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SHERATON CORPORATION OF AMERICA

Annual Report

for the year ended April 30

1961



Contents

Financial Highlights	1
President's Report	2
Operations	9
Sheraton's Financial Philosophy	14
Comparative Consolidated Balance Sheet	18-19
Comparative Consolidated Income Statement	20-21
Notes to Financial Statements	22
Report of Independent Public Accountants	23
Directors, Officers and Divisional Managers	24

This annual report is intended to inform stockholders about their company. It is not a prospectus or representation as to any security of the corporation and is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities of the corporation.

Financial Highlights

Years ended April 30

	TOTALS		PER COMMON SHARE	
	1961	1960	1961	1960
VOLUME OF BUSINESS				
Gross Income	\$205,700,953	\$204,882,030	\$39.09	\$39.58
EARNINGS				
Net Operating Income	\$ 2,068,008	\$ 2,823,128	\$.39	\$.55
Net Profit on Capital Transactions	\$ 1,166,142	\$ 270,253	\$.22	\$.05
Total Net Income and Profits	\$ 3,234,150	\$ 3,093,381	\$.61	\$.60
DEPRECIATION & CASH FLOW				
Depreciation	\$ 18,181,468	\$ 16,833,225	\$ 3.45	\$ 3.25
Cash Flow (1)	\$ 20,249,476	\$ 19,656,353	\$ 3.84	\$ 3.80
DIVIDENDS				
Cash Dividends				
Preferred	\$ 30,240	---		
Common	\$ 3,129,041	\$ 2,957,576	\$.60	\$.59
Stock Dividends				
Common	2%	2%		
OTHER FINANCIAL INFORMATION				
Total Assets at Estimated Value (2)	\$400,445,000	\$390,620,000	\$76.09	\$75.46
Estimated Net Asset Value (3)	\$181,754,000	\$174,151,000	\$32.70	\$31.70
Net Worth Profit (4)	\$ 8,469,000	\$ 18,854,000	\$ 1.60	\$ 3.44
Shares Outstanding at Year Ends				
Preferred	15,120	---		
Common	5,262,595	5,075,279		
OTHER STATISTICS				
Number of Hotels	59*	54		
Number of Rentable Guest Rooms	27,939	26,175		
Percentage of Room Occupancy (Non-Resort Hotels)	71.6%	71.4%		
Number of Employees	21,900	21,500		
Number of Stockholders				
Preferred	12	---		
Common	18,000	17,900		

Footnotes (Glossary):

(1) **Cash Flow:** Represents reported earnings from operations to which depreciation reserves have been added back.

(2) **Total Assets at Estimated Value:** Represents the total fair market value of all the Company's assets. The real estate values have been estimated by Company officers by capitalizing earnings using the yardsticks generally recognized by real estate investors. (Note: no liabilities have been deducted in arriving at this amount.)

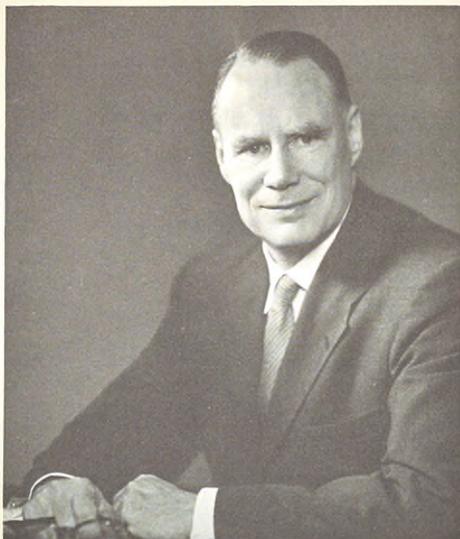
(3) **Estimated Net Asset Value:** Represents the common stock value based upon the above estimated total assets, after deducting all known liabilities, minority interests, and preferred stock interests.

(4) **Net Worth Profit:** Represents total net income and profits including changes in estimated net asset values and differences arising from sales and purchases of common stock at more or less than net asset value. For information regarding Net Worth Accounting see page 16.

Per share figures (1960 adjusted for 2% stock dividend) are based on common shares outstanding at the year ends.

Adjustment for preferred dividends was made in computing net operating income per share. Adjustments have also been made for exercise of Warrants and conversion of 4¾% Debentures in computing the per share amounts for estimated net asset values and net worth profit.

*Excludes Sheraton-Oklahoma Hotel, Oklahoma City, Oklahoma, leased in May 1961.



President's Report

Financial Performance

Sheraton's gross income for the fiscal year ended April 30, 1961 was \$205,700,953 compared with \$204,882,030 a year ago.

Reported earnings for the period, expressed in accordance with conventional accounting practice, were \$.61 per share compared with \$.60 last year. Of these amounts \$.39 a share represented income from operations this year compared with \$.55 a year ago.

Depreciation reserves of \$18,181,468 this year and \$16,833,225 last year included, as has been the custom in recent years, a substantial amount of accelerated depreciation. Reserves set up for depreciation in each of these two years were, in the opinion of Company officers, higher than needed to offset any actual decline in market value of Company properties.

Sheraton has in recent years in almost all instances taken advantage of high depreciation in order to minimize income taxes, when permissible under U. S. Treasury regulations. These regulations are often liberal in order to provide an incentive for new construction. They provide a wide choice as to the methods by which depreciation is calculated.

Cash flow (reported earnings from operations with depreciation reserves added back) amounted to \$3.84 per share versus \$3.80 a year

ago. Capital gains have not been included in cash flow.

Capital gains were \$1,166,142 compared with \$270,253 last year. The gains this year include the sale and leaseback of the Sheraton-Atlantic Hotel land.

Regular quarterly dividends amounting to a total of \$.60 per share together with the customary 2 per cent stock dividend were paid during the fiscal year. Subsequent to the year end, the usual August dividend of \$.15 in cash and 2 per cent in stock was declared.

Cash dividends have been paid without interruption for twenty years. As a result of stock dividends, stock split-ups, and occasional increases in the dividend rate, shareholders have had larger cash distributions than were paid in the preceding year in seventeen of these twenty years.

Net Asset Values

The indicated net asset value was \$32.70 per share compared with \$31.70 a year ago. Capitalized "basic" earnings (earnings from operations before interest, depreciation and income taxes) were used by Company officers as the principal factors in arriving at these estimates of net asset values in accordance with yardsticks customary in the industry. (For further clarification, and

information regarding certain adjustments, see page 14.)

Gainings

Gains in net asset value plus cash dividends distributed, under our theory of "net worth accounting" provide what we consider the most meaningful measure of performance available. Gainings is the term we apply to this yardstick of performance.

Such gainings for the past year amounted to \$1.60 per share compared with \$3.44 last year. This measure, although fundamental in many respects in guiding Company policy, is often quite properly discounted by many investors, for its accuracy is limited to the Company's ability to measure objectively and accurately its property values, a procedure recognized to be open to possible abuse. Sheraton takes every possible precaution to make its figures accurate.

Long Term Debt

Sheraton's fixed long term debt, excluding Income Debentures and Capital Income Debentures, amounted to \$141,801,834 compared with \$138,798,298 a year ago. When all income debentures are included as a part of the Company's long term debt, the combined contingent and fixed long term indebtedness amounted to \$178,830,234 compared with \$176,320,713 a year ago.

The long term "fixed" indebtedness was 38.9% of total assets at estimated values determined by our officers, after deducting current liabilities. This ratio becomes 49.0% when all income debentures and capital income debentures are taken into account. If lease obligations are considered as liabilities to the extent of four times the annual rental requirements, the ratio becomes 52.9%. Ratios of long term debt for the past two years have shown a moderate decline. This favorable trend, however, may not be too significant since the margin of possible error in determining net asset values could exceed this narrow difference.

Bank Loans and Cash Position

Bank loans of the parent company incurred to finance certain acquisitions and improvements reached \$5,000,000 during the year. These loans, however, were paid off in full before the end of the fiscal year.

Cash on hand and in banks was \$16,597,125 compared with \$13,645,563 a year ago.

Thompson Industries, Inc.

Thompson Industries, Inc. reported earnings of \$739,102 for the fiscal year compared

with \$1,220,834 for the preceding year. This decline affected Sheraton's reported earnings in fiscal 1961 adversely, when compared with the previous year, to the extent of eight cents a share. Thompson Industries, Inc. is an 86% owned Sheraton subsidiary which is normally subject to the cyclical trends in the automobile industry.

The currently rising national economy suggests Thompson Industries, Inc. may now be more likely to contribute towards improving rather than retarding Sheraton's relative performance during the current fiscal year.

Since Thompson Industries, Inc., a manufacturing company, does not enjoy comparable depreciation deductions available to a hotel corporation owning most of its properties, its earnings normally represent a relatively large proportion of Sheraton's total consolidated reported earnings. Thompson's contribution to Sheraton's cash flow is relatively less significant.

Hotel Operations

Sheraton's earnings from hotel and other operations, excluding Thompson Industries, Inc., before interest, depreciation and income taxes, despite several presumably nonrecurring adverse factors, were some \$29,900,000 this year compared with \$29,500,000 last year. Income taxes on these earnings were somewhat lower since over a million dollars more depreciation as compared with last year, was charged off. Our upward trend in basic hotel earnings in the face of a recession ran counter to the general experience in the industry. This favorable trend presently shows signs of accelerating.

Sheraton's immediate objective is a minimum rise of eleven per cent a year in net asset value and in cash flow. Although eleven per cent a year compounded annually is far below our historical average annual growth experience over more than two decades, our eleven per cent goal does exceed our performance during the past three years — a period which included two recessions and several other significant though presumably nonrecurring adverse circumstances.

Profit Margins

Somewhat narrower profit margins than have been customary were largely due to higher than customary overhead, to heavier competition, and to higher interest rates. Despite these recent handicaps, we believe that our goal of achieving an eleven per cent a year growth pattern is not only attainable; we think it should be our minimum objective.

High overhead which alone accounts for a major portion of our overall net shrinkage in

Growth consolidated in thousands of dollars

Years Ended April 30	Total Assets at Estimated Values (a)	Total Assets at Book Values	Gross Income	Depreciation	Cash Flow (b)	"Basic" Earnings (c)	Reported Net Operating Income (d)	Other Credits	Net Profits on Capital Transactions (d)	Total Reported Net Income and Net Profits (d)	Net Worth Profit (a) (e) (f)
1961	\$400,445	\$276,741	\$205,701	\$18,181	\$20,249	\$32,399	\$2,068	\$ —	\$1,166	\$3,234	\$8,469
1960	390,620	273,401	204,882	16,833	19,656	32,962	2,823	—	270	3,093	18,854
1959	346,910	245,503	171,474	14,144	17,494	29,267	3,350	—	2,001	5,351	19,651
1958	304,007	217,325	159,014	14,164	17,896	29,405	3,732	—	1,101	4,833	7,257
1957	304,645	219,866	153,792	11,920	16,668	28,150	4,748	—	654	5,402	18,263
1956	243,697	172,468	121,672	8,098	12,534	21,748	4,436	—	2,215	6,651	18,239
1955	193,033	134,543	89,376	5,390	9,504	16,622	4,114	—	4,760	8,874	23,111
1954	132,520	89,568	72,771	4,507	7,924	14,302	3,417	—	1,878	5,295	11,261
1953	129,475	91,313	68,142	3,857	6,772	12,625	2,915	—	1,007	3,922	11,295
1952	113,524	82,459	62,773	3,490	6,062	11,096	2,572	414	1,196	4,182	7,174
1951	101,861	74,982	56,071	3,253	6,156	10,629	2,903	816	1,191	4,910	16,701
1950	87,874	73,029	39,739	2,626	4,594	7,898	1,968	139	1,457	3,564	13,440
1949	60,279	54,541	31,605	1,795	3,698	5,779	1,903	—	1,470	3,373	2,723
1948	55,710	47,643	28,663	1,569	3,177	5,389	1,608	—	68	1,676	2,378
1947	49,860	42,332	21,511	1,128	2,141	3,946	1,013	—	1,161	2,174	7,924

"Economic performance" per common share *

Years Ended April 30	Estimated Net Asset Values (a) (g)	Cash Flow (b)	Quoted Market Price	Depreciation	Cash Dividends Paid During Year	Increase in Estimated Net Asset Value During Year	"Economic Performance" i.e., Asset Value Increase Plus Dividends Paid (Includes Estimated Appreciation)	Price-Cash Flow Ratio (Shows Ratio of Market Price of Shares to Cash Flow)	Reported Net Operating Income and Other Credits (e)	Net Profits on Capital Transactions (d)	Total Reported Net Income and Net Profits (e)
1961	\$32.70*	\$3.84	\$17.75	\$3.45	\$.60	\$1.00	\$1.60	4.6	\$3.39	\$2.22	\$6.61
1960	31.70*	3.80	18.14	3.25	.59	2.85	3.44	4.8	.55	.05	.60
1959	28.85*	3.60	17.78	2.91	.57	3.09	3.66	4.9	.69	.41	1.10
1958	25.76*	3.66	10.72	2.90	.56	.88	1.44	2.9	.76	.23	.99
1957	24.88*	3.40	11.66	2.43	.48	3.04	3.52	3.4	.97	.13	1.10
1956	21.84*	2.55	10.38	1.65	.41	3.17	3.58	4.1	.90	.45	1.35
1955	18.67*	1.93	11.66	1.10	.27	2.81	3.08	6.0	.83	.97	1.80
1954	15.86	1.59	5.39	.90	.21	2.06	2.27	3.4	.69	.37	1.06
1953	13.80	1.33	4.40	.76	.18	2.04	2.22	3.3	.57	.20	.77
1952	11.76	1.17	3.68	.68	.18	1.21	1.39	3.1	.57 (h)	.23	.80
1951	10.55	1.20	3.04	.64	.18	3.11	3.29	2.5	.72 (h)	.24	.96
1950	7.44	.88	2.37	.51	.12	2.52	2.64	2.7	.40 (h)	.28	.68
1949	4.92	.70	1.63	.35	.12	.40	.52	2.3	.35	.28	.63
1948	4.52	.59	1.78	.30	.12	.34	.46	3.0	.29	.01	.30
1947	4.18	.39	2.11	.22	.10	1.42	1.52	5.4	.17	.22	.39

*Adjusted for stock dividends and stock split-ups, and Estimated Net Asset Values at April 30, 1955 to 1961 allow for exercise of Warrants and conversion of 4¼% Debentures.

(a) Estimated by Company Officers.

(b) Net Operating Income plus Depreciation.

(c) Before Interest, Depreciation and Income Taxes.

(d) After Minority Interests.

(e) After Minority Interests and Preferred Dividends.

(f) Represents Total Net Income and Profits including changes in Estimated Net Asset Values and differences arising from sales and purchases of Common Stock at more or less than Estimated Net Asset Values. For information regarding Net Worth Accounting see page 16.

(g) After Liabilities, Minority Interests and Preferred Stock.

(h) Includes Other Credits in 1950, 1951 and 1952 of \$.03, \$.16 and \$.08, respectively.

profit margins of recent years, has now been largely remedied by means of a "Belt-Tightening" program which has reduced overhead to the extent of approximately \$3,000,000 a year.

Serious competition in two areas, — Montreal and Pittsburgh, where Sheraton was especially vulnerable due to its significant position in those cities, tended to narrow over-all profit margins. This loss appears to be largely of a temporary nature.

During the three years since major competition developed in Montreal, much of the lost earning power has already been regained. Even in Pittsburgh, where competition from a major new hotel occurred only a year and a half ago, there are already strong indications of recovery in earning power. Fortunately there are no other major cities where we are similarly vulnerable to any possible competition that may occur. We anticipate that our hotels in Montreal and Pittsburgh during the coming years will be contributing to, rather than retarding our future growth rate or profit margins as these hotels face anticipated further recovery.

High interest rates will probably be with us for some time to come, though there are some indications that the recovery philosophy of the present Administration in Washington is leaning towards lower long term interest rates.

With possible prospects of a resumption of an inflationary trend amounting to perhaps two to three per cent a year as a further Administration recovery measure, this could add an actual five to eight per cent to our eleven per cent growth objective, due to the leverage inherent in our debt structure. Each Sheraton share, we estimate, represents \$64 gross value of real estate at indicated fair market value. (For further discussion of profit margins, see page 14.)

Room Occupancy

Sheraton's room occupancy of 72 per cent is the same as it was five years ago. The trend for the past three years has been moderately upward, and with signs of economic expansion, this trend should accelerate.

Occupancy levels for Sheraton mainland hotels, compared with the industry as reported by Horwath and Horwath, were as follows:

(calendar years)	1956	1957	1958	1959	1960
Sheraton	72	73	69	71	72
Industry	72	70	67	66	65

Sheraton's improved occupancy is attributable in part to a campaign to attract permanent guests, a policy which necessarily affects average room rates adversely. On balance, this policy seems to have considerable merit.

Economy Program

Last November Sheraton, realizing that profit margins were somewhat narrower than seemed warranted, and believing this was largely due to excessive overhead, inaugurated its \$3,000,000 "Belt-Tightening" project. This was accomplished without materially affecting sales promotion, maintenance or service to guests. Not until April 1961, the final month of our last fiscal year, did we feel anywhere near the full impact of this program. Last April proved to be one of the best months of April in the Company's history, — both with respect to basic as well as reported hotel earnings.

The full benefit of this economy program is expected to be felt during the new fiscal year which started in May.

Profit Improvement Projects

Much of Sheraton's growth each year is due to profit improvement projects. A survey covering such projects completed in recent years indicates that these investments can produce average annual profits or savings before income taxes of from 20% to 30% of the investment. This estimated return is after providing for appropriate amortization of these expenditures.

Sheraton customarily reinvests each year a substantial portion of the depreciation reserve set up for that year in profit improvement projects. Much of the balance is usually reinvested — either in new properties, or in profit maintenance projects necessary to sustain earning power of the various Sheraton properties.

For the past fiscal year we estimate that some \$1,500,000 of added basic earnings were created by profit improvement projects of the type referred to above. Several adverse and presumably nonrecurring circumstances caused offsetting reductions in basic earnings for the year. These include: —

- (a) Shrinkage in earnings of the Penn-Sheraton in Pittsburgh noted above.
- (b) Losses due to an estimated 1½% reduction from otherwise attainable rooms occupancy due to the 1960 recession.
- (c) Reduction in the contribution of Thompson Industries, Inc. to Sheraton earnings in fiscal 1961.

There should be few losses of this nature in the current (1962) fiscal year; in fact several added new sources of revenue are indicated. These include over twenty millions of temporarily non-income producing assets consisting primarily of new construction. The greater part of these assets are now producing income and should add to

Ratio of long term debt to total assets at estimated value less current liabilities

In thousands of dollars

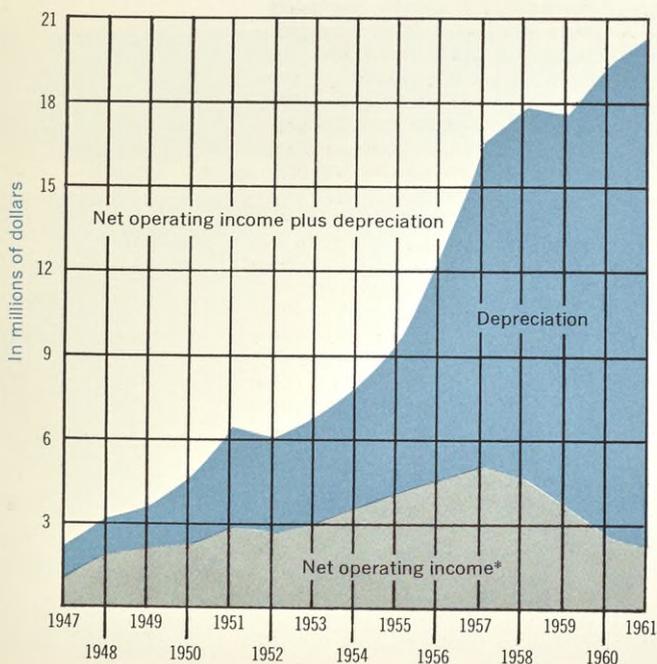
April 30	Total Assets At Estimated Value (a)	Less Current Liabilities	Net	Long Term Debt Including Income Debentures	Ratio — Including Income Debentures	Ratio — Excluding Income Debentures (b)
1961	\$400,445	\$35,565	\$364,880	\$178,830	49.0%	38.9%
1960	390,620	36,853	353,767	176,321	49.8%	39.2%
1959	346,910	28,641	318,269	159,615	50.2%	40.7%
1958	304,007	24,345	279,662	137,410	49.1%	45.8%
1957	304,645	26,028	278,617	140,524	50.4%	47.3%
1956	243,697	20,865	222,832	99,584	44.7%	43.9%
1955	193,033	16,746	176,287	68,267	38.7%	38.7%
1954	132,520	12,199	120,321	36,394	30.3%	30.3%
1953	129,475	10,899	118,576	43,085	36.3%	36.3%
1952	113,524	11,375	102,149	35,266	34.5%	34.5%
1951	101,861	9,260	92,601	32,483	35.1%	35.1%
1950	87,874	12,396	75,478	30,171	40.0%	40.0%
1949	60,279	6,803	53,476	22,776	42.6%	42.6%
1948	55,710	7,760	47,950	20,202	42.1%	42.1%
1947	49,860	5,767	44,093	18,426	41.8%	41.8%

(a) Estimated by Company Officers.

(b) Ratios in this column are determined on long term debt excluding 6½% Income Debentures and 7½% Capital Income Debentures.

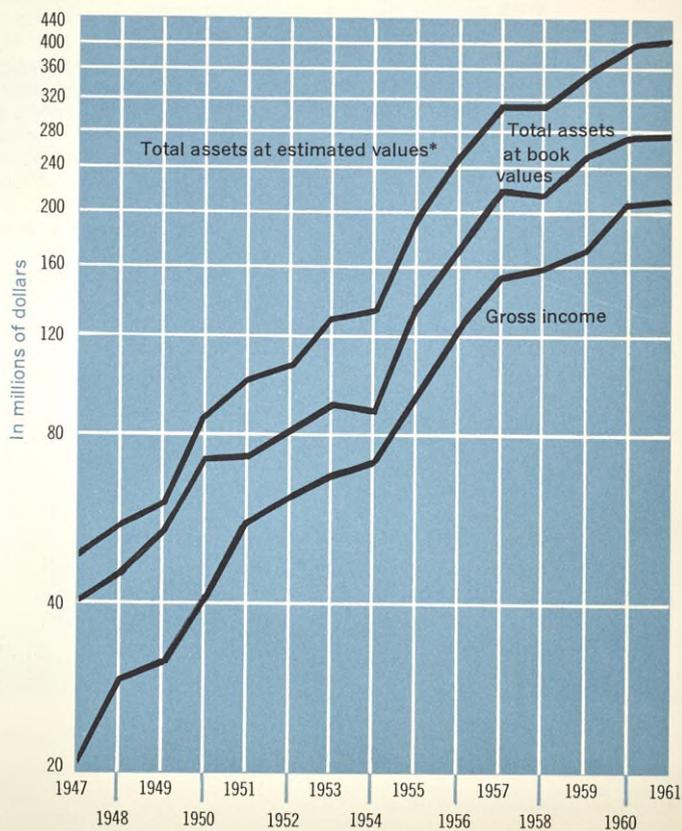
Cash flow from operations

(Net operating income plus depreciation)



*After Minority Interests.

Growth in assets and gross income (Ratio Chart)



*Estimated by Company Officers.

basic earnings during the current 1962 fiscal year approximately \$1,500,000. The "Belt-Tightening" program referred to above should, we believe, more than compensate for any presently unforeseen contingencies. Recovery from the recent recession, and anticipated improved earnings from the Penn-Sheraton and Thompson Industries, Inc. should also contribute to a favorable trend in fiscal 1962.

Acknowledgment

We would like to take this opportunity, as we have done on many previous occasions, to thank the 22,000 employees of Sheraton for their

material contribution to the Company's performance in this and past years. May we also acknowledge with appreciation the support being received in many ways from 18,000 Sheraton shareholders. To all we are glad to report our expectation that the present new fiscal year will be one of substantial further progress.

Orval H. Johnson

FURTHER COMMENT

An Interesting Look at Depreciation

A new ten million dollar building, normally assigned a 50-year life, would require — if straight line depreciation of 2% a year were used — \$200,000 each year for depreciation. In fifty years the building, having then presumably reached the end of its economic life, could in theory be replaced by funded reserves which would amount to the ten million dollars originally invested in the building.

However, the money set aside does not in practice lie idle. If reinvested at 4% after income taxes compounded annually for fifty years, these cash reserves, instead of the original \$10,000,000, could aggregate \$30,533,000, a very generous sum even after taking into account increased reproduction costs expected in an inflationary economy.

Assuming the depreciation reserves are earned, as they have been in Sheraton's past twenty-four years' experience, and that these reserves are not required for debt amortization (on the theory that when property values are maintained, debt amortization is customarily replaced with new debt), and assuming that the annual depreciation reserves can continue to be readily invested and reinvested profitably during the fifty-year life of a new property at a rate better than 10% annually, — then the cash ultimately realized from these reserves would amount to more than \$232,781,000. At a 15% rate, which corresponds more closely to Sheraton's past twenty-four-year actual experience, the amount becomes much larger, taxing the capacity of Company calculating machines. Utilizing one of several available forms of accelerated depreciation calling for larger reserves in earlier years, makes the figures resulting from this compounding process even more impressive.

As a further illustration, consider only the first year's depreciation reserves of approximately \$800,000 actually taken on an accelerated basis on the new Philadelphia Sheraton (building only) in the year 1958. If this sum were invested in the business, at a rate of only 10% after taxes compounded annually for fifty years, without the benefit of setting aside any additional depreciation reserves during the remaining forty-nine year life of the building, then the principal and interest accumulated in fifty years would amount to \$93,912,000. This alone would be six times the amount required. If providing funds for replacing the building fifty years later was the primary objective for setting up depreciation reserves, the amount of \$133,000 set aside once for the first year only, would have been, if compounded annually, sufficient to attain this objective in fifty years. This amount of \$133,000 would be less than a single year's depreciation allowance called for when using the straight line depreciation method.

The effective reinvestment of depreciation reserves account in a large measure for the rise of Sheraton's total assets during the twenty-four years that the Company has operated hotels and other real estate. The reinvestment of these reserves and consequent increase in asset value has broadened the credit base of the Company permitting further growth through debt financing up to the Company's stated objective of approximately 50% of total assets at estimated values, less current liabilities. The Officers of the Company believe that this program has been primarily responsible for the increase in total assets during this period from less than \$1,000,000 to more than \$400,000,000 at estimated values.

The picture, of course, is not always as rosy as suggested by these illustrations. They do not tell the complete story. In practice a portion of the depreciation reserves may be necessary for

amortization of debt to the extent it may not be replaced by new financing. However, the value of depreciation reserves reinvested in the business does furnish a possible clue to the interesting past growth record of the Company. It does explain our emphasis on cash flow, as well as certain advantages of owning rather than leasing hotels.

Cash Flow and Net Asset Values versus "Reported Earnings"

Some shareholders may be unaware of the relative impact of cash flow and indicated net asset values on the one hand, and reported earnings, on the market performance of Sheraton shares. Sheraton shares seem to follow the former fairly closely, and appear to be influenced relatively little by the latter.

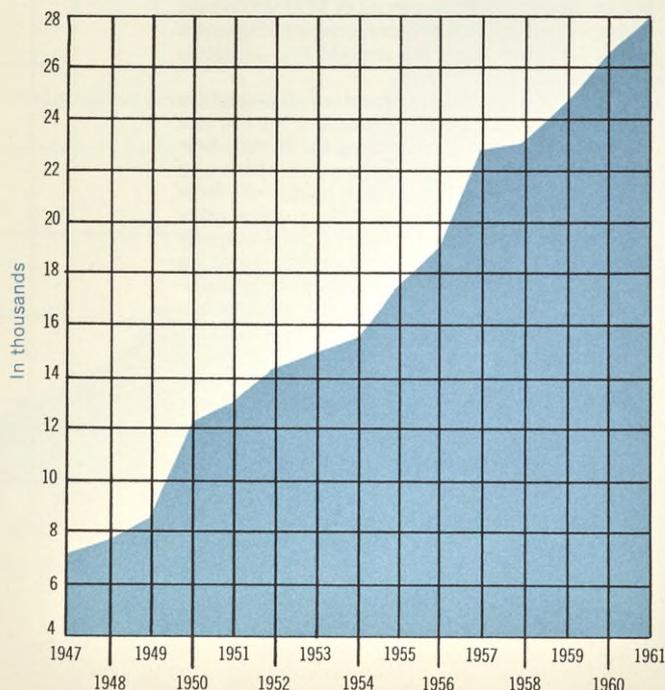
Looking back over a ten-year period we find year-end quotations of Sheraton shares on the New York Stock Exchange were \$3.04 a share in 1951 (corrected for stock splits, etc.) as against \$17.75 in 1961. The rise was $5\frac{1}{2}$ -fold. During this same period estimated net asset value and cash flow increased approximately three-fold. However, this was in the face of a thirty per cent *decline* in reported earnings (with a similar drop

in income taxes) during this same period. It would appear from this ten-year record that net asset values and cash flow rather than "reported earnings" are the principal influence affecting Sheraton market performance. Reported earnings are perhaps too closely related to such matters as maintenance expenditures, and to Company policy with respect to depreciation.

Sheraton depreciation reserves in 1947 were 2.3 per cent of total assets at estimated value, and 5.2 per cent of total sales. By 1961, these percentages had risen to 4.5 and 8.8 respectively, advances of about 100 and 69 per cent in the rate at which depreciation reserves were being set up. Taking an average increase in depreciation in relation to the growth of the Company, means that currently, in relation to our practice fourteen years ago (representing period covered by table page 4), our depreciation reserves were relatively higher by over \$7,000,000. This is equivalent to over \$1.33 a share on Sheraton stock for the year just ended.

Actually, on account of the improved physical condition of our hotels today, and due to the higher proportion of new buildings in the system, it would appear that perhaps a lower rather than a higher rate of depreciation might be more appropriate for 1961.

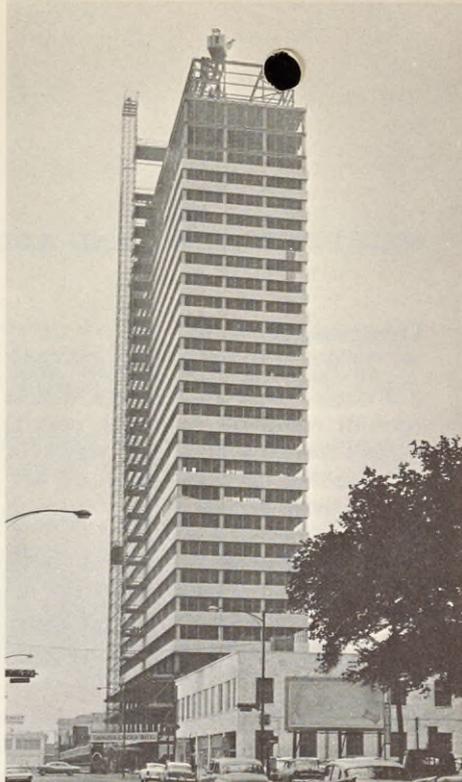
Growth in hotel guest rooms



Operations



Israel's finest, Sheraton-Tel Aviv



Coming: Sheraton-Lincoln, Houston.



Diamond Head Wing (right) of Honolulu's Princess Kaiulani

New Sheraton-Chicago, on N. Michigan Ave.



*Newest acquisition,
Sheraton-Oklahoma*

NEW PROPERTIES AND ADDITIONS . . . five hotels added

Openings

In Hawaii the new *Diamond Head Wing* opened at the *Princess Kaiulani*, adding another 210 luxury rooms to Sheraton's Waikiki Beach properties. With increasing convention business boosting year-round occupancy, your Company is in the advantageous position of having the greatest concentration of guest rooms (1450) in Hawaii.

Overseas, the *Sheraton-Tel Aviv* was completed on the shores of the Mediterranean in Israel and opened its doors with heavy reservations for the first three months of operations. This favorable trend is continuing.

The Midwest has a luxurious new convention center in the 1050-room *Sheraton-Chicago*, on North Michigan Avenue, with 600 new rooms having been integrated with the completely refurbished original 450 rooms of the 42-story Sheraton tower section.

In Baltimore, the 150-room *Sheraton-Baltimore Inn* opened opposite the John Hopkins Hospital, a convenient motor hotel offering many of the facilities found in downtown hotels (such as our own elegant *Sheraton-Belvedere*).

Acquisitions

In Oklahoma City, the largest hotel in the state, the former Oklahoma Biltmore, became the *Sheraton-Oklahoma* when Sheraton took over management of the 26-story, 600-room property under a lease arrangement which includes an option to purchase within seven years. Extensive renovations should help make this property one of the finest and most prosperous in the Midwest.

A former Sheraton property, the Stonehaven in Springfield, Mass., was reclaimed by the Company and, with modernization, has assumed a new concept as the *Sheraton Motor Inn*, offering travelers all the advantages of a highway hotel. Similarly, in Worcester, Mass., the Bancroft Hotel rejoined Sheraton as the *Sheraton-Worcester*. Refurbishing already has begun and it is expected this popular hotel will prove a distinct asset to the system.

Future additions: 1962

The *Sheraton-Lincoln*, 26-story luxury hotel and office building, will open in expanding downtown Houston in March. In addition to 500 guest rooms, the building will have considerable function space, a ballroom, specialty dining rooms, private club and offices of the Lincoln Liberty Life Insurance Company.

In June, Sheraton will open in Kingston the first property there with major convention facilities. The *Sheraton-Kingston*, expected to be completed prior to the opening of the IX Central American and Caribbean Games in Jamaica, will have 200 guest rooms and a ballroom accommodating 800 persons.

Your Company will also operate a 150-room hotel, the *Sheraton-Maui* on the island of Maui, Hawaii, being built as part of an 875-acre luxury resort at Kaanapali Beach (opening: Summer, 1962). The area, being developed by American Factors, Ltd., of Honolulu and Pioneer Mill Company, Ltd., of Maui, will include a 2½ mile white sand beach, championship golf courses, cottage colonies, beach and yacht club and convention center.

On the ocean at Condado, in the Santurce section of San Juan, the 450-room *Sheraton-San Juan* is scheduled to open late in 1962. The 22-story hotel will have a swimming pool with cabanas, tennis courts, a casino and supper club, as well as a large ballroom and convention hall on its five-and-a-half acres of beachfront property.

Property Improvements

Several of our properties appreciated in net worth during the year with the continuation of planned improvement programs. In addition to refurbishing and redecoration, air-conditioning installations were increased to the extent that 90% of all Sheraton guest rooms and public spaces are now air-conditioned.

A profitable Minute Chef was added to *Sheraton Hawaii* properties on Kalakaua Avenue, and on Broadway in New York the *Park-Sheraton* underwent a general rehabilitation, including a bright new lobby.

The popularity with convention groups of the new exhibition space added in the Philadelphia *Sheraton* has led to plans to increase this display space. Louisville's *Sheraton* will also add exhibition space as well as creating function space and new elevators. Construction has already started on a five-story annex to the *Sheraton-Cleveland* which will include a large ballroom, meeting rooms and indoor parking facilities. Renovations planned for the *Sheraton-Oklahoma* will provide a drive-in entrance for motoring guests, a private entrance to motel-type accommodations, and the addition of a swimming pool.

The *French Lick-Sheraton*, with its completely refurbished rooms and newly-created meeting and convention facilities, will now add three championship Tennis Courts, regulation size Skating Rink, and a completely equipped general sport and recreation area.



Convention groups enjoy an al fresco dinner party at Pasadena's Huntington-Sheraton Hotel — a hotel offering exceptional values in a Country Club atmosphere 15 minutes from downtown Los Angeles.

Downtown Landmark Is Renovated



The Whitehall Building at 17 Battery Place is undergoing a major refurbishing. Central air conditioning has been added and twenty automatic elevators are being installed.

Building at Battery Getting a New Look

The old-fashioned Whitehall Building at 17 Battery Place is half-way through a refurbishing program begun in 1959.

Its operator, a subsidiary of Sheraton Hotels, has renamed the structure the Sheraton Whitehall Building. The building, between West Washington Streets, faces the harbor, and the shipping commission's headquarters.

ed in 1910, and was for a time the city's tallest structure.

Under Sheraton's management, the building has been given a central air-conditioning system. Twenty automatic elevators are being installed and a general refurbishing of the interior is under way.

The building is getting a number of new tenants. They include the traffic department of E. I. du Pont de Nemours & Co., the John Hancock Insurance Company, the Dalzell Towing Company, the National Marine Engineers Beneficial Association, the Seafarers Welfare Fund and the law firm of Joseph Edwards.

building has a number of tenants. Among them is a shipping company.

The New York Times

Hotels Confirm Reservations and Rates

The Sheraton reservations system became the first to offer confirmed rates on all reservations. Reservatron — Sheraton's electronic computer — in addition to storing availability in four categories of rooms, can now advise guests on four different categories of rates and confirm both their reservations and rates in advance.

The International Mutual Hotel Reservations Network through which Sheraton offers guests reservations in cities where there are currently no Sheraton hotels, has continued to add hotel listings for travelers' convenience. There are now 241 hotels in 215 cities covered by this network.

More Visitors from Abroad

A newly expanded program of international sales development — in conjunction with the "Visit U.S.A." program being promoted by the Government and the travel industry — since October, 1960, has produced a \$350,000 increase in foreign business to our domestic hotels.

A key factor in Sheraton's activation of this largely untapped foreign market has been the appointment of 21 general agents in as many cities around the globe, who are aggressively "selling" the Sheraton story to some 5,000 travel and tour directors, and to the general public, throughout Europe, Asia and Latin America.

Many of the leading international carriers — such as Air France, Lufthansa, SAS, Pan American, TWA, Swissair and Japan Airlines — also have lent their cooperation overseas to circulate attractive Sheraton folders and brochures, including the new International Facilities Booklet, now printed in seven languages.

Carrying through the program in the United States, each Sheraton hotel has assigned a multi-lingual staff representative as "international manager" to greet and look after the needs of guests from abroad.

The Company, judging by gratifying initial results of this program, looks to a possible doubling of international traffic to its hotels within two years.

Sheraton TV "First"

Sheraton again took a progressive step ahead of the industry by initiating the first planned television advertising campaign for hotels on a national basis, effectively supplementing our advertising and promotion in magazines, newspapers and on radio.

Through our national advertising agency, Batten, Barton, Durstine & Osborne, the Company prepared, in January, a series of one-minute and 20-second filmed "spots" promoting Sheraton Hotels in Hawaii, the family rate plan, our exclusive electronic Reservatron computer system, and summarizing the conveniences of Sheraton hotels located in "the heart of things", plus the "extra values" offered guests at our hotels.

The commercials have been syndicated to 50 TV stations throughout the U. S., with particular concentration in areas where Sheraton hotels are located or where we have reservations offices.

Sheraton's dynamic national advertising program also received significant recognition, as a leading weekly news magazine announced an unprecedented Advertising Excellence Award to Sheraton for 1960. Specifically, the award acknowledged our Company's effective use of four-color, back-cover ads which, the magazine revealed, surpassed all other advertising in reader-appeal during the year.



Personnel

This year Sheraton's Management Training Program graduated the first ten young trainees from our "Internship" program and they were assigned as Assistant Managers, Department Heads or to other key hotel positions. Competition was keen among General Managers for these graduates who had completed two years of practical experience in Sheraton properties after graduating from hotel schools. Approximately 100 graduates apply for our Management Training Program each spring and we feel that, from those chosen, we are developing Sheraton's future managerial talent.

Regional Appointments

As Sheraton's system of hotels continues to expand worldwide, in order to bolster lines of communications as well as to insure more personalized supervision and administration of each of our properties, the company has taken an important step forward in effective management:

Eight separate Sheraton geographical regions were created, administered by specially appointed divisional managers (*see page 24*). Each divisional manager will personally oversee operations of hotels within his assigned region and in turn will provide liaison between each of the hotels and the company's Senior Vice President of Operations and Marketing, Robert M. Brush. This new organizational setup is expected to maintain the most progressive and efficient standards, with ultimate benefits to our guests and customers by making possible outstanding hotel services and facilities.



Like the quarter-deck of a sailing vessel, the lobby of the Ports O'Call restaurant transports diners to gourmet adventures in the four different rooms (Macao, Saigan, Singapore and Papeete) of this specialty restaurant high in the Southland Life Tower attached to the Sheraton-Dallas, in Southland Centre.



An innovation in cocktail lounges, the smart Golliwog in the new Sheraton-Chicago. Cozy as an informal living room, sophisticated as a modern jazz piano, the Golliwog has captivated Chicago . . . and encouraged Sheraton to plan several more in other hotels.



Authentic Polynesian fare and atmosphere now are featured at the Sheraton-Cleveland, where another outstanding Kon-Tiki (Sheraton's third) has been opened. The acclaim both of visitors and Clevelanders has been excellent.



Far left: Sheraton Chairman Robert L. Moore (center), Roberto Sanchez Vilella, Secretary of State of Puerto Rico, and Cesar A. Calderon, President of Enterprise Hotel Development Corporation, after cornerstone was laid for new Sheraton-San Juan.



Left: Ground has been broken for new 200-room Sheraton-Kingston, expected to open in summer of 1962. Hotel, with ballroom for 800, will be Jamaica's largest and first there to offer major convention facilities.

SHERATON'S FINANCIAL PHILOSOPHY

Net Asset Value Calculations

Earlier in the President's Report we referred to "adjustments" to basic earnings used to measure indicated net asset values. By basic earnings we mean earnings before interest, depreciation and income taxes. The adjustments to basic earnings attempt to take into account certain nonrecurring events and expenses. We allow for deficiencies or excesses, if any, from normal repairs and maintenance expenditures. We attempt to reflect the trend of occupancy and earnings. We also try to make appropriate allowance in advance for anticipated competition if new hotels are likely to provide serious competition.

Our figures for capitalizing basic earnings, or the earnings multipliers as they are sometimes called, vary according to many factors, including age and location of the property, money rates, type of financing available, and the luxury status of a hotel. Investors in hotels are willing to pay a relatively higher price for any given basic earnings of luxury hotels in large American cities.

Our multipliers usually range between eight and ten, which corresponds to capitalizing basic earnings on a ten to twelve and a half per cent basis. Due to our approximate fifty per cent debt ratio, the Company enjoys a certain leverage which raises this level of basic earnings to a rate of approximately fifteen per cent per annum. Long term leaseholds, not as readily mortgaged, frequently call for a slightly lower multiplier. We normally apply to leasehold earnings, after these are reduced by appropriate amortization, a multiplier of $6\frac{3}{4}$.

It should of course be pointed out that the multipliers themselves sometimes change with changing economic conditions in the real estate market. These factors we believe have all been carefully weighed and taken into account when indicated net asset values are calculated.

In recent years rising interest rates, coupled with increasing reluctance on the part of financial institutions to make mortgage loans except to larger companies willing to provide parent company guarantees, have been noted. This disadvantage has been partially offset by a noticeable upward trend in the multipliers being applied in the industry to basic earnings, the yardsticks by which valuations are customarily arrived at both by the industry and by Sheraton. Both of these factors are of course beyond the control of management. Fortunately both have tended in the past to some extent to offset each other.

Some inquiries have been received as to the reliability of estimated property values used in determining our indicated net asset values. Sales of Company properties over a long period of years were always made at sales prices in excess of the latest estimated values determined prior to the sales.

In connection with many of these sales transactions, the Company received second mortgages on the disposed properties as a part of the proceeds. The

second mortgages are usually recorded on the books at discounted values, which reflect the terms of the respective mortgages.

There were in fact a few instances of hotels being sold when, after setting up reserves of 25 per cent against second mortgages taken in part payment, these properties brought slightly less than our latest estimated values. This however was more than counterbalanced by higher amounts realized in the majority of instances when properties were sold. On some \$44,000,000 of property sales, comprising some fifteen transactions, such excesses over estimated values exceeded the losses by over a million dollars. Furthermore, the 25% reserves themselves have proven in practice to be too high. A recovery of over two million dollars from these excessive reserves is currently indicated, now that the second mortgages have been materially paid down or sold.

This discussion is presented in order to clarify the record with respect to this controversial subject of net asset values.

Those shareholders who have a further interest in this subject and in the subject of "Net Worth Accounting" are asked to turn to page 16.

Profit Margins

Sheraton's basic earnings margins are down from 18.3 per cent of gross income in 1957 to 15.8 per cent in 1961. Furthermore the average of all interest charges has risen from 3.9 to 4.9 per cent of gross income.

The combined result of these two trends represents 3.5 per cent of gross income. This adverse factor reduces to 1.3 per cent when taking into account lower income taxes payable despite higher basic earnings, due to the increased permissible tax shelter the real estate companies are currently enjoying from higher depreciation reserves. The net shrinkage in profit due to the resulting narrowing margins amounts to less than three million dollars a year. There are, of course, several factors that should be taken into account when examining such profit margins.

A major influence on profit margins, as stated before, is the higher interest rates prevailing throughout the country as compared with earlier years. For a company whose policy it is to finance half the indicated market value of its properties through the medium of long term debt, a rise from $4\frac{1}{2}$ per cent to 6 per cent in prevailing mortgage interest rates represents a substantial percentage increase in such costs.

Sheraton interest costs have risen in part due to the fact that we issued in place of fixed debt obligations nearly \$40,000,000 of twenty-five and thirty-year income and capital income debentures as an economical form of "insurance policy" to protect the Company should there ever occur a really serious business depression. The present earnings coverage of interest charges, both fixed and contingent, for the past year afforded by basic earnings of \$32,000,000 was three fold. This earnings coverage, combined with a high degree of resistance to recent recessions indicates that this "insurance policy" may never be required. Nonetheless this protection strengthens the Company's credit position.

The relatively high interest called for by our $7\frac{1}{2}$ per cent Capital Income Debentures is a burden we are glad to assume as an alternative to what might be

more "costly" conversion privileges customarily offered in order to hold down interest rates in connection with conventional junior financing. Dilution of the common stock equity resulting from the sale of "convertibles" can be far more burdensome to a growth company than would be an increase in "if earned" tax deductible interest requirements.

Profit margins have also been affected to some degree by certain changes in Company policy. There has, for instance, been a trend to new construction. This procedure often involves a delay of several years before adequate earnings are achieved. We estimate that a new 500-room hotel must attract the patronage of some 24,000 individuals one or more times a year in order to achieve a satisfactory level of occupancy. We expect, of course, to more than recover in future years for any initial sacrifice required while a new hotel is under construction and while we are building up a customer following. During the past five years Sheraton undertook some 50 million dollars of new construction. Had Sheraton during these years been able to create an "interest credit for properties under construction," a procedure commonly used in the public utility industry, substantial improvements in reported earnings could have been reported.

The new Philadelphia Sheraton was opened early in 1957. The following illustrates the progress of a major new downtown hotel able to benefit from the advantages of large scale multiple operation.

	1958	1959	1960	1961
Basic Earnings	\$1,639,000	\$1,618,000	\$1,750,000	\$1,928,000
Reported Pre-Tax Earnings	—303,000	—155,000	157,000	488,000

Seven other new Sheraton hotel projects have been completed since the opening of the Philadelphia Sheraton four years ago. Unlike the Philadelphia Sheraton Hotel, most of these properties have been subject to the expected lag in earnings from investments made in new construction. However, all of these properties are now enjoying a marked upward trend. Two, however, have not as yet reached the point where satisfactory basic earnings are being reported. Accordingly, for net asset value purposes, Sheraton's interest in these two hotels is for the present carried at a small fraction of our original investment.

Another factor which affects profit margins is our growing emphasis on so called specialty restaurants. These usually involve a high volume of sales with correspondingly narrower profit margins. This is illustrated by the following comparison:

Estimated Departmental Profit Margin on Room Sales	70%
Estimated Departmental Profit Margin on Specialty Restaurants	25%

Despite these reduced margins, we consider this business eminently desirable.

Perhaps a major factor influencing profit margins was the fact that at the end of last year over \$28,000,000 of temporarily non-productive assets held by the Company had been contributing little or nothing to basic earnings. The major items of this nature momentarily reducing profit margins, each amounting to several million dollars, are the following:

Unimproved land in various locations held for anticipated future construction.

Sheraton-Chicago Hotel (not opened until May 1, 1961).

Other recently completed hotels. Includes

Baltimore Inn, Tel Aviv and two Hawaiian hotels. These represent an investment showing only nominal earnings prior to the current fiscal year.

Diners' Club stock received in exchange for Sheraton's Credit Card Club presently valued at three million dollars. One million dollars of this stock was recently sold for cash; another million has been exchanged for other diversified marketable securities. Balance is being held for possible future appreciation in value.

Sheraton's leasehold interest in an office building. See "Hidden Asset" below.

Other miscellaneous investments.

Twenty-two millions of these assets should be contributing to earnings before the end of this current year. The remaining non-income producing properties should be generating income in the near future.

Among investments held for longer range future potentials is a two-acre ocean-front lot on Waikiki Beach. We received an offer of several million dollars for this land recently. We felt, however, it could eventually yield a substantially higher return if held by Sheraton. We expect to hold this land for another year or two, until we are ready to build in that desirable location.

Sheraton does recognize that lower profit margins do currently prevail. Whether these margins can be restored entirely without a return to lower interest rates on borrowed money, is possibly open to debate. It might, however, be noted that, had we not invested twenty-eight millions in temporarily non-income producing holdings, and had we inaugurated our three million dollar "belt-tightening" program a year or two earlier, the Company's cash flow in relation to its rising sales and indicated net asset values, could have been for the past year the highest on record for the Company. However, despite favorable prospects in coming years, Sheraton may find it desirable—in accord with the experience of a large segment of American business—to seek expanded sales as the best solution for meeting narrowing corporate profit margins.

A "Hidden Asset"

Sheraton has an important asset previously referred to, which, though currently virtually non-income producing, is presently believed nonetheless to be worth over five million dollars. For eleven years this investment has been carried at virtually no book value, and during these years it has recorded only nominal earnings, since nearly all operating income received, close to \$850,000 a year, had to be applied during this period to rental charges and to modernization of the property. This investment represented our interest in the large Sheraton-Whitehall Building, an office building in New York often referred to as "the first building on the right as you enter New York Harbor." Situated on the southern tip of Manhattan Island, it enjoys a superb view of the water front.

Eleven years ago we sold this building for \$6,500,000 cash to a life insurance company, and leased it back for a period of sixty years, with the proviso that rental payments should be reduced after the first eleven years to coincide with the anticipated

termination of the probable useful life of that building. No book value was recorded for this leasehold since we sold the property for full market value.

In December of this year, the rental payments required of us will be reduced by approximately four hundred and seventy-five thousand dollars a year at the very time when tenants, due to major improvements we have made to the property, especially in recent months, will be paying substantially higher rentals. These tenants now include some of the nation's foremost corporations.

Probable basic earnings of seven or eight hundred thousand dollars a year after reduced rental obligations to the lessor next December indicate a present market value for this leasehold of over five million dollars.

The asset value of this leasehold, reflecting its fair market value, has been building up gradually over eleven years when rental costs and expenses of modernization were absorbing nearly all the income of the property. While neither book values nor earnings were reflecting this gradual rise in value, our indicated net asset values were reflecting more accurately the economic consequences of this sale and lease-back transaction. This is an illustration of how significant expenditures for modernization and improvements can extend the useful life of a building for many years, and thereby create values not otherwise reflected by ordinary financial statements.

Net Worth Accounting

As basic accounting procedures, particularly with reference to depreciation, are employed by Sheraton in connection with the preparation and certification of the Income Statement, we believe that the earnings disclosed therein are not a true measure of economic performance. For example, a part of Sheraton's depreciation, in accordance with applicable federal and state regulations, has been established on an accelerated basis. This accelerated depreciation, and frequently our straight line depreciation, do not necessarily relate to the economics of any given year.

Therefore to provide a system of accounting that can reflect from year to year with reasonable accuracy economic facts that are not ordinarily revealed by conventional accounting procedures, we rely on what we call a system of "Net Worth Accounting."

Under this concept, we compute each year changes in market values of our various properties and other assets, including leasehold property interests. We determine at the beginning and end of each accounting period the fair market value of each property through the application of the appropriate multiplier (price earnings ratio) to the adjusted basic earnings for the preceding year. Purchasers of income real estate usually pay little attention to basic earnings of earlier years except to establish a trend. This may appear drastic, but it conforms to practical experience. Our asset valuations of leasehold interests merely reflect the fair market value of future earnings power, duly discounted at a rate which ordinarily runs at twelve per cent or more per annum until such time as future earning power becomes fully available. This becomes significant in many sale and lease-back transactions where high lease rentals during the early years virtually eliminate all operating earnings.

After determining the change in market value during a given year, capitalized improvements made during the period are taken into consideration in the following manner. If a decline in market value has been determined for any property for a given year, this amount plus the cost of improvements becomes the measure of actual loss and is deducted as a "depreciation substitute" from operating income in place of conventional depreciation reserves. If the value of the property for some reason rose during the year, over and above the investment in improvements, this depreciation substitute is *added* instead of being subtracted in determining earnings. In the latter case, the "depreciation substitute," which for convenience we might call the "net worth factor," becomes a "negative" deduction, and hence an addition to earnings. Under this method of accounting, adjusted earnings are referred to as "net worth profit."

This procedure actually corresponds to some extent, to the practice of manufacturers when taking annual inventories — except that the concept of "the lower of cost or market" is not applicable. This is because, unlike manufacturers' inventories which are periodically revalued through the process of frequent turnover, hotels are often held for many decades without ever being sold.

Under the concept of net worth accounting, the role of depreciation reserves becomes limited to measuring the income tax liability. The depreciation substitute, or "net worth factor" replaces the more theoretical annual depreciation or deterioration with a much more scientific measure of the actual changes in market value — either up or down — of *all* the various fluctuating assets of a business. With several hundreds of millions of assets required in Sheraton's business, nearly all subject to major variations in value — an approach of this nature is clearly essential.

The importance of a "depreciation substitute" is evident when considering the value of one of the larger, and one of the oldest Sheraton hotels. This hotel next year would normally reach the end of its original fifty-year life. Annual depreciation reserves would then have served to "write off" the entire original cost of the building. The problem of normal accounting procedure is illustrated by the fact that this hotel, whose theoretical value should be approaching zero, is actually recording close to the highest earnings — both basic and reported — in its forty-nine-year history. The property at fair market value is presently worth nearly twice what it originally cost to build nearly fifty years ago. Under "net worth accounting," reported earnings, instead of being penalized each year by unrealistic depreciation reserves, would have been augmented by the appropriate depreciation substitute, or "net worth factor."

Ultimately — so that net worth accounting can be protected against possible abuse, independent net worth audits based on these principles of net worth accounting would develop. Eventually perhaps, a new professional corps of independent "certified public evaluators" will arise so that recognized evaluation certificates can be attached to evaluation statements, just as certificates of independent certified public accountants presently validate audited financial statements. In the meantime Sheraton's concept of "gain-

ings" must remain in the same category as unaudited company financial statements.

Evaluation Certificates may eventually become almost indispensable to companies such as paper, lumber, or petroleum companies which maintain in the form of growing forests or underground oil reserves extensive assets which — since their value is not periodically redetermined through market "turnover," may be changing materially in value.

Changes brought about by inflation, or recessions; changes due to good or poor maintenance; and changes brought about by new competition are all duly reflected through the medium of net worth accounting. These are among the reasons for Sheraton's interest in net worth accounting, and in the proposed depreciation substitutes or net worth factors.

The following illustration presents a comparison of application of principles of net worth accounting and ordinary accounting relating to transactions of the Company for the ten years ended April 30, 1961.

TEN-YEAR PROFIT & LOSS

To April 1961

	According to	
	Net Worth Accounting	Ordinary Accounting
Gross Income	\$1,310,000,000	\$1,310,000,000
Operating Costs and Expenses	1,081,000,000	1,081,000,000
Basic Earnings	229,000,000	229,000,000
Interest	52,000,000	52,000,000
Income Taxes	37,000,000	37,000,000
Minority Interests	5,000,000	5,000,000
Depreciation		101,000,000
Net Worth Factor (Note 1)	-8,000,000	
Net Worth Profit (Note 2)	\$143,000,000	
Income From Operations		34,000,000
Realized Capital Gains		16,000,000
Income From Operations Plus Realized Capital Gains		\$50,000,000

Note 1 — Takes into account changes in estimated asset values, realized capital transactions, and differences arising from sales and purchases of common stock at more or less than net asset value. Adjusted for minority interests. Not adjusted for income taxes on unrealized appreciation as amounts are based upon a continuing business theory and sale of properties or liquidation are not ordinarily contemplated.

Note 2 — See table on page 4.

It can be observed from the above tabulation that earnings are 93 million dollars greater as determined in accordance with the net worth accounting concept. It is apparent that this substantial difference can be related largely to the depreciation reserves provided under ordinary accounting which do not always reflect true economic performance. A net worth factor has been substituted, based on Company officers' estimates of changes in market value — realized or unrealized during the period — of real estate as well as other assets of the Company.

This net worth factor increases reported earnings (becomes a negative quantity) when net appreciation in values is indicated.

The improvement in operations reflected by net worth accounting results largely from the fact that the

market value of Sheraton properties and other assets held in 1951, together with the cost of subsequent acquisitions, additions and improvements, — instead of declining to the extent suggested by depreciation reserves of \$101,000,000 that were recorded — actually appears to have increased an indicated \$8,000,000 in value as measured by the net worth factor. Accordingly, all in all, the depreciation reserves provided during the ten-year period were substantially unnecessary, therefore becoming the equivalent of retained earnings. Such an indicated discrepancy, we believe, should be recognized from year to year if shareholders are to be properly informed on economic developments affecting the Company.

It is for this reason that under the concept of "net worth accounting" we would substitute for a \$101,000,000 theoretical, and in this instance seemingly unrealistic depreciation reserve set up for contingencies which did not materialize, a much more scientific "net worth factor." It is not hereby contended that aging, obsolescence, and shrinkages in values due to competition and other causes, are not a very real and ever present force constantly affecting adversely the value of income real estate. We believe these ever present deterrents can be partially, and in our ten-year (and prior) experience, more than offset by constructive developments such as good maintenance, effective merchandising, and especially by investing the amounts represented by our large depreciation reserves in improvements, additions, or new acquisitions. The added earnings from these improvements when capitalized, usually add enough more, over and above their cost, to the value of Sheraton properties to compensate at least in part, and frequently more than compensate for aging, obsolescence, etc.

An example is our experience with another of our larger Sheraton hotels. We purchased it fairly recently for approximately 3¾ million dollars and have since invested some six million dollars in improvements, additions, etc. This investment of six millions has added over twelve millions to the fair market value of the property as a going business, as measured by capitalizing the increased basic earnings.

There are, of course, instances, frequent in the industry, though fortunately rare for Sheraton, when inadequate maintenance, competition, or other factors caused properties to decline in value even faster than was compensated for by depreciation reserves. In such instances the net worth factor could exceed any normal permissible depreciation. Ordinary accounting often obscures such danger signals, sometimes causing costly repercussions, whereas net worth accounting highlights such developments.

We believe an important task facing the Company is to clarify to shareholders and to the financial community the basic philosophy behind Sheraton's major objective of building up net asset values. Sheraton cannot be judged by yardsticks applicable to companies whose principal product is constantly revalued through the process of periodic market turnover; nor can the Company's progress be judged by reported earnings, due to the variables involved in determining the large depreciation reserves. It is our belief that Sheraton's rate of growth can only be measured accurately by true economic changes in net asset values, or measured approximately, by its cash flow.

Assets

	April 30, 1961	April 30, 1960
CURRENT ASSETS		
Cash		
Demand Deposits	\$ 14,690,933	\$ 11,806,792
Restricted Deposits	345,045	334,543
On Hand	1,561,147	1,504,228
	16,597,125	*13,645,563
Securities — Marketable — at Cost		
U. S. Treasury Bonds	328,275	355,207
Other	64,645	67,113
(Market Values \$377,874 and \$392,645)	392,920	422,320
Accounts and Notes Receivable	17,026,292	16,793,257
Less: Estimated Uncollectible Accounts and Notes	606,522	520,766
	16,419,770	16,272,491
Accrued Interest Receivable	54,245	56,197
Mortgages Receivable — Payments Due Within One Year (below)	744,277	618,556
Inventories — at Cost	5,837,055	6,764,884
Prepaid Expenses	2,643,814	2,392,960
Total Current Assets	42,689,206	40,172,971
INVESTMENTS — AT COST (Notes 1 and 2)		
Securities — Other Than Marketable	3,973,409	4,073,409
(Officers' Estimated Values \$3,919,299 and \$3,920,327)		
Securities of Subsidiaries — Not Consolidated	619,906	315,500
(Estimated Values \$738,000 and \$673,500)		
Mortgages Receivable	7,261,666	7,709,266
(Officers' Estimated Values \$8,899,767 and \$10,105,124)		
Less: Mortgage Payments Due Within One Year (above)	(744,277)	(618,556)
Total Investments	11,110,704	11,479,619
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3)		
Land and Leaseholds	50,954,545	55,595,472
Buildings and Improvements	181,919,270	170,048,095
Leasehold Improvements	5,456,237	4,285,087
Furniture and Equipment	78,742,413	70,659,552
	317,072,465	300,588,206
Less: Depreciation to Date	99,701,085	84,552,912
Total Property, Plant and Equipment	217,371,380	216,035,294
(Officers' Estimated Values \$340,500,000 and \$331,500,000)		
OTHER ASSETS		
Options and Deposits on Contracts	5,000	5,000
Notes and Contracts Receivable — Due After One Year	304,989	174,152
Unamortized Debt Discount and Expense (Note 10)	2,944,835	3,030,085
Security and Other Deposits	763,836	665,932
Life Insurance — Cash Surrender Value	276,921	261,128
Other (Note 1)	1,274,437	1,576,806
Total Other Assets	5,570,018	5,713,103
TOTAL ASSETS	\$276,741,308	\$273,400,987

See Notes to Consolidated Financial Statements.

Liabilities, Capital Shares and Surplus

	April 30, 1961	April 30, 1960
CURRENT LIABILITIES		
Notes and Contracts Payable (Note 2).....	\$ 23,033,371	\$ 18,004,309
Less: Payments Due After One Year (below).....	<u>17,119,692</u>	<u>12,248,513</u>
	5,913,679	5,755,796
Accounts Payable.....	<u>11,483,066</u>	<u>12,082,027</u>
Accrued Liabilities		
Interest.....	1,661,554	1,638,367
Federal, Canadian and State Taxes.....	1,622,804	2,389,979
Other.....	<u>6,697,168</u>	<u>6,009,668</u>
Bonds and Mortgages Payable — Payments Due Within One Year (below)		
Capital Income Sinking Fund Debentures.....	768,700	811,485
Other Bonds and Mortgages.....	<u>7,417,916</u>	<u>8,165,422</u>
Total Current Liabilities.....	<u>35,564,887</u>	<u>36,852,744</u>
LONG-TERM INDEBTEDNESS (Notes 2, 3, 4 and 5)		
Bonds and Mortgages Payable (except Capital Debentures).....	143,956,367	147,397,740
Less: Payments Due Within One Year (above).....	<u>7,417,916</u>	<u>8,165,422</u>
	136,538,451	139,232,318
Notes and Contracts Payable — Due After One Year (above).....	17,119,692	12,248,513
Federal and State Taxes Payable.....	<u>1,140,591</u>	<u>716,367</u>
	154,798,734	152,197,198
Capital Income Sinking Fund Debentures (1989).....	24,800,200	24,935,000
Less: Payments Due Within One Year (above).....	<u>768,700</u>	<u>811,485</u>
	24,031,500	24,123,515
Total Long-Term Indebtedness.....	<u>178,830,234</u>	<u>176,320,713</u>
Total Liabilities.....	<u>214,395,121</u>	<u>213,173,457</u>
MINORITY INTERESTS.....	<u>1,640,388</u>	<u>2,012,959</u>
CAPITAL SHARES AND SURPLUS		
	SHARES	
	April 30, 1961	April 30, 1960
Capital Shares (Notes 4 and 5)		
Preferred, Par \$100		
Authorized.....	<u>100,000</u>	—
Issued and Outstanding— 4% Cumulative Convertible	<u>15,120</u>	—
		1,512,000
Common — Par \$.50		
Authorized.....	<u>10,000,000</u>	<u>6,000,000</u>
Issued and Issuable.....	5,329,780	5,208,464
Less: In Treasury.....	67,185	133,185
Outstanding.....	<u>5,262,595</u>	<u>5,075,279</u>
Total Capital Shares.....	<u>4,143,298</u>	2,537,640
Surplus (Notes 5 and 6)		
Paid In Surplus.....	38,193,244	35,220,488
Earned Surplus.....	16,602,912	18,307,638
Surplus from Consolidation (Note 1).....	<u>1,766,345</u>	<u>2,148,805</u>
Total Capital Shares and Surplus.....	<u>60,705,799</u>	<u>58,214,571</u>
TOTAL LIABILITIES, CAPITAL SHARES AND SURPLUS	<u>\$276,741,308</u>	<u>\$273,400,987</u>

	For the Year ended	
	April 30, 1961	April 30, 1960
GROSS OPERATING INCOME		
Hotels		
Rooms.....	\$ 73,298,337	\$ 73,277,540
Food and Beverages.....	76,465,179	72,314,694
Other.....	14,759,658	14,893,987
	<u>164,523,174</u>	<u>160,486,221</u>
Commercial Buildings.....	3,694,415	3,764,978
Apartment Buildings.....	1,599,883	1,621,243
Thompson Division.....	29,730,948	34,534,713
Other.....	5,250,532	3,812,587
Total	<u>204,798,952</u>	<u>204,219,742</u>
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses.....	94,446,930	89,490,130
Administrative and General.....	14,625,991	15,042,790
Advertising and Promotion.....	5,892,371	6,382,429
Heat, Electricity and Water.....	6,129,072	6,034,188
Repairs and Maintenance.....	8,495,807	9,529,962
Rent.....	3,031,623	2,626,931
Real Estate and Personal Property Taxes.....	7,121,119	6,779,379
Insurance.....	198,574	202,384
Bad Debts Expense.....	668,903	644,357
Thompson Division		
Cost of Sales.....	24,386,540	28,115,106
Other.....	2,602,946	2,726,715
Other.....	5,701,580	4,346,058
Total	<u>173,301,456</u>	<u>171,920,429</u>
OPERATING INCOME	31,497,496	32,299,313
OTHER INCOME		
Dividends and Interest.....	893,780	653,264
Other.....	8,221	9,024
Total	<u>32,399,497</u>	<u>32,961,601</u>
OTHER DEDUCTIONS FROM INCOME		
Depreciation.....	18,181,468	16,833,225
Interest and Debt Expense.....	10,170,789	9,829,272
Total	<u>28,352,257</u>	<u>26,662,497</u>
ORDINARY INCOME	4,047,240	6,299,104
INCOME TAXES		
Federal and Canadian.....	1,654,519	2,901,672
State.....	199,799	225,201
Total	<u>1,854,318</u>	<u>3,126,873</u>
NET INCOME before Profit from Capital Transactions	2,192,922	3,172,231
Profit from Capital Transactions.....	1,575,635	270,253
Less: Income Taxes Thereon.....	409,493	—
Net Profit from Capital Transactions.....	<u>1,166,142</u>	<u>270,253</u>
Income and Profits for the Year	3,359,064	3,442,484
Net Income and Profits Applicable to Minority Interests	124,914	349,103
NET INCOME AND PROFITS FOR THE YEAR	\$ 3,234,150	\$ 3,093,381

See Notes to Consolidated Financial Statements.

Paid In Surplus

CONSOLIDATED PAID IN SURPLUS APRIL 30, 1960..... \$ 35,220,488

Additions

Portion of Earned Surplus Transferred to Paid In Surplus in Connection With August 2, 1960 2% Common Stock Dividend (96,656 shares at \$17 per share) \$ 1,643,152

Excess of Amounts Received over Par Value of 23,041 shares of Common Stock Issued at \$8.333 per share upon the Exercise of Warrants and Cash Paid in lieu of Fractional Shares

Paid By	Amounts Received
6% Debenture Bonds.....	\$ 33,600
Cash.....	158,420
Total.....	<u>192,020</u>

Par Value of Shares Issued and Cash Paid in lieu of Fractional Shares..... 11,546

180,474

Excess of Par Value of 4¼% Sinking Fund Convertible Debentures Surrendered for Conversion over Par Value of 1,619 shares of Common Stock Issued therefor and Cash Paid in lieu of Fractional Shares..... 24,172

Excess of Fair Market Value, \$1,188,000, over Par Value of 66,000 shares of Common Stock Issued from Treasury in Connection with the Acquisition by Thompson Industries, Inc. of the Net Assets of Ansted Corporation..... 1,155,000

3,002,798
38,223,286

Deductions

Cost of 2,340 \$25 Warrants Expiring September 1966..... 11,396

Parent's Portion of Discount on Preferred Stock of Subsidiary Transferred to Realized Gain (Earned Surplus) of Parent upon Liquidation of the Subsidiary..... 18,646

30,042

\$ 38,193,244

CONSOLIDATED PAID IN SURPLUS APRIL 30, 1961.....

Earned Surplus

CONSOLIDATED EARNED SURPLUS APRIL 30, 1960..... \$ 18,307,638

Addition

Net Income and Profits for the Year ended April 30, 1961..... 3,234,150

21,541,788

Deductions

2% Common Stock Dividend (Note 1)

96,656 shares at \$17.50 per share..... \$ 1,691,480

Cash in lieu of Fractions..... 88,115

1,779,595

Cash Dividends

Preferred — \$2.00 per share..... 30,240

Common — .60 per share..... 3,129,041

4,938,876

\$ 16,602,912

CONSOLIDATED EARNED SURPLUS APRIL 30, 1961.....

Note 1 — The charge to Earned Surplus represents the closing sales price on July 1, 1960, date of record, on the New York Stock Exchange. The Capital Shares account was credited with \$.50 per share, the par value, and Paid In Surplus was credited with the balance of \$17 per share.

See Notes to Consolidated Financial Statements.

22 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1—Basis of Consolidation

The consolidated financial statements include figures of the Corporation and its 50% or more owned subsidiaries, except Sheraton Mediterranean Ltd. which, since February 1961, has operated the Sheraton-Tel Aviv Hotel in Israel and except two domestic subsidiaries excluded in prior years which act as transfer agent and purchasing agent of the Corporation and most of the subsidiaries.

The equity of the subsidiaries excluded from the financial statements, based on audited financial statements, was \$118,000 more than the cost of these investments. The equity in the net income of these companies for the year ended April 30, 1961 was \$29,345. Dividends received from these subsidiaries during the year totalled \$295,100.

The securities of certain of the consolidated subsidiaries of Sheraton Corporation of America were acquired at costs which were less than the book values of the equities thus acquired. That difference is shown in the balance sheet as Surplus from Consolidation. The securities of certain of the consolidated subsidiaries were acquired at more than the book values of the equities thus acquired. That difference has been treated in these statements as follows:

As additional cost of fixed assets owned, allocated on a pro rata basis, \$1,596,382 to land and leaseholds and \$3,292,486 to buildings.

As goodwill from consolidation, the unamortized portion of which, \$314,566, is included in Other Assets.

The remaining difference between the investments in subsidiaries consolidated, as shown by the parent's books, and the parent's equity in the net assets of such subsidiaries is included in Earned Surplus, representing accumulated undistributed earnings since acquisition.

The properties of Canadian subsidiaries are included at Canadian dollar cost after adjustment to United States dollar equivalents reflecting exchange rates in effect at dates of acquisition and after adjustment to increase first mortgage bonds to par. The amounts of the first mortgage bonds of the Canadian subsidiaries due after April 30, 1962 are reflected at their United States dollar equivalents, using the exchange rate in effect at the date the indebtedness was incurred but not less than par. The current assets and liabilities are reflected at the April 30, 1961 exchange rate.

2—Investments

Investments are pledged to secure notes, contracts, mortgages and bonds payable as follows:

Securities — Other than Marketable — Book Value	\$ 1,336,269
(Estimated Value \$1,342,500)	
Securities of Subsidiaries — Eliminated in Consolidation — Book Value	10,766,056
Mortgage of Subsidiary — Eliminated in Consolidation — Book Value	308,077
Mortgages Receivable — Book Value	5,266,743
(Estimated Value \$6,476,698)	

3—Property, Plant and Equipment

Substantially all of the real estate and furniture and equipment are pledged to secure mortgages and other long-term debt.

Officers' estimated values are based primarily upon earnings before deducting interest, depreciation and income taxes, and after adjustment for unusual repairs. These earnings are capitalized at varying rates (generally 10% to 12½%), depending upon the type, age and location of the property, competition, debt financing and other factors.

4—Long-Term Indebtedness

Bonds and Mortgages Payable include obligations of the Corporation as follows:

6% Debentures, due April 1, 1979	\$ 2,028,600
4¾% Convertible Debentures, due March 1, 1967	1,037,000
5% Debentures, due March 1, 1967	6,704,500
6½% Income Subordinated Debentures, due January 1, 1981	13,348,100

The Trust Indentures and supplements thereto require annual sinking fund payments as follows:

6% Debentures, due April 1, 1979	\$130,952 on April 1 of each year in cash or in Debentures at their face value. The redemption price for sinking fund reduces from 101½ through September 30, 1959 to par at September 30, 1969. The payment required April 1, 1961 was paid in full. Debentures in the Treasury at April 30, 1961 aggregated \$1,400.
4¾% and 5% Debentures, due March 1, 1967	The requirement for these two issues of Debentures is the same in total as originally in effect for the 4¾% Debentures. The

amount to be redeemed annually is allocated to the two issues on the basis of the respective principal amounts outstanding at the close of business on January 15 of each year.

On March 1 of each year, not more than \$557,000 and not less than \$250,000 principal amount of Debentures. The redemption price for sinking fund reduces from 101 through March 1, 1960 to par at March 1, 1963. Debentures in the Treasury at April 30, 1961 aggregated \$18,500.

6½% Debentures, due January 1, 1981

3% of the principal amount of the Debentures outstanding on the previous January 1. The redemption price for sinking fund reduces ¼ of 1% annually from 101 through January 1, 1973 to par at January 1, 1981. The payment required December 31, 1960 was paid in full. Debentures in the Treasury at April 30, 1961 aggregated \$50,800.

7½% Debentures, due January 1, 1989

1961 through 1964, 3% of the principal amount of Debentures issued prior to the preceding November 1 plus the excess of the calculated purchase fund payment over the amount paid to purchase tendered Debentures or \$100,000, whichever is less.

1965 through 1979, \$750,000.

1980 through 1988, 10% of the principal amount of Debentures outstanding at October 31, 1979.

The redemption price for sinking fund reduces ¼ of 1% annually from 102½ at January 1, 1965 to par at January 1, 1985

Debentures aggregating \$92,000 were tendered and retired, at the option of the bondholders, on January 1, 1961. Debentures in the Treasury at April 30, 1961 aggregated \$81,300.

The 4¾% Debentures are convertible until redemption or maturity dates as follows:

First Conversion Option — each \$1,000 principal amount is convertible as to \$500 into 32.4 shares of Common Stock and as to the other \$500 into a Debenture for that amount.

Second Conversion Option — each \$500 principal amount of Debentures received under the first conversion option is convertible into 16.2 shares of Common Stock.

The number of shares into which the Debentures are convertible is to be adjusted in certain events, including split-ups, re-classifications and certain stock dividends.

Federal and State Taxes include taxes applicable to gains on sales of real estate. These gains will be reported for taxation on the installment basis as principal payments are received on second mortgages held on the properties sold.

5—Capital Shares

The Corporation's charter was amended during the fiscal year ended April 30, 1961 to authorize the issuance of 100,000 shares of Preferred Stock, \$100 par value. This stock is issuable in series and at terms, at time of issue, within the discretion of the Board of Directors. An initial series of 15,120 shares of 4% Cumulative Convertible Preferred Stock was issued in September 1960. These shares are presently convertible into Common at the rate of 2½ shares of Common for each share of Preferred.

The charter was further amended to increase the number of authorized Common shares, par \$.50, from 6,000,000 to 10,000,000 shares.

The 4% Cumulative Convertible Preferred Stock is redeemable on or after January 1, 1966 in whole or in part at par plus accumulated dividends to date of redemption.

So long as any shares of the 4% Cumulative Convertible Preferred Stock are outstanding, the Corporation, on and after September 1, 1966, shall not declare and pay any dividends on its Common Stock, except dividends payable in Common Stock, or purchase or redeem any shares of Common Stock, unless it shall have paid or set aside for payment with respect to each prior fiscal year, beginning with the Corporation's fiscal year ending April 30, 1966, as a Sinking Fund for the purchase or redemption of the Preferred shares, the lesser of (1) the total number of shares outstanding multiplied by \$8.50, or (2) an amount equal to the net profits of the Corporation for such fiscal year less cumulative dividends payable upon such stock for that year.

Of the total Common shares shown as issued and issuable, 8,789 shares are issuable upon surrender of old shares of United States Realty and Improvement Company and shares of Sheraton Corporation and its predecessor corporations.

Of the total Common shares shown as authorized, shares are reserved as follows:

- 37,800 for the conversion of the issued 4% Cumulative Convertible Preferred Stock.
 - 200,548 shares for the exercise of warrants sold with the 6% sinking fund Debentures. Each warrant entitles the holder to buy, through October 1, 1964, 1.2 shares of the Corporation's Common Stock (\$.50 Par) for \$10, payable in cash or an equivalent face amount of Debentures of the 6% series, without adjustment for dividends or accrued interest.
 - 47,935 shares for the conversion of 4¾% sinking fund Debentures, of which 47,595 shares are applicable to Debentures outstanding, and 340 shares are applicable to Debentures held in the Treasury.
 - 357,109 shares for the exercise of the warrants issued with the 5% sinking fund Debentures. Each warrant entitles the holder to buy, through September 1, 1966, 1.2 shares of the Corporation's Common Stock (\$.50 Par) for \$25, payable in cash or an equivalent face amount of 5% Debentures, without adjustment for dividends or accrued interest.
- No fractional shares will be issued as a result of the exercise of warrants or conversion provisions described above, but cash adjustments will be made in lieu thereof.

6 — Earned Surplus

The portion of consolidated earned surplus applicable to Canadian subsidiaries is \$7,026,496, which is subject to a 15% withholding tax on dividends.

In connection with an issue of Debentures in October 1956, payment of dividends by a Canadian subsidiary is restricted to earnings accumulated subsequent to August 31, 1955. The foregoing amount includes approximately \$2,495,000 of earnings accumulated to August 31, 1955, which are subject to this restriction.

Dividends or other payments of any kind with respect to subordinated debt, capital stock or warrants, other than stock dividends, may be made only out of consolidated net income of Sheraton Corporation of America and Subsidiaries since April 30, 1953, and only if full sinking fund payments have been made to the date of such payments. Accumulated net income available for dividends or such other payments as at April 30, 1961 amounted to \$18,740,518.

7 — Long-Term Leases

As at April 30, 1961, Sheraton Corporation of America was obligated as guarantor of a subsidiary office building lease expiring in 2010. As a result of improvements paid for and to be paid for by the lessor, a new estimated rental up to a maximum annual rent of \$900,000 will be effective for the period May 1, 1961 to November 30, 1961. Thereafter, when the improvements are completed and paid for, the annual rent will be approximately \$420,000 until December 1981, at which date the rent will be \$195,000. The revised rental will be guaranteed in full until a rate of tenant occupancy of 92% has been achieved, after which the guarantee is limited to payment of no more than \$1,000,000, reducing \$100,000 a year to a minimum of \$100,000.

Performance by subsidiaries of the terms of the leases of two hotels (including rent of approximately \$1,210,000 per year) is guaranteed by the Corporation for the first ten years of the leases. One of the leases is guaranteed for an additional period of fifteen years (annual rent approximately \$306,000).

Agreements have been made for the lease of hotels by subsidiaries of the Corporation, effective when construction is completed. The performance by subsidiaries of the terms of the leases is guaranteed in part by the Corporation.

8 — Commitments and Contingent Liabilities

The Corporation is liable as guarantor of certain notes and mortgages payable of subsidiaries. All of these obligations are included as liabilities in the consolidated balance sheet.

The Corporation is contingently liable as guarantor of a First Mortgage payable by a non-affiliated company secured by real estate formerly owned by a subsidiary. The real estate was sold in December 1955 for \$3,600,000. The terms of the mortgage require equal quarterly payments of \$26,562, applicable first to interest at 5% per annum and the balance to principal. As at April 30, 1961, the unpaid principal balance was \$960,623. The guarantee of the Corporation remains in effect until the principal balance is reduced to \$750,000.

On June 14, 1955, the Corporation executed an Agreement and Declaration of Trust, creating the Sheraton Employees Savings Plan. Upon voluntary or involuntary withdrawal, an employee is entitled to receive, as a minimum, his contribution plus interest at 3% per annum. The Corporation is obligated to pay any deficiency which may exist in the Trust in computing this amount.

Contracts have been entered into with respect to major construction projects for construction in progress amounting to approximately \$8,300,000, in addition to liabilities already recorded on such contracts.

9 — Pensions and Savings

The parent company has established a voluntary non-contributory Pension Plan and Trust covering all parent company employees and employees of certain subsidiaries in the United States who have completed two years of continuous service, have attained age 30 and have not reached age 65.

The required contributions to the Pension Trust applicable to the year ended April 30, 1961 were \$202,199, representing the annual cost of the Pension Plan for that period (inclusive of cost to two subsidiaries) as estimated by the actuaries. The foregoing amount represents the annual level cost of the Plan, based upon the funding of past and future service together, exclusive of expenses of administering the Plan.

Effective May 1, 1958, a subsidiary established a trustee non-contributory Pension Plan covering all its eligible employees. The estimated annual cost of the Plan is approximately \$246,037, of which \$13,492 was applicable to past service benefits based on amortizing the cost over a thirty-year period. The unfunded cost of past service benefits was approximately \$1,703,838 at April 30, 1961.

The Corporation and substantially all of its United States subsidiaries inaugurated an Employees Savings Plan, the details of which are set forth in an Agreement and Declaration of Trust dated June 14, 1955. The Plan provides that the employing companies will match, to not more than 25%, contributions made by employees to not more than 6% of their pay. The total expense to the companies for the year was \$63,129.

10 — Amortization of Debt Discount and Expense

The debt discount and expense, incurred in connection with the 6%, 4¾% and 5% Debentures, is being amortized over the lives of the respective issues, giving effect to reductions in outstanding Debentures. Similar expense, applicable to the 6½% and 7½% Debentures and other debt, is being amortized uniformly on a straight line basis over the various periods of time from the respective inception of the debts to their respective maturities.

**REPORT OF INDEPENDENT
PUBLIC ACCOUNTANTS**

*To the Stockholders,
Sheraton Corporation of America,
Boston, Massachusetts*

We have examined the accompanying consolidated balance sheet of Sheraton Corporation of America and its subsidiaries as at April 30, 1961 and the related consolidated surplus and income statements for the year then ended.

These consolidated statements have been prepared from financial statements of Sheraton Corporation of America and Subsidiaries which have been audited by us or by other independent accountants who have submitted to us their certificates concerning the underlying statements which were examined by them.

The results of the operations of the companies purchased, sold or liquidated are included in the surplus and income statements for the periods during which they were majority owned.

Our examinations of the statements of Sheraton Corporation of America and of those subsidiaries which were examined by us were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had made similar examinations for the year ended April 30, 1960.

On the basis of the foregoing explanations, in our opinion, the accompanying consolidated balance sheet, the related consolidated statements of surplus and income, and the explanatory notations fairly present the financial condition of Sheraton Corporation of America and Subsidiaries as at April 30, 1961 and the results of their transactions for the years ended April 30, 1961 and 1960, in conformity with generally accepted principles of accounting applied on a basis consistent with that of the preceding year.

HARRIS, KERR, FORSTER & COMPANY

Boston, Massachusetts, July 28, 1961

SHERATON CORPORATION OF AMERICA

DIRECTORS

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*Chairman of the Board
Raytheon Company*

ROBERT M. BRUSH

*Senior Vice President
Sheraton Corporation
of America*

LELAND J. KALBACH

*President
Massachusetts Mutual
Life Insurance Company*

SHIRLEY D. MURPHY

*President
Thompson Industries, Inc.*

THOMAS B. ADAMS

*Vice President
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*Chairman of the Board
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*Partner
S. D. Lunt & Co.**

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*President
America Management
Association*

MERRILL GRISWOLD

*Honorary Chairman
of Advisory Board
Massachusetts
Investors Trust*

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*Partner, Paine, Webber,
Jackson & Curtis**

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Thompson Industries, Inc.*

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*Chairman of the Board
National Gypsum
Company*

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*President
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*President
Charles W. Broeman Co.
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*Chairman of the Board
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The Gillette Company*

PAGE BROWNE

*Executive Consultant
Sheraton Corporation
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Boston, Massachusetts

ROBERT L. MOORE, JR.

*Portland Parish
Jamaica B. W. I.*

GEORGE C. TEXTOR

*President
The Marine Midland
Trust Co.*

*Member, New York Stock Exchange

Divisional Managers

NORTHEAST

Divisional Manager — Foster H. Gurney, 470 Atlantic Avenue, Boston, Massachusetts

SOUTHEAST

Divisional Manager — George D. Johnson, General Manager, Sheraton-Park

MIDCENTRAL

Divisional Manager — Joseph M. Curry, General Manager, Penn-Sheraton

CENTRAL

Divisional Manager — Joseph Bremner, 505 North Michigan Avenue, Chicago 11, Illinois

WEST

Divisional Manager — Harley J. Watson, General Manager, Sheraton-Palace

HAWAII

Divisional Manager — Richard Holtzman, General Manager, Sheraton Hotels in Hawaii

CANADA

Divisional Manager — Garner A. Havers, General Manager, Sheraton - Mt. Royal

INTERNATIONAL

Divisional Manager — Harley J. Watson, General Manager, Sheraton-Palace

Executive Offices/Sheraton Building, 470 Atlantic Avenue, Boston 10, Mass.

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CHAIRMAN OF THE BOARD

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*Operations and
Marketing*

Robert B. Kelsey
Comptroller

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Allied Activities

Theodore L. Cross
*Secretary and
General Counsel*

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Project Control

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*Architecture, Decorating,
and Design*

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*Personnel and
Labor Relations*

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Canadian General Counsel

Fred B. Mills
*Engineering and
Construction*

William Morton
Advertising

Kenneth B. Newton
Real Estate and Leases

Edwin B. Roberts
Administrative Services

Horace M. Smith
*Sales and
Promotion*

Marshall C. Warfel
*Food and Beverage
Operations*

TREASURER

Ernest Henderson III

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Rooms and Reservations

Nicholas Stehnick
*Commercial Buildings
Operations*

Joseph P. Zaffy
*Personnel and
Labor Relations*

Assistant Comptroller

Carl R. Dillon

Assistant Secretary

Myron F. Welsch

Transfer Agents

General Fiduciary Corporation*
470 Atlantic Avenue, Boston 10, Mass.

Marine Midland Trust Company
120 Broadway, New York 15, New York

National Trust Company, Ltd.
225 St. James St., West Montreal, Quebec,
and 20 King Street, East, Toronto, Ontario

*Also Transfer Agent for Preferred Stock

Assistant Treasurers

J. Brooks Fenno
Miss Clara I. Macdonald

Assistant Secretary

N. Ronald Silberstein
Assistant General Counsel

Registrars

The National Shawmut Bank of Boston
40 Water Street, Boston 9, Mass.

Empire Trust Company
20 Broad Street, New York 5, New York

Montreal Trust Company
511 Place d'Armes, Montreal, Quebec, and
15 King Street, Toronto, Ontario

Sheraton Hotels
Coast-to-coast in the U. S. A.,
in Hawaii, and in Canada,
the Caribbean, and Overseas



U. S. A.

East

ALBANY • Sheraton-Ten Eyck
 BALTIMORE • Sheraton-Belvedere • Sheraton-Baltimore Inn
 BINGHAMTON, N.Y. • Sheraton Inn
 BOSTON • Sheraton-Plaza
 BUFFALO • Sheraton Hotel
 NEW YORK • Park-Sheraton • Sheraton-East • Sheraton-Atlantic • Sheraton-Russell
 PHILADELPHIA • Sheraton Hotel
 PITTSBURGH • Penn-Sheraton
 PROVIDENCE • Sheraton-Biltmore
 ROCHESTER • Sheraton Hotel
 SPRINGFIELD, MASS. • Sheraton-Kimball • Sheraton Motor Inn
 SYRACUSE • Sheraton-Syracuse Inn
 WASHINGTON • Sheraton-Carlton • Sheraton-Park
 WORCESTER, MASS. • Sheraton-Worcester

Midwest

AKRON • Sheraton Hotel
 CEDAR RAPIDS, IOWA • Sheraton-Montrose
 CHICAGO • Sheraton-Blackstone • Sheraton-Chicago
 CINCINNATI • Sheraton-Gibson
 CLEVELAND • Sheraton-Cleveland
 DETROIT • Sheraton-Cadillac
 FRENCH LICK, IND. • French Lick-Sheraton
 INDIANAPOLIS • Sheraton-Lincoln
 OMAHA • Sheraton-Fontenelle • The Logan
 RAPID CITY, S.D. • Sheraton-Johnson
 SIOUX CITY, IOWA • Sheraton-Martin • Sheraton-Warrior
 SIOUX FALLS, S.D. • Sheraton-Carpenter • Sheraton-Cataract
 ST. LOUIS • Sheraton-Jefferson

South

DALLAS • Sheraton-Dallas
 HOUSTON • Sheraton-Lincoln *opens March 1962*
 LOUISVILLE • Sheraton Hotel • The Watterson
 MOBILE, ALABAMA • Sheraton-Battle House
 NEW ORLEANS • Sheraton-Charles • Claiborne Towers
 OKLAHOMA • Sheraton-Oklahoma

West

LOS ANGELES • Sheraton-West
 PASADENA • Huntington-Sheraton
 PORTLAND, OREGON • Sheraton-Portland
 SAN FRANCISCO • Sheraton-Palace

Hawaii

HONOLULU • Royal Hawaiian • Royal Manor • Princess Kaiulani • Moana • Surfrider
 KAA NAPALI BEACH • Sheraton-Maui *opens July 1962*

CANADA

HAMILTON, ONT. • Sheraton-Connaught
 MONTREAL • Sheraton-Mt. Royal • The Laurentien
 NIAGARA FALLS, ONT. • Sheraton-Brock • Foxhead Motor Inn
 TORONTO • King Edward Sheraton

CARIBBEAN

JAMAICA • Sheraton-Kingston *opens June 1962*
 PUERTO RICO • Sheraton-San Juan *opens late 1962*

OVERSEAS

Israel

TEL AVIV • Sheraton-Tel Aviv

