contributions to the Palmer House Employees' Retirement Fund is deductible from future taxable income in the year paid.

### NOTE 4—LEASE GUARANTEE FUND DEPOSIT

Certain deposits to a guaranty fund are required by the lease agreement of Dayton Biltmore Hotel. Such guaranty fund secures the payment of all rents and the performance, by the lessee, of all covenants and conditions of the lease. As of December 31, 1946 the lease guarantee fund deposit represents the following:

Initial Deposit .....	\$200,000.00
Twenty-five monthly Payments of \$625.00 each .....	15,625.00
Net Earnings of guaranty fund from November 1, 1944 to December 31, 1946 ..	9,033.39
<b>TOTAL .....</b>	<b><u>\$224,658.39</u></b>

### NOTE 5—DUE FROM EMPLOYEES FOR STOCK PURCHASES

In accordance with the agreement of consolidation 50,000 Shares of Common Stock were reserved for offering to key employees at a price of \$17.50 per share, payments therefor to be made in installments over a period not exceeding four (4) years. As of December 31, 1946 a total of 44,342 shares had been subscribed for by various employees at a total cost of \$775,985.00. Of this amount \$263,850.00 has been paid on account, leaving an unpaid balance of \$512,135.00 as of the balance sheet date. This unpaid balance is secured by notes of the individual employees. The shares so subscribed have been issued as partially paid shares entitled to dividends only to the extent to which the purchase price therefor has been paid.

### NOTE 6—PROVISION FOR FEDERAL AND STATE TAXES ON INCOME

As of December 31, 1946 this account consisted of the following:

Federal and State Income Tax Liability of Predecessor Companies—(Unpaid Balances)	
Stevens Hotel Corporation .....	\$269,528.25
New Mexico Hilton Hotel Corporation .....	55,858.28
Lubbock Hilton Hotel Company, Inc. ....	18,875.50
Dayton Biltmore Hotel Company .....	5,285.77
Palmer House Company .....	189,755.82
	<u>\$ 539,303.62</u>
Estimated Federal and State Taxes on Income—Hilton Hotels Corporation—For the Seven Months Ended December 31, 1946	1,300,000.00
<b>TOTAL .....</b>	<b><u>\$1,839,303.62</u></b>

# HILTON HOTELS CORPORATION

## NOTES RELATING TO BALANCE SHEET—(Continued)

As of December 31, 1946

The provision for Federal income taxes for the seven months ended December 31, 1946 has been estimated at approximately 38% of the profits earned for that period.

With the exception of the Lubbock Hilton Hotel Company, Inc., whose tax returns have been examined through the fiscal year ended May 31, 1943, and the Palmer House Company, whose tax returns have been examined through the calendar year 1944, none of the consolidating corporations' tax returns have been examined or passed upon by the United States Treasury Department for the years 1943, 1944, 1945 or the period to date of dissolution of the predecessor companies in 1946.

A claim for refund of Federal Income Taxes of the Plaza Hotel in the amount of \$28,296.37, to be adjusted by facts ascertained subsequent to May 31, 1946 arising out of a net operating loss deduction by reason of a carry back of the operating loss for the five months ended May 31, 1946 will be filed with the Collector of Internal Revenue.

As of the date of consolidation, the Corporation set up a Reserve for Contingencies (See Note 8) to cover claims, taxes or other charges, including additional income or excess profits taxes which might be asserted or assessed against the consolidating corporations.

### NOTE 7—RESERVE FOR ORGANIZATION EXPENSES

Provision for unpaid fees and expenses in connection with the consolidation of May 31, 1946, the registration of securities under the Securities and Exchange Act, the sale of 350,000 additional shares of the Company's common stock, and matters relating thereto, was made by setting up a reserve of \$180,000.00 as of June 1, 1946. A total of \$140,184.66 has been charged against this reserve to date, leaving an unexpended reserve balance of \$39,815.34 as of December 31, 1946.

### NOTE 8—RESERVE FOR CONTINGENCIES

The Board of Directors established as of June 1, 1946 the Reserve for Contingencies of \$1,700,000.00, to cover claims which may be asserted under various Federal statutes and regulations, including claims for Federal income and excess profits taxes of the consolidating corporations, such reserve so created being deemed by the Board of Directors to be reasonably adequate to cover all such contingencies.

### NOTE 9—CONVERTIBLE PREFERENCE STOCK

As of December 31, 1946 a total of 140,930-97/100 shares were issued to noteholders who presented their securities for exchange in accordance with the offer of the Corporation under the terms of the Consolidating Agreement.

### NOTE 10—COMMON STOCK

Common stock shares have been reserved; for conversion of \$25,000.00 convertible debenture notes of Stevens Hotel Corporation at the rate of 2¼ shares of stock for each \$10.00 face value of notes (78,750 shares of stock have been issued to December 31, 1946 in exchange for \$350,000.00 face value of notes); for conversion of convertible preference shares at the option of holders thereof at the rate of two shares of common stock for each share of convertible preference stock.

### GENERAL

The Plaza Hotel expects to receive a refund of approximately \$35,000.00 on real estate taxes paid for the tax year July 1, 1945 to June 30, 1946, resulting from a settlement of the assessments for said year. Expenses in connection with this settlement and resulting refund of these taxes will be taken into the accounts in the period in which received.

Contractual obligations entered into with respect to the rehabilitation and improvement program of the Plaza Hotel were in existence at December 31, 1946 in the aggregate amount of approximately \$1,300,000.00, and contracts have been executed for the purchase of new laundry equipment for the Stevens Hotel in the amount of approximately \$300,000.00. The major part of these contracts will be completed, it is anticipated, in the year 1947.

In connection with the acquisition of a controlling interest in the Mayflower Hotel Corporation, the Hilton Hotels Corporation made offer to purchase the remaining shares of stock held by other stockholders, at a price of \$13.00 per Share. There were at December 31, 1946, 186,346 shares outstanding to which such offer would apply.

For purposes of these statements, the accounts of State Monroe Equipment Corporation, a non-operating unit, which holds title to the furnishings and equipment of the Palmer House, have been consolidated herein.

## HILTON HOTELS CORPORATION

## ANALYSIS OF INVESTMENTS

As of December 31, 1946

	<u>Par or Face Value</u>	<u>Cost</u>	<u>Book Value</u>	<u>Earnings Subsequent to Acquisition</u>	<u>Market Value Dec. 31, 1946</u>
<b>PALM BEACH BILTMORE COMPANY</b>					
Preferred Stock—2,000 Shares—Par \$100.00 .....	\$ 200,000.00	\$ 200,000.00	\$ 200,000.00		Not Quoted
Common Stock — 600 Shares — Par \$10.00 .....	60,000.00	7,000.00	511,548.23*		Not Quoted
6% Subordinated Bonds Matured Dec. 1, 1945 .....	158,609.90	—	158,609.90		Not Quoted
Accrued Interest Thereon .....	—	—	349,872.64		
5% Five Year Debenture Bonds .....	225,000.00	225,000.00	225,000.00		Not Quoted
Net Loss—June 1, 1946 to December 31, 1946—Proportion Applicable to Hilton Hotels Corp. ....	—	—	67,800.10*	\$ 67,800.10*	
Total Palm Beach Biltmore	\$ 643,609.90	\$ 432,000.00	\$ 354,134.21		
<b>MAYFLOWER HOTEL CORPORATION</b>					
Common Stock—203,392 Shares—Par \$1.00 .....	\$ 203,392.00	\$2,644,096.00	\$1,878,354.06		\$2,644,096.00
Net Profit—December 18 to December 31, 1946—Proportion Applicable to Hilton Hotels Corp. ....	—	—	541.63	541.63	
Total Mayflower Hotel Corporation .....	\$ 203,392.00	\$2,644,096.00	\$1,878,895.69		
<b>NEIL HOUSE COMPANY</b>					
Common Stock—21,250 Shares—Par \$10.00 .....	\$ 212,500.00	\$ 212,500.00	\$ 212,500.00		Not Quoted
4½% Five Year Debenture Bonds .....	400,000.00	400,000.00	400,000.00		Not Quoted
Net Profit—December 23 to December 31, 1946—Proportion Applicable to Hilton Hotels Corp. ....	—	—	214.48	214.48	
Total Neil House Com- pany .....	\$ 612,500.00	\$ 612,500.00	\$ 612,714.48		
<b>TOTAL INVESTMENTS — CONTROLLED COMPANIES .....</b>	<b>\$1,459,501.90</b>	<b>\$3,688,596.00</b>	<b>\$2,845,744.38</b>	<b>\$ 67,043.99*</b>	
<b>AMBASSADOR HOTEL INC.</b>					
5% Income Bonds and .....	\$ 571,400.00	\$ 896,859.12			\$ 559,972.00
Common Stock—7,397 Shares—No Par	—				377,247.00
<b>NOTE RECEIVABLE—J. W. DROWN</b>					
10 Year Installment Note—Interest 2% .....	274,537.35	274,537.35			
<b>TOTAL OTHER INVESTMENTS .....</b>	<b>\$ 845,937.35</b>	<b>\$1,171,396.47</b>			
<b>TOTAL INVESTMENTS .....</b>	<b>\$2,305,439.25</b>	<b>\$4,859,992.47</b>			

\*Denotes red figure.

## HILTON HOTELS CORPORATION

## ANALYSIS OF CAPITAL SURPLUS ACCOUNT

June 1, 1946 to December 31, 1946

Elimination of Inter-Corporate Investments in Securities of Affiliated Consolidating Corporations with Accrued Interest thereon as per Agreement of Consolidation.....	\$ 72,923.22	
Transfer of Surplus Accounts of Consolidating Corporations to Capital Surplus, Hilton Hotels Corporation .....	5,512,671.32	
		\$5,585,594.54
DEDUCT:		
Common Stock Issued in Exchange of Common and Preferred Stock of Consolidating Corporation, and, Convertible Preference Stock Issued in Exchange for Palmer House Company Preferred Stock, in Accordance with Agreement of Consolidation—Book Value Difference.....		4,572,643.73
CAPITAL SURPLUS—BALANCE JUNE 1, 1946.....		\$1,012,950.81
ADD:		
Surplus Arising from Sale and Exchange of Capital Stock		
44,342 Shares of Common Stock Sold to Employees at \$17.50 per Share .....	\$ 775,985.00	
Less: Par Value.....	221,710.00	
		\$ 554,275.00
350,000 Shares of Common Stock Sold to Underwriters at \$16.00 per Share .....	\$5,600,000.00	
Less: Par Value.....	1,750,000.00	
		3,850,000.00
		\$4,404,275.00
Less:		
78,750 Shares of Common Stock Issued in Exchange for \$350,000.00 Face Value of Stevens Hotel Corporation 10-year, 3% Convertible Debenture Bonds, at the rate of 2¼ Shares of Common Stock for each \$10.00 Face Value of Bonds—		
Par Value of Stock Issued.....	\$ 393,750.00	
Less: Face Value of Bonds Retired.....	350,000.00	
		43,750.00
		4,360,525.00
Surplus Paid-in by Stockholders of New Mexico Hilton Hotel Company, Inc. (A Predecessor Corporation) Representing their Proportionate Share of Cost of Leasehold .....	\$ 19,882.35	
Elimination of Accrued Interest Payable at May 31, 1946 on Stevens and Lubbock Holdings in Plaza Unsecured 5% Notes and Plaza Series "C" Notes.....	10,296.21	
Adjustment of Operating Equipment Reserves of the Palmer House Applicable to April and May 1946, per Physical Inventory of June 30, 1946.....	15,774.85	
Surplus Arising from Compromise Settlement by Plaza of Contract Payable to A. Lovine & Company.....	2,000.00	
Over Depreciation of Fixed Assets of the Stevens as of May 31, 1946.....	12,950.92	
Adjustment of Federal and State Income Tax Liability of Predecessor Companies from Estimates to Actual Taxes per Filed Returns—		
Stevens Hotel Corporation.....	\$9,020.47	
New Mexico Hilton Hotel Company.....	512.32	
Lubbock Hilton Hotel Company.....	248.98	
		\$9,781.77
Less:		
Palmer House Company.....	5,813.75	
		3,968.02
Adjustment of Accrued Interest on Palmer House 4% Notes at May 31, 1946.....	1,565.42	
Sales Tax Refund—New Mexico Hilton Hotel Company—for the period June 1, 1941 to May 31, 1946.....	1,972.65	
Refund on Real Estate Taxes for Year 1940—Stevens Hotel Corporation.....	3,719.97	
Refund on Real Estate Taxes for Years 1944-45—Plaza Hotel Corporation.....	32,622.25	
		104,752.64
Total—(Carried forward) .....		\$5,478,228.45

## HILTON HOTELS CORPORATION

## ANALYSIS OF CAPITAL SURPLUS ACCOUNT—(Continued)

June 1, 1946 to December 31, 1946

Total—(Brought forward) .....		\$5,478,228.45
DEDUCT:		
Legal Expenses of Palmer House Applicable to Period Prior to May 31, 1946.....	\$ 1,000.00	
Adjustment of Accrued Interest on Plaza Series "C" Notes as of May 31, 1946.....	40.10	
Adjustment of Operating Profits of Dayton Biltmore Hotel for April and May, 1946 Reduction in Excess Rental of Dayton Biltmore Drug Company.....	525.09	
Additional Illinois Unemployment Compensation Taxes—Stevens Hotel—For Five Months Ended May 31, 1946.....	17,631.10	
Expenses Paid by Dayton Biltmore Hotel Applicable to Period Prior to May 31, 1946	1,695.19	
Interest on Federal Income Taxes—Palmer House—for the years 1942, 1943 and 1944	11,883.17	
Increase in Real Estate Tax Liability—January 1, 1946 to May 31, 1946—		
Lubbock .....	\$1,290.42	
Stevens .....	3,286.38	
Palmer House .....	6,566.50	
		11,143.30
Delinquency Penalty on Hilton Hotel Company of Los Angeles Federal Income Taxes for the Fiscal Year Ended February 29, 1944.....	7,763.43	
Portion of Appraisal Fees paid by Plaza relating to Certiorari Proceedings for Tax Year 1945-46 .....	1,375.00	
Adjustment of Accrued Interest on Plaza Hotel Unsecured Notes.....	1,851.96	
		<u>54,908.34</u>
		\$5,423,320.11
ADD:		
Surplus Arising from Purchase of 29,918.43 Shares of Convertible Preference Stock (Par Value \$1,495,921.50) at Cost of \$1,160,994.81.....		334,926.69
CAPITAL SURPLUS—BALANCE DECEMBER 31, 1946.....		<u>\$5,758,246.80</u>

EXHIBIT C

## ANALYSIS OF EARNED SURPLUS ACCOUNT

June 1, 1946 to December 31, 1946

BALANCE—JUNE 1, 1946.....		\$ —
ADD:		
Net Profit—June 1, 1946 to December 31, 1946, After Provision for Income Taxes— Exhibit D .....	\$2,113,336.25	
DEDUCT:		
Dividends—Convertible Preference Stock.....	\$ 254,756.00	2,113,336.25
Dividends—Common Stock .....	397,166.04	
		<u>651,922.04</u>
BALANCE—DECEMBER 31, 1946.....		<u>\$1,461,414.21</u>

**HILTON HOTELS CORPORATION**  
**STATEMENT OF INCOME AND PROFIT AND LOSS**  
**For the Seven Months Ended December 31, 1946 (Note)**

	<i>Hilton Hotels Corporation Seven Months Ended Dec. 31, 1946</i>	<i>Predecessor Corporations Five Months Ended May 31, 1946</i>	<i>Combined Total Year Ended Dec. 31, 1946</i>
<b>ROOMS DEPARTMENT</b>			
Rooms Sales .....	\$ 8,612,389.71	\$6,074,884.05	\$14,687,273.76
Rooms Expenses			
Salaries and Wages.....	\$ 1,942,789.19	\$1,303,913.10	\$ 3,246,702.29
Other Rooms Expenses.....	703,588.28	459,990.05	1,163,578.33
Total Rooms Expenses.....	\$ 2,646,377.47	\$1,763,903.15	\$ 4,410,280.62
Rooms Department Profit.....	\$ 5,966,012.24	\$4,310,980.90	\$10,276,993.14
<b>FOOD AND BEVERAGE DEPARTMENT</b>			
Food and Beverage Sales.....	\$10,744,143.47	\$7,606,444.91	\$18,350,588.38
Food and Beverage Expenses			
Cost of Food and Beverage Sales.....	\$ 3,339,201.73	\$2,265,437.28	\$ 5,604,639.01
Salaries and Wages.....	3,126,097.65	2,184,784.79	5,310,882.44
Other Food and Beverage Expenses.....	1,629,786.81	1,184,919.10	2,814,705.91
Total Food and Beverage Expenses.....	\$ 8,095,086.19	\$5,635,141.17	\$13,730,227.36
Food and Beverage Department Profit.....	\$ 2,649,057.28	\$1,971,303.74	\$ 4,620,361.02
<b>OTHER OPERATED DEPARTMENTS</b>			
<b>PROFITS OR LOSSES*</b>			
Telephone .....	\$ 44,032.19*	\$ 7,478.71*	\$ 51,510.90*
Cigar and News Stand.....	7,738.63	4,122.58	11,861.21
Valet .....	93,444.63	60,845.82	154,290.45
Barber Shop .....	34,078.48	27,878.60	61,957.08
House Products .....	50,312.79	13,860.45	64,173.24
Commissary .....	10,960.58	4,228.96	15,189.54
Drug Store .....	69,244.65	49,141.37	118,386.02
Garage .....	47,632.03	11,473.47	59,105.50
Swimming Pool .....	4,508.54	834.51	5,343.05
Laundry .....	9,079.51	7,930.54	17,010.05
Liquor Store .....	11,188.03	13,739.87	24,927.90
Beauty Shop .....	283.31	4,731.71	5,015.02
Personal Service .....	19,069.60	13,164.83	32,234.43
Employees' Cafeteria .....	13,879.37*	628.15*	14,507.52*
Exhibition Hall .....	52,159.78	53,580.22	105,740.00
Photograph Department .....	23,981.01	21,430.98	45,411.99
Total Other Operated Departments Profits.....	\$ 375,770.01	\$ 278,857.05	\$ 654,627.06
<b>TOTAL OPERATED DEPARTMENTS PROFITS.....</b>	<b>\$ 8,990,839.53</b>	<b>\$6,561,141.69</b>	<b>\$15,551,981.22</b>
<b>OTHER INCOME .....</b>	<b>435,583.08</b>	<b>289,304.94</b>	<b>724,888.02</b>
<b>GROSS OPERATING INCOME—(Carried forward).....</b>	<b>\$ 9,426,422.61</b>	<b>\$6,850,446.63</b>	<b>\$16,276,869.24</b>

\*Denotes red figure.

HILTON HOTELS CORPORATION

STATEMENT OF INCOME AND PROFIT AND LOSS—(Continued)

For the Seven Months Ended December 31, 1946 (Note)

	Hilton Hotels Corporation Seven Months Ended Dec. 31, 1946	Predecessor Corporations Five Months Ended May 31, 1946	Combined Total Year Ended Dec. 31, 1946
GROSS OPERATING INCOME—(Brought forward).....	\$ 9,426,422.61	\$6,850,446.63	\$16,276,869.24
DEDUCTIONS FROM GROSS OPERATING INCOME			
Administrative and General .....	\$ 1,322,568.05	\$ 930,672.48	\$ 2,253,240.53
Pay Roll Taxes and Employees' Relations.....	382,820.82	261,800.69	644,621.51
Advertising and Business Promotion.....	334,767.76	240,070.10	574,837.86
Heat, Light and Power.....	732,355.83	490,735.72	1,223,091.55
Repairs and Maintenance.....	1,305,692.94	1,048,706.71	2,354,399.65
Total .....	\$ 4,078,205.40	\$2,971,985.70	\$ 7,050,191.10
HOUSE PROFIT .....	\$ 5,348,217.21	\$3,878,460.93	\$ 9,226,678.14
STORE RENTALS .....	672,549.79	414,578.28	1,087,128.07
GROSS OPERATING PROFIT.....	\$ 6,020,767.00	\$4,293,039.21	\$10,313,806.21
DEDUCTIONS FROM GROSS OPERATING PROFIT			
Hotel Rentals .....	\$ 104,921.67	\$ 74,944.05	\$ 179,865.72
Real Estate and Personal Property Taxes.....	770,712.91	527,865.54	1,298,578.45
Insurance—Buildings and Contents.....	27,457.06	19,301.27	46,758.33
Interest .....	494,383.52	495,522.35	989,905.87
Corporate Expenses and Sundry Capital Charges.....	166,262.64	63,149.95	229,412.59
Total .....	\$ 1,563,737.80	\$1,180,783.16	\$ 2,744,520.96
PROFIT BEFORE DEPRECIATION AND AMORTIZATION.....	\$ 4,457,029.20	\$3,112,256.05	\$ 7,569,285.25
DEPRECIATION AND AMORTIZATION.....	1,037,713.15	741,697.64	1,779,410.79
NET OPERATING PROFIT.....	\$ 3,419,316.05	\$2,370,558.41	\$ 5,789,874.46
ADDITIONS TO OR DEDUCTIONS* FROM INCOME			
Profit on Sale of El Ranchotel.....	\$ —	\$ 19,021.88	\$ 19,021.88
Earnings on Guarantee Fund.....	5,958.41	1,490.33	7,448.74
Profit or Loss* from Real Estate Rentals.....	2,422.18*	610.53	1,811.65*
Loss* on Short Term Investments.....	9,516.03*	—	9,516.03*
	\$ 5,979.80*	\$ 21,122.74	\$ 15,142.94
NET PROFIT BEFORE INCOME TAXES.....	\$ 3,413,336.25	\$2,391,681.15	\$ 5,805,017.40
PROVISION FOR INCOME TAXES.....	1,300,000.00	926,864.52	2,226,864.52
NET PROFIT FOR THE PERIOD.....	\$ 2,113,336.25	\$1,464,816.63	\$ 3,578,152.88

\*Denotes red figure.

NOTE: Results of operations for the five months ended May 31, 1946 represents operations of the predecessor corporations consolidated as of June 1, 1946 into Hilton Hotels Corporation. Operations of Hilton Hotels Corporation cover only the seven month period, June 1, 1946 to December 31, 1946.

The results are combined into total operations for the full year 1946 and are submitted herewith for information purposes only.

The results of the predecessor corporations for the five month period are as reflected from the books of such corporations.

## AUDITORS CERTIFICATION

Chicago, Illinois,  
February 17, 1947.

*To the Board of Directors of*

HILTON HOTELS CORPORATION,  
Chicago, Illinois.

Gentlemen:

We have made an examination of the balance sheet of Hilton Hotels Corporation as of December 31, 1946 and the related statements of Income and Profit and Loss and Surplus for the seven months ended December 31, 1946, have reviewed accounting procedures and have examined accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control.

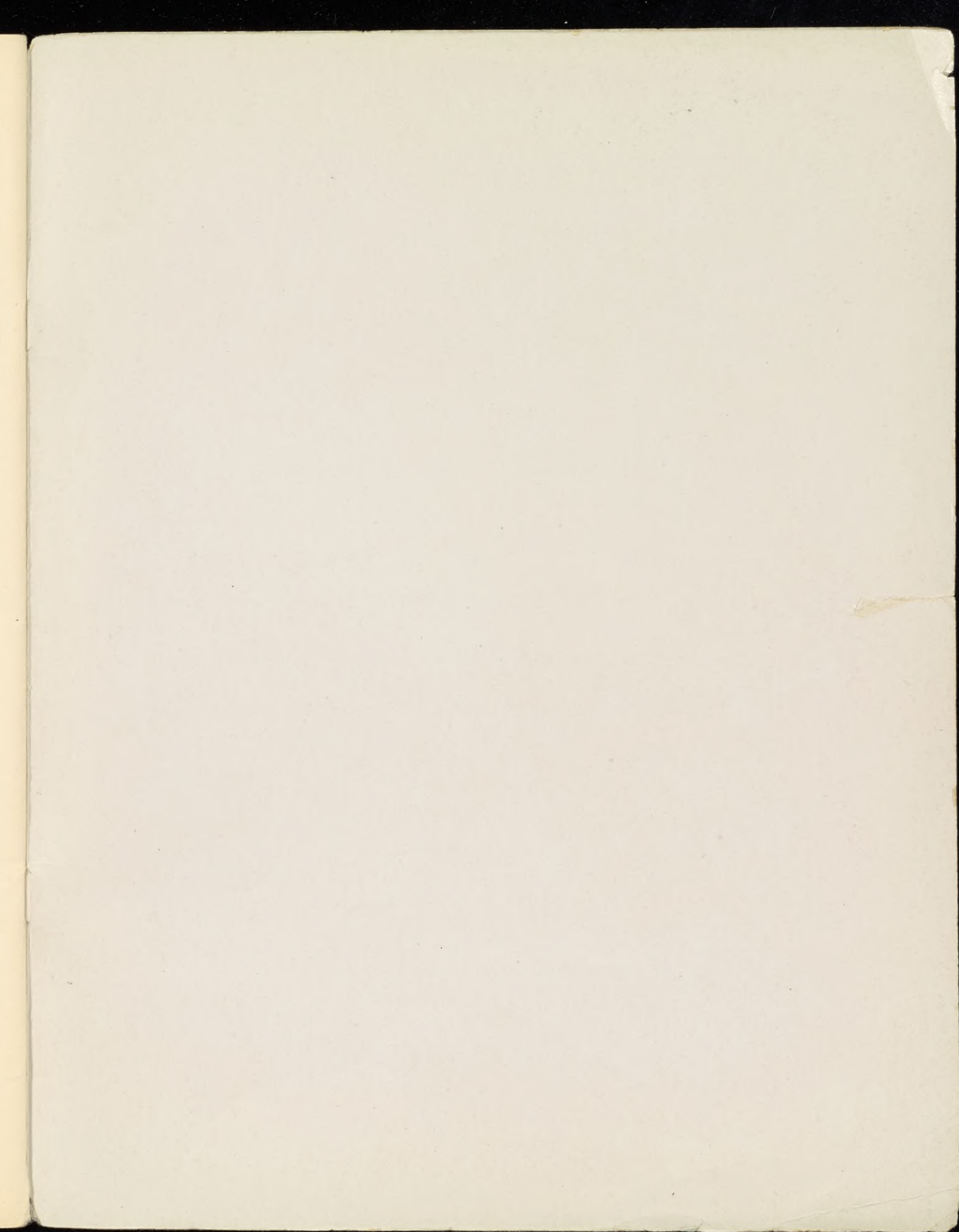
Examination of the accounts of three of the operating units, Palmer House and the wholly owned related subsidiary, State Monroe Equipment Corporation, of Chicago, and Town House of Los Angeles, were made and separately certified to by Messrs. Horwath & Horwath, and, the Dayton Biltmore Hotel, by Messrs. Wall, Cassel and Groneweg. Examination of the accounts of Mayflower Hotel Corporation, of which Hilton Hotels Corporation owns a 52.19% stock interest, was made and separately certified to by Messrs. Wayne Kendrick & Company.

In our opinion, based upon our examination and relying upon certificates of the independent public accountants, pertaining to the operating units which we did not examine, the accompanying balance sheet and related statements of income and profit and loss, together with the notes pertaining thereto, present fairly the financial position of Hilton Hotels Corporation as of December 31, 1946 and the results of its operations for the seven months ended December 31, 1946, in conformity with generally accepted accounting principles.

HARRIS, KERR, FORSTER & COMPANY.

THE HISTORY OF THE UNITED STATES

The history of the United States is a story of growth and change. It begins with the first settlers who came to the shores of the continent. These early pioneers faced a harsh and unfamiliar land, but they persevered, building a new society. Over time, the colonies grew in number and in power, and they began to assert their independence from England. The American Revolution was a turning point in the nation's history, leading to the birth of a new republic. The United States then went on to expand its territory, westward across the continent. This expansion was not without conflict, as the nation fought wars with Native Americans and other European powers. The Civil War was a particularly bloody and divisive conflict, as the nation grappled with the issue of slavery. The war ended in 1865, and the Reconstruction period followed, as the nation sought to rebuild and reunite. The United States emerged from the Civil War as a more unified and powerful nation. It continued to expand its influence around the world, becoming a major world power. The 20th century was a time of great change and progress for the United States. It saw the rise of the industrial revolution, the growth of a large middle class, and the emergence of a new culture. The United States also played a leading role in the world during the 20th century, helping to shape the modern world. Today, the United States is a nation of great diversity and opportunity. It is a land of freedom and democracy, where people from all backgrounds can live and prosper. The history of the United States is a testament to the power of the human spirit and the ability of a nation to overcome adversity and build a better future.





14 KEYS  
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 TO  
 DO NOT REMOVE  
 HOSPITALITY**

*famed from coast to coast*

★ Operated under management contract. The Hilton Hotels Corporation owns not less than 50% of the stock of Mayflower Hotel Company, Neil House Company and Palm Beach Biltmore Company.

