

Sign in the notes and return to me



SHERATON CORPORATION OF AMERICA

Annual Report 1965
for the year ended April 30





EXECUTIVE OFFICES

Sheraton Corporation of America
Sheraton Building, 470 Atlantic Avenue, Boston, Mass. 02210

TRANSFER AGENTS

General Fiduciary Corporation
470 Atlantic Avenue, Boston, Mass. 02210

Also Transfer Agent for Preferred Stock

The Marine Midland Trust Co. of New York
120 Broadway, New York, New York 10015

REGISTRARS

The National Shawmut Bank of Boston
40 Water Street, Boston, Mass. 02109

Empire Trust Company
20 Broad Street, New York, New York 10005

ANNUAL MEETING

This year's Annual Meeting will be held at 12 noon, Monday, September 20, in the Independence Ballroom of the Sheraton-Boston Hotel. Shareholders are cordially invited to attend the meeting, and to tour this interesting new hotel.

Contents

Financial Highlights	1
Letter to Stockholders and Other Information	2
Comparative Consolidated Financial Statements	11
Sheraton Corporation of America Directors and Officers	17

ON THE COVER:

THE SHERATON-COLUMBUS, a new 400-room motor hotel in downtown Columbus, Ohio, is being operated on a long-term lease by Sheraton.

THE SHERATON-INDIES in the Florida Keys, a new 100-room resort, became the fourth franchise property in Florida for Sheraton Inns, Inc.

Financial Highlights

Years ended April 30

	1965	1964	1965	1964
	TOTALS		PER COMMON SHARE	
VOLUME OF BUSINESS				
Gross Income	\$248,372,463	\$232,924,584	\$44.63	\$42.34
EARNINGS				
Net Operating Income (Loss)	\$ 151,861	(\$ 1,354,561)	\$.02	(\$.26)
Net Profit on Capital Transactions	\$ 237,919	\$ 5,270,603	\$.04	\$.96
Total Net Income (Loss) and Profits	\$ 389,780	\$ 3,916,042	\$.06	\$.70
DEPRECIATION & CASH FLOW				
Depreciation	\$ 19,446,094	\$ 18,845,232	\$ 3.49	\$ 3.43
Cash Flow (1)	\$ 19,597,955	\$ 17,490,671	\$ 3.51	\$ 3.17
DIVIDENDS				
Cash Dividends				
Preferred	\$ 60,480	\$ 60,480		
Common	\$ 2,329,316	\$ 2,190,213	\$.42	\$.40
Stock Dividends				
Common	—	2%		
OTHER FINANCIAL INFORMATION				
Total Assets at Estimated Value (2)	\$343,031,000	\$328,934,000	\$61.63	\$59.79
Estimated Net Asset Value (3)	—	—	\$21.63	\$21.06
Net Worth Profit (Loss) (4)	—	—	\$.99	\$.72
Adjusted Earnings (5)	—	—	\$ 1.11	\$.88
Shares Outstanding at Year Ends				
Preferred	15,120	15,120		
Common	5,565,491	5,501,206		
OTHER STATISTICS				
Number of Hotels (6)	100	85		
Number of Rentable Guest Rooms (6)	36,807	33,293		
Percentage of Room Occupancy (Non-Resort Hotels) (7)	73.6%	72.1%		
Number of Employees (7)	25,400	25,400		
Number of Stockholders				
Preferred	12	12		
Common	19,250	19,500		

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 indicated 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.) *Although estimated asset values represent the best judgment of the Officers, these values nonetheless are only theoretical. The estimated asset values should not be given undue weight since their determination cannot be an exact science and may be subject to wide fluctuations due to various market conditions and other factors.*

(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.

(5) **Adjusted Earnings:** Represents net operating income adjusted by adding back the amount of depreciation deductions in excess of 6% of gross hotel sales. For information regarding Adjusted Earnings see Letter to Stockholders.

(6) Includes thirty-six hotel properties in 1965 and twenty-four properties in 1964 under Sheraton franchise or operated under management agreements.

(7) Includes six hotel properties operated under management agreements.

Per share figures 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 4% Debentures in computing the per share amounts for estimated net asset values and net worth profit. The amounts shown for the year ended April 30, 1964 have been adjusted to give effect to changes in income resulting from Federal Income Tax examinations for years prior thereto.



ERNEST HENDERSON
Chairman of the Board



ERNEST HENDERSON III
President

Letter to Stockholders

One of the most important accomplishments of Sheraton this past fiscal year was the improvement in operating earnings as reported in the Financial Highlights. We are also cautiously optimistic about the future.

Sheraton Corporation of America is basically an owner and operator of hotels and motor inns with about 15% of its gross income derived from diversification through ownership of a subsidiary which manufactures automotive products. Sheraton is the leader in the hotel industry not only in gross sales but also as an innovator of ideas as well as in the training of people.

This past year, your management devoted most of its energies to the operation of existing properties and obtaining the greatest value from those assets. Most of the improvement in earnings occurred in the second half of the fiscal year and reflected the result of an effective cost analysis and cost reduction program. Certain marginal restaurants were closed down in those hotels where the patrons could be served in other restaurants. Work schedules were altered and other new techniques were devised to reduce costs.

The New York World's Fair was beneficial in the first half year, but earnings from this source were largely offset by the cost of accelerating our continuing hotel renovation program.

This rehabilitation, now half completed, will cost about \$20,000,000. A major portion of this program consists of the installation of new wall tile and fixtures in over 4,400 bathrooms, the conversion of 55 elevators to automatic operation, plus the

continued upgrading of guest rooms. This program should pay for itself not only in greater guest satisfaction but also in increased sales and substantial payroll savings.

Particularly gratifying is the more effective development of our sales organization, both in the United States and in Canada. Overseas, the sales and reservation organization now includes Company offices in London, Paris, Brussels, Frankfurt, Sao Paulo, Manila and Tokyo. We are proud to announce that Sheraton, the first in the industry to inter-connect hotels by means of "Teletype" and the first company to install a computer to record inter-hotel reservations, has more recently designed and expects to install this winter a far more sophisticated second-generation reservations computer.

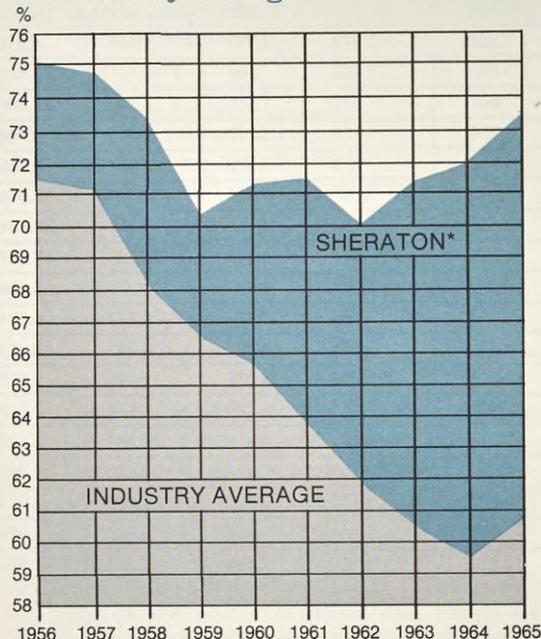
Training of personnel at all levels is of particular importance to your management. During the past year separate seminars were scheduled on sales, food and beverage operations and public relations. The usual number of college students who are brought in as "trainees" was doubled and three of these young men have earned Masters' Degrees in Business Administration.

One measure of Sheraton's effectiveness in cost control is a comparison of its cost with those of the industry. Last year, Sheraton's payroll and related expenses expressed as a percentage of sales decreased by 0.5% from the previous year, thereby reaching a level 1.8 percentage points below that of the average for 700 hotels compiled by Harris, Kerr, Forster, & Co. This 1.8% differential on Sheraton's hotel sales volume represents a saving of \$3,500,000.

We are pleased to note that for the last eight years Sheraton has continued to show a satisfactory rate of occupancy despite a sharp drop in occupancy recorded by the hotel and motel industry. The past year's occupancy of 73.6% was not only the highest for Sheraton during the past eight years but has now reached a level 12.8 percentage points above the industry average. This represents the greatest spread registered to date and we believe is largely the result of constantly trying to give greater value to the customer.

Our 100th Sheraton hotel officially opened on April 19, 1965. This is the new, glamorous 1,012-room Sheraton-Boston Hotel, which is part of the great Prudential

Sheraton occupancy rate compared to industry average



*Excludes resort hotels

Center in our headquarters city. The public acceptance was even more enthusiastic than at any of our previous hotel openings.

During the past fiscal year, Sheraton leased the Dayton-Biltmore in Dayton, Ohio. The Company also purchased the lease on the previously managed Sheraton Motor Inn in New York City and reacquired the Ford Hotel in Toronto. During this same period, we also terminated a lease on a small hotel in Cedar Rapids.

In the current 1965-66 fiscal year Sheraton has purchased the previously leased Sheraton-Maui on the island of Maui in our 50th state and has entered into a lease of the Sheraton-Columbus Hotel in the capital of Ohio. Sheraton has also recently taken over the Sheraton-Schroeder Hotel in Milwaukee under a management contract. The 1,000-room Claiborne Towers Apartment in New Orleans, which we have owned for 12 years, is being converted into a commercial hotel and is now known as the Sheraton-Delta. The Sheraton-Wilshire in Los Angeles, to be completed this winter, will be operated under a management contract. A new 450-room Sheraton-Foxhead is planned to overlook Niagara Falls from

the Canadian side on the site of the former 67-room Sheraton-Foxhead Hotel.

Ground will be broken this fall for the 500-room Sheraton-Universal Hotel being constructed by MCA Inc. It will overlook the Universal City motion picture and television studios in Los Angeles.

Overseas, we expect to open the winter season with a new hotel in Kuwait. Next summer will see the opening of our new hotel in Manila, and later it is expected there will be two new Sheraton hotels in Cairo. Sheraton's financial investment in these new properties will not be substantial.

Since the start of the new fiscal year, we have sold and leased back the Sheraton-Charles in New Orleans; and have sold the Sheraton-Johnson to a local hotel operator in Rapid City, South Dakota. The latter property will continue as a Sheraton hotel under a franchise contract. These two transactions will result in a net capital gain profit of about \$560,000, equal to \$.10 per share on Sheraton stock. This will be included in the first quarter earnings of 1965-66. In conformity with its present policy, Sheraton has already disposed of most of those of its hotels which do not appear to have a particularly attractive future.

Taking a look into the future, we note that the U. S. Department of Commerce expects travelers this year to spend \$4.4 billion in American hotels and motels. Each group has approximately a million rooms . . . however, hotels will represent about 60% of the anticipated combined gross sales. Sheraton has an opportunity to grow by serving the expanding needs of the traveling public.

This opportunity for growth is also coupled with a still further indication that the overbuilding that has faced the hotel-motel industry for some ten years is now slowing down. This means that, as the industry stabilizes and as Sheraton creates better facilities, it should be able to face competition more effectively.

Sheraton's opportunities in the future, even in the event that competition should increase, will be interesting. We expect many other hotels will be in need of more aggressive management; and owners may, in many instances, be willing to retain Sheraton to assume the management of their properties. Most of our recent acquisi-

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 (Loss) (d)	Net Profits on Capital Transactions (d)	Total Reported Net Income and Net Profits (d)	Net Worth Profit (Loss) (a) (e) (f)	"Adjusted Earnings" (a) (d) (g)
1965	\$343,031	\$274,885	\$248,372	\$19,446	\$19,598	\$31,423	\$ 152	\$ 238	\$ 390	\$ 4,340	\$6,227
1964	328,934	264,396	232,925	18,845	17,490	29,956	(1,355)	5,271	3,916	3,847	4,918
1963	346,554	281,961	227,885	18,129	17,078	30,811	(1,051)	1,295	244	(48,191)	4,376
1962	393,984	280,580	215,199	18,887	19,691	32,601	804	317	1,121	(8,222)	7,696
1961	400,445	276,741	205,701	17,828	20,092	32,512	2,264	1,166	3,430	8,469	8,744
1960	390,620	273,401	204,882	16,511	19,623	33,260	3,112	270	3,382	18,854	8,665
1959	346,910	245,503	171,474	13,735	17,430	29,267	3,695	2,001	5,696	19,651	8,354
1958	304,007	217,325	159,014	13,693	17,547	29,405	3,854	1,101	4,955	7,257	8,791
1957	304,645	219,866	153,792	11,690	15,979	28,150	4,289	654	4,943	18,263	7,877
1956	243,697	172,468	121,672	8,098	12,534	21,748	4,436	2,215	6,651	18,239	6,104
1955	193,033	134,543	89,376	5,390	9,504	16,622	4,114	4,760	8,874	23,111	4,634
1954	132,520	89,568	72,771	4,507	7,924	14,302	3,417	1,878	5,295	11,261	3,417
1953	129,475	91,313	68,142	3,857	6,772	12,625	2,915	1,007	3,922	11,295	2,915
1952	113,524	82,459	62,773	3,490	6,062	11,096	2,572	1,196	3,768	7,174	2,572
1951	101,861	74,982	56,071	3,253	6,375	10,629	3,122	1,191	4,313	16,701	3,122
1950	87,874	73,029	39,739	2,626	4,619	7,949	1,993	1,436	3,429	13,440	1,993
1949	60,279	54,541	31,605	1,795	4,069	5,896	2,274	1,470	3,744	2,723	2,274
1948	55,710	47,643	28,663	1,569	3,495	5,481	1,926	68	1,994	2,378	1,926
1947	49,860	42,332	21,511	1,128	2,598	4,005	1,470	1,161	2,631	7,924	1,470

"Economic performance" per common share*

Years Ended April 30	Estimated Net Asset Values (a) (h)	Cash Flow (b)	Quoted Market Price	Depreciation	Cash Dividends Paid During Year	Increase or (Decrease) in Estimated Net Asset Value During Year	"Economic Performance" i.e., Asset Value Increase Plus Dividends Paid (Includes Estimated Appreciation)	"Adjusted Earnings" (a) (e) (g)	Price-Cash Flow Ratio (Shows Ratio of Market Price of Shares to Cash Flow)	Reported Net Operating Income (Loss) (e)	Net Profits on Capital Transactions (d)	Total Reported Net Income and Net Profits (e)
1965	\$21.63	\$3.51	\$ 9.63	\$3.49	\$.42	\$.57	\$.99	\$1.11	2.7	\$.02	\$.04	\$.06
1964	21.06	3.17	9.50	3.43	.40	.32	.72	.88	3.0	(.26)	.96	.70
1963	20.74	3.09	8.58	3.29	.54	(8.29)	(7.75)	.78	2.8	(.20)	.23	.03
1962	29.03	3.55	14.18	3.42	.57	(1.78)	(1.21)	1.38	4.0	.13	.06	.19
1961	30.81	3.59	16.73	3.19	.56	.94	1.50	1.56	4.7	.40	.21	.61
1960	29.87	3.57	17.09	3.00	.55	2.68	3.23	1.58	4.8	.57	.05	.62
1959	27.19	3.37	16.76	2.66	.54	2.91	3.45	1.62	5.0	.71	.39	1.10
1958	24.28	3.38	10.10	2.64	.53	.84	1.37	1.69	3.0	.74	.21	.95
1957	23.44	3.07	10.99	2.25	.45	2.86	3.31	1.52	3.6	.82	.13	.95
1956	20.58	2.40	9.78	1.55	.38	2.99	3.37	1.17	4.1	.85	.43	1.28
1955	17.59	1.82	10.99	1.03	.26	2.64	2.90	.89	6.0	.79	.91	1.70
1954	14.95	1.50	5.08	.85	.20	1.94	2.14	.65	3.4	.65	.35	1.00
1953	13.01	1.25	4.14	.71	.17	1.93	2.10	.54	3.3	.54	.19	.73
1952	11.08	1.10	3.46	.64	.17	1.14	1.31	.46	3.1	.46	.22	.68
1951	9.94	1.17	2.86	.60	.17	2.93	3.10	.57	2.4	.57	.22	.79
1950	7.01	.83	2.23	.48	.11	2.37	2.48	.35	2.7	.35	.27	.62
1949	4.64	.72	1.54	.33	.11	.38	.49	.39	2.1	.39	.27	.66
1948	4.26	.61	1.68	.28	.11	.32	.43	.33	2.8	.33	.01	.34
1947	3.94	.45	1.99	.20	.10	1.34	1.44	.25	4.4	.25	.21	.46

The amounts shown above have been adjusted to give effect to changes in income resulting from Federal Income Tax examinations for prior years.

*Adjusted for stock dividends and stock split-ups, and Estimated Net Asset Values at April 30, 1955 to 1965 allow for exercise of Warrants and conversion of 4 3/4% Debentures.

(a) Estimated by Company Officers. Although estimated asset values represent the best judgment of the Officers, these values nonetheless are only theoretical. The estimated asset values should not be given undue weight since their determination cannot be an exact science and may be subject to wide fluctuations due to various market conditions and other factors.

(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.

(g) Represents net operating income adjusted by adding back the amount of depreciation deductions in excess of 6% of gross hotel sales. For information regarding Adjusted Earnings see Letter to Stockholders.

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

Source and application of funds

In thousands of dollars

Source of Funds		Application of Funds
From Operations		Expenditure for Property, Plant and Equipment . . .
Net Operating Income	\$ 152	Reductions in Long Term Debt
Depreciation	19,446	Increases in Investments
Total from Operations	19,598	Cash Dividends
Proceeds from Sale of Properties		Increase in Other Assets
and Other Capital Transactions	416	Federal Income Taxes and Interest Thereon Applicable
Proceeds of Long Term Borrowing	20,913	to Prior Years Reduced by Related Adjustments of
Payments Received on Mortgages Receivable	2,376	Income Other Than Depreciation
Increase in Equity of Minority Interests	268	Miscellaneous
Proceeds from Exercise of Warrants	444	Increase in Working Capital
		(exclusive of current debt maturities)
	\$44,015	
		\$44,015

tions can be attributed to our reputation as successful hotel operators and also to the fact that we have developed trained managers and supervisors in addition to having an effectively advertised name and an outstanding reservation referral system.

Equally important is the further spreading of the Sheraton name and image by means of the Company's "franchise" program. Under this plan, Sheraton provides its name and reservation system together with periodic inspection and consultation services to motor inns which are not likely to be in competition with present or potential Sheraton-owned properties. As we go to press, there are 31 franchised properties in operation and 17 more to be built or presently under construction.

Thompson Industries, Inc., our 87%-owned subsidiary serving the automobile industry, had another banner year. Included in Thompson's expanding manufacturing activities is the production of metal moldings, heavy metal stampings, electrical wiring harnesses, and welding guns. This past year, this company entered into the plastics field with the purchase of United Plastic Industries, Inc., makers of plastic accessories for automobiles. Based on existing contracts and automotive production schedules, Thompson is expected to have another excellent year.

Management believes that it is important to the better appraisal of Sheraton's operations to reemphasize that excessive depreciation charges can distort reported earnings. A more meaningful method of measuring the progress of the Company is through the use of what we call "adjusted

earnings." This concept substitutes for depreciation recorded on the books, an arbitrary substitute equal to 6% of hotel gross sales. Management feels, as in previous years, that 6% is adequate in measuring its operating results. We find "adjusted earnings" a useful guide in determining dividend policy.

This year's "adjusted earnings" increased to \$1.11 per share as compared to \$.88 last year and \$.78 the previous year. An upward trend in "adjusted earnings" has now been recorded for the second successive year. Further progress, as reflected by favorable first quarter operations, indicates the possibility of continuing improvement for the current 1966 fiscal year.

Your management believes that its policy of taking advantage of permissible income tax savings is an important factor in its "growth rate." In the long run, we believe the trend and magnitude of the growth rate, rather than the amount of dividends paid or the amount of the reported earnings will be the principal factor by which Sheraton will ultimately be judged by security analysts.

When hotels are bought or sold they are customarily valued on earnings rather than on historical or reproduction costs. This year's Officers' estimate of net asset value, computed as in previous years, was \$21.63 per share as compared to \$21.06 last year. These figures are obtained by multiplying the hotel basic earnings (earnings before interest, depreciation and income taxes) by a multiplier of 8¼, plus or minus certain corrective factors to compensate for age, location, trends, etc. The average mul-

Ratio of long term net 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)
1965	\$343,031	\$48,790	\$294,241	\$168,444	57.2%	43.4%
1964	328,934	40,743	288,191	165,138	57.3	42.8
1963	346,554	43,247	303,307	182,618	60.3	45.9
1962	393,984	40,825	353,159	180,941	51.2	38.7
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. Although estimated asset values represent the best judgment of the Officers, these values nonetheless are only theoretical. The estimated asset values should not be given undue weight since their determination cannot be an exact science and may be subject to wide fluctuations due to various market conditions and other factors.

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

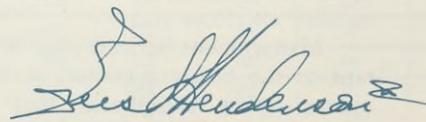
multiplier used was 8.4 for both this year and last year.

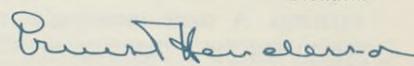
It is interesting to note that in most instances this method of valuation will produce in practice very nearly the same results as would be attained by estimating the value of the equity in a hotel property above its mortgage indebtedness, and adding this to the amount of the mortgage. The equity value is arrived at by capitalizing "basic earnings" less mortgage interest and "normalized" depreciation, to yield 9%. For normalized depreciation we use, as in figuring "adjusted earnings," 6% of hotel sales. This seems a generally satisfactory measure of normal depreciation needs.

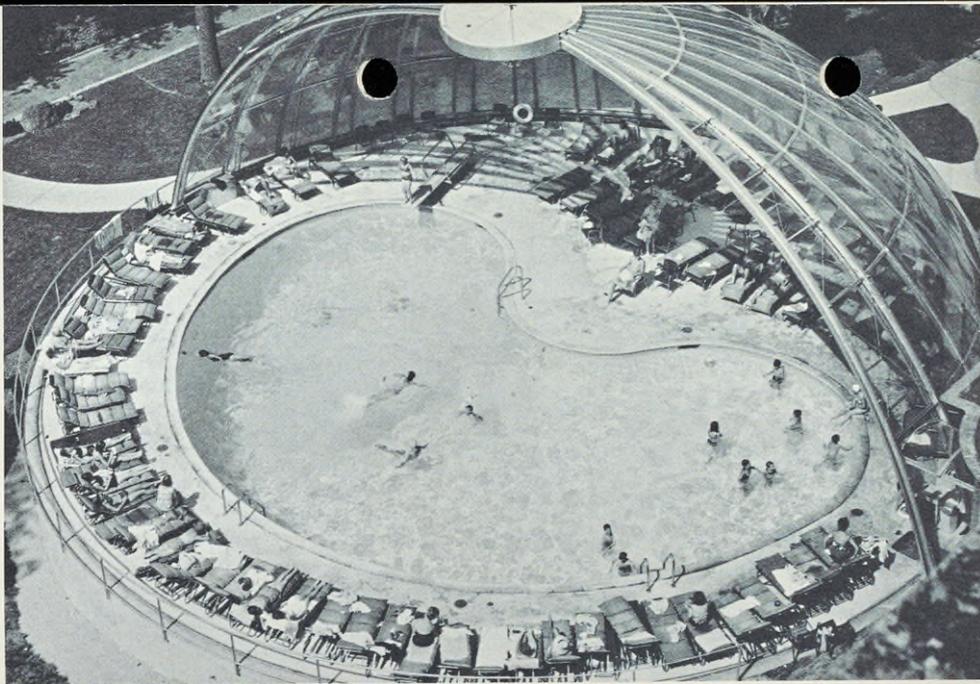
It should be emphasized that the terms "adjusted earnings" and "estimated net asset values" are theoretical estimates. While these represent the best judgment of the Officers, they should not be given undue weight since determination of the amounts involved cannot be an exact science and may be subject to wide fluctuation due to various factors.

We would like to offer our deepest sympathy to the widow of our late Director, Mr. Ralph Schneider, former Chairman of the Board of The Diners' Club, Inc. We also announce with regret the retirement from Sheraton's Board of Directors of Mr. Melvin Baker, who also retired as Chairman of the Board of National Gypsum Company. Both of these men were of great value to Sheraton's management.

We believe the nearly 20,000 people who own Sheraton stock join us in thanking the 26,000 people who work for Sheraton for their efforts to make Sheraton synonymous with the "greatest value in the hotel industry." You, the stockholders, can help your Company grow by using and referring your friends to Sheraton Hotels and Motor Inns.


President


Chairman of the Board



ADDITION OF A DOMED ALL-WEATHER POOL AT THE FRENCH LICK-SHERATON was the latest step in modernization of the famed Indiana spa, traditionally a seasonal hotel but converted by Sheraton to a year-round convention-resort. The huge transparent dome is completely closed in winter except for a heated entrance-way to the hotel; in warmer seasons, half the dome can be mechanically revolved over the other half, leaving the entire pool area open to sunlight.

Sheraton's office buildings and service subsidiaries

Sheraton Buildings, Inc. owner of a fourteen-story office building where the home office in Boston is located, and *Sheraton-Whitehall Corp.*, which holds a large New York office building under a long-term lease, have completed major renovations and modernization, and presently report record occupancies. The Sheraton Building, on Boston's developing waterfront, has 92½% occupancy representing 36 major corporate tenants. The Sheraton-Whitehall, in the heart of Manhattan's financial district, is now 98% occupied with 215 corporate tenants.

Sheraton Design and Development, Inc. offers a specialized service for Sheraton properties as well as outside hotels, motels and restaurants, in the planning, decorating and engineering fields. The company offers "project management" for small or large-scale rehabilitation or for new construction work. Its engineers have developed a new approach to utility cost-controls which has proved to be most effective. During this past year Sheraton Design and Development has completed over 350 projects and has over 200 current projects under way; approximately 45% of Sheraton Design and Development business has been with other than Sheraton-owned properties.

Sheraton's Dinner-of-the-Month Club, Inc. has 75,000 members, who for a nominal fee receive twelve complimentary dinners annually, discount on weekend room accommodations, and special rates for summer vacations. The Universal Room Reservation Network, operating under the D.O.M.C. banner, includes 125 leading non-Sheraton hotels each inter-connected with the 104 Sheraton hotels. This Network provides free hotel and motor inn reservations service to the traveling public.



**TWO NEW KON-TIKI POLYNE-
SIAN RESTAURANTS** will bring to
seven the number of these popular
food and beverage specialty din-
ing rooms in Sheraton hotels. The
Sheraton-Gibson will introduce
Polynesian cuisine to Cincinnati
with the opening of its new Kon-
Tiki in the late summer. The
Sheraton-Boston's Kon-Tiki Ports,
opening in the fall, will feature
both Polynesian and Continental
cuisine in its four atmosphere
rooms: Bangkok, Macao, Papeete,
and Saigon.



ELEGANCE IN THE NEW SHERATON BOSTON's Presidential Suite, one of 40 suites on the top two floors that are furnished with Louis XVI reproductions. The popularity of these luxury accommodations with newsworthy dignitaries and convention organizers, has resulted in plans for similarly furnished suites at attractive prices in major Sheraton hotels.

RENAISSANCE OF THE SHERATON-PLAZA reaches completion with the restoration of its famed Peacock Alley and lobby to the opening decor of 53 years ago. The hotel's "New Look of Elegance" theme is also reflected in the redecoration of suites and guest rooms to provide luxury accommodations to complement those in the Sheraton-Plaza's neighboring sister hotel, the new Sheraton-Boston in Prudential Center.



Standard Wholesale Supply Corporation and International Hotel Supply Corporation

handle major purchasing, except food and beverage, for Sheraton's owned, leased, and franchised properties in the U.S.A.; these subsidiaries continue to return benefits to hotels by centralized purchasing. In addition to purchasing supplies and equipment for Sheraton, International Hotel Supply Corporation offers purchasing services to hotels, hospitals, colleges, and churches. Recent installations, in conjunction with decorating services supplied by Sheraton Design and Development, Inc., include: dormitories for Northeastern University, Boston; McAllister College, St. Paul; and the University of Ohio, Athens; the home office of Union Savings Bank in Boston and the Hyannis Country Squire Motel on Cape Cod. *Unifood Corporation* makes volume food purchases for Sheraton from its headquarters in Boston's Sheraton building and five other regional offices.

Sheraton Inns, Inc. three-year-old franchise division, now totals 31 Sheraton Inns in operation in the U.S., Canada and the Bahamas, and 17 more in various stages of planning and construction.

"Grand Hotels" rejuvenated

The Sheraton-East on New York's Park Avenue and the Penn-Sheraton on Pittsburgh's Mellon Square will spend more than a million dollars for improvements in keeping with the tradition of these noted hotels. The Sheraton-East has recently opened Le Palais, a specialty restaurant featuring Viennese cuisine, and has refurbished many luxury suites. The Penn-Sheraton's improvement program calls for continued redecoration of all function areas, guest rooms, and luxury French suites.



SHERATON NATIONAL ADVERTISING PROGRAM: A new and completely different advertising theme urging businessmen to "unwind" at Sheraton hotels was introduced in newspapers, magazines, television, radio and outdoor media. TV and radio commercials and all print advertisements, featuring a "wound-up" business executive with a key in his back unwinding at the end of his day in a Sheraton hotel, have attracted considerable national attention particularly in view of recent medical theories on "jet fatigue". Individual hotels have further capitalized on this appeal to business travelers by distribution of cocktail napkins, stirrers, and other promotional materials.

Sheraton Corporation of America and Subsidiaries

COMPARATIVE CONSOLIDATED INCOME STATEMENT

	For the Year ended	
	April 30, 1965	April 30, 1964
GROSS OPERATING INCOME		
Hotels		
Rooms	\$ 84,619,525	\$ 78,526,963
Food and Beverages	90,728,597	86,487,496
Other	17,663,029	16,819,535
	<u>193,011,151</u>	<u>181,833,994</u>
Commercial Buildings	4,084,735	3,931,871
Apartment Buildings	1,603,072	1,575,495
Thompson Division	✓ 43,472,106	39,817,315
Other	5,861,913	5,294,148
Total	<u>248,032,977</u>	<u>232,452,823</u>
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses	114,303,104	108,916,153
Administrative and General	14,988,245	14,922,593
Advertising and Promotion	8,114,239	7,127,127
Heat, Electricity and Water	7,554,711	7,091,959
Repairs and Maintenance	9,922,837	8,582,780
Rent	6,935,453	5,729,638
Real Estate and Personal Property Taxes	8,848,614	8,278,800
Insurance	264,885	241,759
Bad Debts Expense	1,032,646	947,294
Thompson Division		
Cost of Sales	✓ 34,525,392	31,885,247
Other	4,290,642	3,453,002
Other	6,169,026	5,792,631
Total	<u>216,949,794</u>	<u>202,968,983</u>
OPERATING INCOME BEFORE DEPRECIATION	31,083,183	29,483,840
OTHER INCOME		
Dividends and Interest	331,561	462,366
Other	7,925	9,394
Total (Referred to as "Basic Earnings")	<u>31,422,669</u>	<u>29,955,600</u>
OTHER DEDUCTIONS FROM INCOME		
Depreciation	19,446,094	18,845,232
Interest and Debt Expense	10,541,553	10,393,152
Total	<u>29,987,647</u>	<u>29,238,384</u>
ORDINARY INCOME	<u>1,435,022</u>	<u>717,216</u>
INCOME TAXES		
Federal and Foreign	818,525	1,660,284
State	149,090	202,109
Total	<u>967,615</u>	<u>1,862,393</u>
NET INCOME (LOSS) before Profit from Capital Transactions	<u>467,407</u>	<u>(1,145,177)</u>
Profit from Capital Transactions	237,919	8,049,878
Less: Income Taxes Thereon	—	2,175,919
Net Profit from Capital Transactions	237,919	5,873,959
Income (Loss) and Profits for the Year	<u>705,326</u>	<u>4,728,782</u> ✓
Net Income (Loss) and Profits Applicable to Minority Interests		
Applicable to Ordinary Income	315,546	209,384
Applicable to Capital Transactions	—	603,356
Total	<u>315,546</u>	<u>812,740</u>
NET INCOME (LOSS) AND PROFITS FOR THE YEAR (NOTE 10)	<u>\$ 389,780</u>	<u>\$ 3,916,042</u>

See Notes to Consolidated Financial Statements.

Assets

	April 30, 1965	April 30, 1964
CURRENT ASSETS		
Cash		
Demand Deposits	\$ 11,603,469	\$ 12,032,076
Restricted Deposits	589,881	454,918
On Hand	<u>1,877,431</u>	<u>1,639,113</u>
	<u>14,070,781</u>	<u>14,126,107</u>
Securities — Marketable — at Cost		
U. S. Treasury Bonds	72,025	72,025
Other (Note 2)	<u>1,343,521</u>	<u>1,342,707</u>
(Market Values \$1,348,655 and \$1,305,151)	<u>1,415,546</u>	<u>1,414,732</u>
Accounts and Notes Receivable	24,050,940	20,083,225
Less: Estimated Uncollectible Accounts and Notes	<u>1,035,830</u>	<u>835,194</u>
	<u>23,015,110</u>	<u>19,248,031</u>
Accrued Interest Receivable	26,443	64,691
Mortgages Receivable — Payments Due Within One Year (below) .	381,883	798,286
Inventories — at Cost	10,107,640	7,993,287
Prepaid Expenses	<u>2,838,698</u>	<u>2,904,756</u>
Total Current Assets	<u>51,856,101</u>	<u>46,549,890</u>
INVESTMENTS — AT COST (Notes 1 and 2)		
Securities — Other Than Marketable	1,226,530	1,239,844
(AT Values Described in Note 2 — \$1,523,352 and \$1,611,490)		
Securities of Subsidiaries — Not Consolidated	689,218	619,906
(Underlying Equities \$818,400 and \$664,400)		
Mortgages Receivable	2,026,867	4,057,023
(Principal Amounts \$2,750,398 and \$5,685,564)		
Less: Mortgage Payments Due Within One Year (above)	<u>(381,883)</u>	<u>(798,286)</u>
Total Investments	<u>3,560,732</u>	<u>5,118,487</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3)		
Land and Leaseholds	47,324,898	43,805,787
Buildings and Improvements	215,634,556	203,220,391
Leasehold Improvements	7,950,762	8,279,997
Furniture and Equipment	<u>85,787,794</u>	<u>84,363,568</u>
	<u>356,698,010</u>	<u>339,669,743</u>
Less: Depreciation to Date	<u>143,669,971</u>	<u>132,616,987</u>
Total Property, Plant and Equipment	<u>213,028,039</u>	<u>207,052,756</u>
(See Letter to Stockholders for discussion of Estimated Values)		
OTHER ASSETS		
Notes and Contracts Receivable — Due After One Year	160,376	127,081
Unamortized Debt Discount and Expense (Note 10)	2,710,977	2,815,881
Security and Other Deposits	473,278	567,042
Life Insurance — Cash Surrender Value	446,059	352,901
Other (Note 1)	<u>2,649,488</u>	<u>1,812,399</u>
Total Other Assets	<u>6,440,178</u>	<u>5,675,304</u>
TOTAL ASSETS	<u>\$274,885,050</u>	<u>\$264,396,437</u>
See Notes to Consolidated Financial Statements.		

Liabilities, Capital Shares and Surplus

	April 30, 1965	April 30, 1964
CURRENT LIABILITIES		
Notes and Contracts Payable (Note 2)	\$ 26,403,139	\$ 16,944,762
Less: Payments Due After One Year (below)	<u>17,733,387</u>	<u>11,514,711</u>
	8,669,752	5,430,051
Accounts Payable	14,628,981	14,925,720
Accrued Liabilities		
Interest	1,948,040	1,653,966
Federal, Foreign and State Taxes	2,251,021	3,338,309
Other	8,965,680	7,619,959
Bonds and Mortgages Payable — Payments Due Within One Year (below)		
Capital Income Sinking Fund Debentures	944,600	—
Other Bonds and Mortgages	<u>11,381,994</u>	<u>7,775,216</u>
Total Current Liabilities	<u>48,790,068</u>	<u>40,743,221</u>
LONG-TERM INDEBTEDNESS (Notes 2, 3, 4 and 5)		
Bonds and Mortgages Payable (except Capital Debentures)	131,887,126	130,540,531
Less: Payments Due Within One Year (above)	<u>11,381,994</u>	<u>7,775,216</u>
	120,505,132	122,765,315
Notes and Contracts Payable — Due After One Year (above)	17,733,387	11,514,711
Federal and State Taxes Payable	<u>966,886</u>	<u>636,698</u>
	139,205,405	134,916,724
Capital Income Sinking Fund Debentures (1989)	30,183,000	30,221,600
Less: Payments Due Within One Year (above)	<u>944,600</u>	<u>—</u>
	29,238,400	30,221,600
Total Long-Term Indebtedness	<u>168,443,805</u>	<u>165,138,324</u>
Total Liabilities	<u>217,233,873</u>	<u>205,881,545</u>
MINORITY INTERESTS	<u>2,867,262</u>	<u>2,599,402</u>
CAPITAL SHARES AND SURPLUS		
	SHARES	
	April 30, 1965	April 30, 1964
Capital Shares (Notes 4 and 5)		
Preferred — Par \$100		
Authorized	<u>100,000</u>	<u>100,000</u>
Issued and Outstanding —		
4% Cumulative Convertible ..	<u>15,120</u>	<u>15,120</u>
	1,512,000	1,512,000
Common — Par \$.50		
Authorized	<u>10,000,000</u>	<u>10,000,000</u>
Issued	5,700,089	5,646,837
Less: In Treasury	134,598	145,631
Outstanding	<u>5,565,491</u>	<u>5,501,206</u>
Total Capital Shares	<u>4,294,746</u>	<u>4,262,603</u>
Surplus (Notes 5 and 6)		
Paid In Surplus	41,562,238	41,154,095
Earned Surplus	7,312,402	8,884,234
Surplus from Consolidation (Note 1)	<u>1,614,529</u>	<u>1,614,558</u>
Total Capital Shares and Surplus	<u>54,783,915</u>	<u>55,915,490</u>
TOTAL LIABILITIES, CAPITAL SHARES AND SURPLUS	<u>\$274,885,050</u>	<u>\$264,396,437</u>

Sheraton Corporation of America and Subsidiaries

CONSOLIDATED STATEMENTS OF SURPLUS

For the Year ended April 30, 1965

Paid In Surplus

CONSOLIDATED PAID IN SURPLUS APRIL 30, 1964	\$41,154,095
Additions	
Excess of Amounts Received over Par Value of 53,252 shares of Common Stock Issued at \$8.333 per share upon the Exercise of Warrants	
	Amounts Received
Paid by	
6% Debentures	\$ 2,400
Cash	441,370
	<u>443,770</u>
Par Value of Shares Issued	26,626
	<u>417,144</u>
	41,571,239
Deductions	
Cost of 4,500 \$50 Warrants Expiring November 1, 1976	3,375
Excess of Amount Paid over Par Value of 13 shares of Common Stock Purchased (Total Cost \$109)	103
Par Value of 11,046 Shares Issued from Treasury Per "Offer of Exchange" to Holders of \$10 Warrants	<u>5,523</u>
	<u>9,001</u>
CONSOLIDATED PAID IN SURPLUS APRIL 30, 1965	\$41,562,238

Earned Surplus

CONSOLIDATED EARNED SURPLUS APRIL 30, 1964	\$ 8,884,234
Additions	
Adjustment of Income Resulting from Federal Income Tax Examinations for Prior Years	\$1,671,657
Less: Federal Income Taxes and Interest thereon	<u>1,243,473</u>
	428,184
Net Income and Profits for the Year ended April 30, 1965	<u>389,780</u>
	<u>817,964</u>
	9,702,198
Deductions	
Cash Dividends	
Preferred — \$4.00 per share	60,480
Common — .42 per share	<u>2,329,316</u>
	<u>2,389,796</u>
CONSOLIDATED EARNED SURPLUS APRIL 30, 1965	\$ 7,312,402

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year ended April 30, 1965

1—Basis of Consolidation

The consolidated financial statements include the Corporation and its 50% or more owned subsidiaries, except Sheraton Mediterranean Ltd., which since 1961 has leased and operated the Sheraton-Tel Aviv Hotel in Israel, and Sheraton de Venezuela, C.A., which since April 1963 has managed the Macuto-Sheraton Hotel in Venezuela; also, 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 \$129,182 more than the cost of these investments. The equity in the net income of these companies for the year ended April 30, 1965 was \$111,910. Dividends received from these subsidiaries during the year totalled \$27,916.

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 book values of the equities thus acquired. That difference has been treated in these statements as additional cost of fixed assets owned, allocated on a pro rata basis to land and leaseholds and to buildings, and as goodwill from consolidation, the unamortized portion of which, \$741,333, 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 reflected in Earned Surplus, representing accumulated undistributed earnings less losses since acquisition.

Revenue of properties operated under management agreements and franchised properties are not included in the Consolidated Income Statement. Management Fees and Franchise Fees received from those operations, however, are reflected under the caption "Gross Operating Income — Other."

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, 1966 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 of the Canadian and other foreign operations are reflected at April 30, 1965 exchange rates.

Income and expenses of foreign operations, except for depreciation and financing expenses, have been converted to United States dollar equivalents at the average rates of exchange for the respective periods after adjustment for the difference arising from the conversion of the assets and liabilities described above.

2—Investments

Securities — Other than Marketable have been valued as follows:

At Estimated Value for Bonds Held	\$ 37,500
At Estimated Value for Securities Closely Held	56,870
At Estimated Value for Securities of a Garage Corporation Serving a Subsidiary's Hotel	5,000
At Market Value for Securities with Sales Restrictions	1,423,982
	<u>\$ 1,523,352</u>

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

	<i>Book Value</i>
Securities — Marketable	\$ 1,329,758
(Market Value — \$1,270,531)	
Securities — Other than Marketable	944,872
(At Values Described Above — \$1,193,695)	
Securities of Subsidiaries —	
Eliminated in Consolidation	13,614,418

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.

4—Long-Term Indebtedness

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

6% Debentures, due April 1, 1979	\$ 1,492,800
4¾% Convertible Debentures, due March 1, 1967	738,500
5% Debentures, due March 1, 1967	4,779,000
6½% Income Subordinated Debentures, due January 1, 1981	11,496,000

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, 1965 was paid in full. Debentures in the Treasury at April 30, 1965 aggregated \$600.

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 \$552,500 and not less than \$250,000 principal amount of Debentures. The redemption price for sinking fund was reduced to par at March 1, 1963. Debentures in the Treasury at April 30, 1965 aggregated \$32,500.

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 ⅛ of 1% annually from 101 through January 1, 1973 to par at January 1, 1981. The payment required December 31, 1964 was paid in full. The amortization requirement on December 31, 1965 is \$355,900. Debentures in the Treasury at April 30, 1965 aggregated \$365,700, which exceeds the foregoing requirement.

7½% Debentures, due January 1, 1989

1965 through 1979, \$990,000 on January 1 of each year.

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

The redemption price for sinking fund reduces ⅛ of 1% annually from 102½ at January 1, 1965 to par at January 1, 1985.

Debentures aggregating \$990,000 were retired on January 1, 1965. Debentures in the Treasury at April 30, 1965 aggregated \$45,400.

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, reclassifications 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 authorizes 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 1960. These shares are presently convertible into Common at the rate of one share of Common for each \$45 par value of Preferred and are 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 authorized, shares are reserved as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended April 30, 1965

30,240 shares for the conversion of the issued 4% Cumulative Convertible Preferred Stock.

34,522 shares for the conversion of 4¾% Sinking Fund Debentures, of which 34,117 shares are applicable to Debentures outstanding and 405 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 Common Stock (\$.50 Par) for \$25, payable in cash or an equivalent face amount of 5% Debentures, without adjustment for dividends or accrued interest.

131,700 shares for the exercise of the warrants sold at \$.75 per warrant to officers and employees during the year ended April 30, 1962. Each warrant entitles the holder to buy, to November 1976, one share of Common Stock (\$.50 Par) for \$50, payable in cash.

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 \$8,303,454, 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 this purpose as at April 30, 1965 exceeded the amount of earned surplus at that date.

7—Long-Term Leases

As at April 30, 1965, Sheraton Corporation of America was obligated as guarantor of a subsidiary office building lease expiring in 2010. The present annual rental of \$420,343 will be reduced in December 1981 to approximately \$195,000. The guarantee is limited to payment of no more than \$900,000, reducing \$100,000 a year to a minimum of \$100,000 in the event such amounts are deposited upon default.

Certain hotels and motor inns are operated at April 30, 1965 under leases with annual minimum rentals totalling approximately \$5,500,000. Of this amount, approximately \$4,400,000 represents the annual rents under those leases which are guaranteed by the Corporation for varying terms in accordance with the lease terms.

At April 30, 1965, other long-term lease rental obligations on garages, parking lots, etc. executed by subsidiaries of the Corporation were at an annual rate of approximately \$400,000.

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.

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 and commitments made with respect to major construction projects for construction in progress amounting to approximately \$2,000,000 in addition to liabilities already recorded at April 30, 1965.

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, 1965 were \$187,054, representing the annual cost of the Pension Plan for that period (inclusive of cost to

three subsidiaries) as estimated by the actuaries. The foregoing amount represents current service benefits of \$176,040 and a contribution to past service benefits of \$10,956. The remaining unfunded cost of past service benefits is approximately \$49,000, which the Corporation intends to fund over the succeeding five years. These amounts are 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 \$279,477, of which \$92,389 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 \$1,495,500 at April 30, 1965.

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, based on formula limitations, the employing companies will pay up to 25% of employees' contributions which may be made up to 6% of their pay.

10—Consolidated Income Statement

Adjustments of income resulting from the examination of Federal Income Tax returns for prior years are reflected in the consolidated statement of Earned Surplus for the year ended April 30, 1965. The consolidated income statement for the year ended April 30, 1964 has been restated to reflect such adjustments applicable to that year which results in an increase in net income of \$65,286. This resulted from a reduction in depreciation of \$274,260, an increase in Interest Expense and Federal and Foreign Income Taxes of \$58,028 and \$150,946, respectively.

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 debts is being amortized uniformly on a straight-line basis over the various periods of time from the respective inceptions of the debts to their respective maturities, giving effect to acquisitions in excess of annual requirements.

REPORT OF INDEPENDENT CERTIFIED 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, 1965 and the related consolidated surplus and income statements for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had made a similar examination for the year ended April 30, 1964.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of surplus and income, present fairly the financial condition of Sheraton Corporation of America and Subsidiaries as at April 30, 1965 and the results of their operations for the years ended April 30, 1965 and 1964, in conformity with generally accepted principles of accounting applied on a consistent basis.

HARRIS, KERR, FORSTER & COMPANY

Boston, Massachusetts, July 9, 1965

SHERATON CORPORATION OF AMERICA

DIRECTORS

Melvin H. Baker <i>Former Chairman of the Board National Gypsum Company</i>	Page Browne <i>Executive Consultant Sheraton Corporation of America</i>	Ernest Henderson III <i>President Sheraton Corporation of America</i>	James J. Minot <i>Limited Partner — Paine, Webber, Jackson & Curtis*</i>	S. Abbot Smith <i>President Thomas Strahan Co. Chelsea, Massachusetts</i>
Richard Boonisar <i>Senior Vice President Sheraton Corporation of America</i>	Robert M. Brush <i>Senior Vice President Sheraton Corporation of America</i>	George D. Johnson <i>Senior Vice President Sheraton Corporation of America</i>	Robert L. Moore <i>Chairman of the Executive and Finance Committees Sheraton Corporation of America</i>	J. P. Spang, Jr. <i>Former Chairman of the Board and President of The Gillette Company</i>
Dr. Adam S. Borst <i>Director Sayre & Fisher Company Sayreville, New Jersey</i>	Paul F. Clark <i>Director John Hancock Mutual Life Insurance Company</i>	Leland J. Kalmbach <i>Chairman of the Board Massachusetts Mutual Life Insurance Company</i>	Shirley D. Murphy <i>President Thompson Industries, Inc.</i>	George C. Textor <i>President The Marine Midland Trust Co. of New York</i>
Charles W. Broeman <i>President Charles W. Broeman Co. Cincinnati, Ohio</i>	Ernest Henderson <i>Chairman of the Board Sheraton Corporation of America</i>	Samuel D. Lunt <i>Partner S. D. Lunt & Co.*</i>	J. S. B. Pemberton <i>Treasurer Sun Life Assurance Company of Canada</i>	

*Member New York Stock Exchange

OFFICERS

Chairman of the Board

Ernest Henderson

Chairman of the Executive and Finance Committees

Robert L. Moore

President

Ernest Henderson III

Senior Vice Presidents

Richard Boonisar
Finance

Robert M. Brush
Administration

George D. Johnson
Operations

Vice Presidents

Lloyd B. Carswell
Sales

Thomas C. Deveau
Midwest Divisional Manager

Mrs. Mary M. Kennedy
Architecture, Decorating, and Design

N. Ronald Silberstein
General Counsel

William Morton
Advertising and Promotion

Theodore L. Cross
*Legal Affairs
Treasurer and Secretary*

Carl R. Dillon
Comptroller

John C. Lamers
Rooms and Reservations

Fred B. Mills
Engineering and Construction

Kenneth B. Newton
Real Estate and Leases

Joseph M. Curry
Midcentral Divisional Manager

Harold E. Lane
Personnel and Labor Relations

Marshall C. Warfel
Food and Beverage Operations

Second Vice Presidents

Paul W. Mangan
Sales

Phillip D. Shea
Public Relations

Nicholas Stehnick
Commercial Buildings Operations

Arthur F. Taylor
Sales

Joseph P. Zaffy
Personnel and Labor Relations

Assistant Treasurer

Miss Clara I. Macdonald

Assistant Secretary

Myron F. Welsch

Franchise Division Sheraton Inns, Inc.

Gerard C. Henderson
President

International Division Sheraton International, Inc.

Harley J. Watson
Vice President



Sheraton Hotels and Motor Inns

UNITED STATES

AKRON, Ohio
Sheraton Hotel & Motor Inn

ANDOVER, Mass.
Sheraton-Rolling Green Motor Inn

ATLANTA, Ga.
Sheraton-Emory Inn opening October 1965

BALTIMORE
Sheraton-Baltimore Inn
Sheraton-Belvedere
Sheraton-Warren Motor Inn

BINGHAMTON, N.Y.
Sheraton Motor Inn

BIRMINGHAM, Ala.
Sheraton Motor Inn

BOSTON
Sheraton-Boston
Sheraton-Plaza
Sheraton Motor Inn (Quincy)

BUFFALO
Sheraton Motor Inn

CAMBRIDGE, Mass.
Sheraton-Commander

CHICAGO
Sheraton-Blackstone
Sheraton-Chicago
Sheraton-O'Hare Motor Hotel

CINCINNATI
Sheraton-Gibson

CLEVELAND
Sheraton-Cleveland

CLEVELAND-EAST
Sheraton Motor Inn

COLUMBUS
Sheraton-Columbus Motor Hotel

DALLAS
Sheraton-Dallas

DAYTON
Sheraton-Dayton Hotel

DAYTONA, Fla.
Sheraton-Daytona Beach Motor Inn

DETROIT
Sheraton-Cadillac

DUCK KEY, Fla.
Sheraton-Indies Inn

EL PASO
Sheraton-El Paso Motor Inn

EXCELSIOR SPRINGS, Mo.
Sheraton-Elms Hotel

FT. LAUDERDALE, Fla.
Sheraton Hotel

FRENCH LICK, Ind.
French Lick-Sheraton

GARY, Ind.
Sheraton Inn

HONOLULU, Hawaii
Moana
Princess Kaiulani
Royal Hawaiian
SurfRider

HOUSTON
Sheraton-Lincoln

HUNTINGTON BEACH, Cal.
Sheraton-Beach Inn

HUNTSVILLE, Alabama
Sheraton Motor Inn

INDIANAPOLIS
Sheraton-Lincoln

KANSAS CITY, Mo.
Prom-Sheraton Motor Inn

LOS ANGELES
Sheraton-West
Huntington-Sheraton
Sheraton-Marina Hotel
Sheraton-Wilshire; opening Dec. 1965

LOUISVILLE
Sheraton
The Sherwyn

MAUI, Hawaii
Sheraton-Maui

MEMPHIS, Tenn.
Sheraton Motor Inn

MILWAUKEE
Sheraton-Schroeder

MINNEAPOLIS
Sheraton-Ritz

MOBILE, Alabama
Sheraton-Battle House Hotel & Motor Inn

NEW ORLEANS
Sheraton-Charles
Sheraton-Delta
Motor Hotel

NEW YORK
Park-Sheraton
Sheraton-Atlantic
Sheraton-East (the Ambassador)
Sheraton-Gladstone
Sheraton Motor Inn
Sheraton-Russell
Sheraton-Tenney Inn at LaGuardia

OKLAHOMA CITY
Sheraton-Oklahoma Hotel & Motor Inn

OMAHA
Sheraton-Fontenelle
Sherwyn

PHILADELPHIA
Sheraton Hotel
Sheraton Motor Inn
Sheraton-Fairways Motor Inn (Upper Darby)

PHILIPPINES
Sheraton-Philippines; opening Manila 1966

PITTSBURGH
Penn-Sheraton
Sherwyn Hotel

PORTLAND, Oregon
Sheraton Motor Inn

PROVIDENCE
Sheraton-Biltmore Hotel & Motor Inn

RAPID CITY, S.D.
Sheraton-Johnson Hotel & Motor Inn

RICHMOND, Va.
Sheraton Motor Inn

ROCHESTER
Sheraton Hotel & Motor Inn

ROCK ISLAND, Illinois
Sheraton Inn opening Nov. 1965

ROCKY MOUNT, N.C.
Sheraton Carleton House

ST. LOUIS
Sheraton-Jefferson
Sheraton Motor Inn

SAN FRANCISCO
Sheraton-Palace

SILVER SPRING, Md.
Sheraton-Silver Spring Motor Inn

SIOUX CITY, Iowa
Sheraton-Warrior Motor Inn

SIOUX FALLS, S.D.
Sheraton-Cataract Motor Inn

SPRINGFIELD, Mass.
Sheraton Motor Inn

SPRINGFIELD, Mo.
Sheraton Motor Inn

SYRACUSE
Sheraton Motor Inn

TAMPA, Fla.
Sheraton-Tampa Motor Inn

VALDOSTA, Ga.
Sheraton-Valdosta Motor Inn

WASHINGTON
Sheraton-Carlton
Sheraton-Park Hotel & Motor Inn

WILLIAMSBURG, Va.
Sheraton Motor Inn

WINSTON-SALEM, N.C.
Sheraton Motor Inn

CANADA

HAMILTON, Ont.
Sheraton-Connaught Hotel & Motor Inn

MONTREAL
Sheraton-Mt. Royal
The Laurentien

NIAGARA FALLS, Ont.
Sheraton-Brock

REGINA, Sask.
Sheraton-Drake Hotel

SASKATOON, Sask.
Sheraton-Cavalier Motor Inn

TORONTO
King Edward Sheraton

WINNIPEG
Sheraton-Carlton Motor Hotel

MEXICO

Sheraton Affiliated Balsa Hotels

ACAPULCO
Hotel El Presidente
Hotel Tampa

ISLA MUJERES
Puerto Zazil Ha

MERIDA
Hotel Merida

MEXICO CITY
Hotel Del Prado
Hotel El Presidente
Hotel Maria Isabel
Hotel Prado — Alffer

TAXCO
Hotel de la Mision Posada

CARIBBEAN

BAHAMAS, NASSAU
Sheraton-British
Colonial Hotel

JAMAICA
Sheraton-Kingston

PUERTO RICO
Puerto Rico Sheraton Hotel

OVERSEAS

ISRAEL
Sheraton-Tel Aviv

VENEZUELA
Macuto-Sheraton Hotel