

SHERATON CORPORATION OF AMERICA



Annual Report

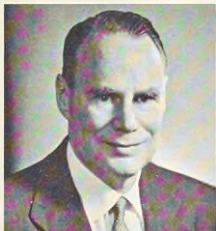
FOR THE YEAR ENDING APRIL 30, 1959

SHERATON CORPORATION OF AMERICA

EXECUTIVE OFFICES

Sheraton Building, 470 Atlantic Avenue, Boston 10, Mass.

OFFICERS



ERNEST HENDERSON
President



ROBERT L. MOORE
Chairman of the Board

SENIOR VICE PRESIDENTS

IRVINE J. SHUBERT
*General Counsel,
Assistant Secretary*

ROBERT M. BRUSH
*Development and
Hotel Operations*

ROBERT B. KELSEY
Comptroller

FRED S. KUMMER
*Engineering
and Construction*

VICE PRESIDENTS

GEORGE B. HENDERSON
Secretary

THOMAS B. ADAMS
Allied Activities

WM. F. MACKLAIER, Q.C.
Canadian General Counsel

RICHARD P. BOONISAR
Finance

TREASURER

ERNEST HENDERSON III

SECOND VICE PRESIDENTS

GERARD C. HENDERSON, *Project Coordinator* MRS. MARY M. KENNEDY, *Architecture, Decorating and Design*
HAROLD E. LANE, *Labor Relations and Personnel* FRANK S. MCALLISTER, *Food and Beverage Operations*
FRED B. MILLS, *Engineering and Construction* ROBERT L. MOORE, JR., *International Development*
WILLIAM MORTON, *Advertising* KENNETH B. NEWTON, *Real Estate and Leases*
EDWIN B. ROBERTS, *Staff Planning* HORACE M. SMITH, *Sales and Promotion*

ASSISTANT TREASURERS

J. BROOKS FENNO
MISS CLARA I. MACDONALD

ASSISTANT SECRETARY

MYRON F. WELSCH

ASSISTANT COMPTROLLER

CARL R. DILLON

TRANSFER AGENTS

GENERAL FIDUCIARY CORPORATION
470 Atlantic Avenue, Boston 10, Mass.

MARINE MIDLAND TRUST COMPANY
120 Broadway, New York 15, N. Y.

NATIONAL TRUST COMPANY, LTD.
*225 St. James Street West, Montreal, Quebec
and 14 King Street East, Toronto, Ontario*

REGISTRARS

THE NATIONAL SHAWMUT BANK OF BOSTON
40 Water Street, Boston 9, Mass.

EMPIRE TRUST COMPANY
120 Broadway, New York 5, N. Y.

MONTREAL TRUST COMPANY
*511 Place d'Armes, Montreal, Quebec
and 15 King Street West, Toronto, Ontario*

SHERATON CORPORATION OF AMERICA

DIRECTORS

CHARLES F. ADAMS <i>President, Raytheon Company</i>	SAMUEL D. LUNT <i>Partner, S. D. Lunt & Co.</i>
LAWRENCE A. APPELY <i>President, American Management Association</i>	JAMES J. MINOT <i>Partner, Paine, Webber, Jackson & Curtis</i>
MELVIN H. BAKER <i>Chairman of the Board, National Gypsum Co.</i>	DON G. MITCHELL <i>President, General Telephone & Electronics Corporation</i>
ELMER E. BOSWELL <i>Sheraton Corporation of America</i>	ROBERT L. MOORE <i>Chairman of the Board, Sheraton Corporation of America</i>
CHARLES W. BROEMAN <i>Financier, Cincinnati, Ohio</i>	SHIRLEY D. MURPHY <i>President, Thompson Industries, Inc.</i>
PAGE BROWNE <i>Executive Consultant, Sheraton Corporation of America</i>	RALPH E. SCHNEIDER <i>Chairman of the Board, The Diners' Club, Inc.</i>
ROBERT M. BRUSH <i>Senior V. P., Development and Hotel Operations, Sheraton Corporation of America</i>	IRVINE J. SHUBERT <i>Senior V. P. and General Counsel, Sheraton Corp. of America</i>
PAUL F. CLARK <i>Chairman of the Board, John Hancock Mutual Life Insurance Co.</i>	S. ABBOT SMITH <i>President, Thomas Strahan Co., Chelsea, Massachusetts; Trustee, Committee of Economic Development</i>
MERRILL GRISWOLD <i>Honorary Chairman, Massachusetts Investors Trust</i>	J. P. SPANG, JR. <i>Director, The Gillette Co.</i>
ERNEST HENDERSON <i>President, Sheraton Corporation of America</i>	WHITHAM TAYLOR-BAILEY, M. C., B. SC. <i>Chairman of the Board, Dominion Bridge Co., Ltd., Montreal, Canada</i>
ERNEST HENDERSON, III <i>Treasurer, Sheraton Corporation of America</i>	GEORGE C. TEXTOR <i>President, The Marine Midland Trust Co.</i>
GEORGE B. HENDERSON <i>V. P. and Secretary, Sheraton Corporation of America</i>	

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FINANCIAL HIGHLIGHTS

YEARS ENDED APRIL 30

	1959	1958	1959	1958
	TOTALS		PER COMMON SHARE	
VOLUME OF BUSINESS				
Gross Income	\$171,473,530	\$159,014,304	\$36.68	\$33.82
EARNINGS				
Net Operating Income	\$ 3,349,802	\$ 3,731,883	\$.71	\$.79
Net Profit on Capital Transactions	\$ 2,000,937	\$ 1,101,577	\$.43	\$.24
Total Net Income and Profits	\$ 5,350,739	\$ 4,833,460	\$ 1.14	\$ 1.03
DEPRECIATION & CASH FLOW				
Depreciation	\$ 14,144,378	\$ 14,163,623	\$ 3.02	\$ 3.01
Cash Flow (1)	\$ 17,494,180	\$ 17,895,506	\$ 3.73	\$ 3.80
DIVIDENDS				
Cash Dividends	\$ 2,811,160	\$ 2,753,542	\$.60	\$.59
Stock Dividends	2%	2%		
OTHER FINANCIAL INFORMATION				
Total Assets at Estimated Value (2)	\$346,909,964	\$304,006,872	\$74.20	\$64.65
Estimated Net Asset Value (3)	—	—	\$30.02	\$26.80
Economic Gain (4)	—	—	\$ 3.82	\$ 1.51
Common Shares Outstanding at Year Ends ..	4,675,434	4,610,209		
OTHER STATISTICS				
Number of Hotels	48*	46		
Number of Rentable Guest Rooms	24,500	23,181		
Percentage of Room Occupancy (Non-Resort Hotels)	70.4%	73.4%		
Number of Employees	21,000	19,100		
Number of Stockholders	15,600	14,200		

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 value per common share based upon the above estimated total assets, after deducting all known liabilities and minority interests.

- (4) **Economic Gain:** Represents indicated increase in net asset value applicable to the Company's common stock, plus any cash distributions to stockholders made during the year.

Per share figures (1958 adjusted for 2% stock dividend) are based on shares outstanding at the year ends.

Adjustments have been made for exercise of warrants and first conversion privilege of 4¾% debentures in computing the per share amounts for estimated net asset values and economic gain.

* Excludes Sheraton Inn — Binghamton, New York (opened May 1959) and four hotels recently acquired in Hawaii.

PRESIDENT'S REPORT

Highlights of our fiscal year

FINANCIAL PERFORMANCE

Sheraton Gross Income for the fiscal year ended April 30, 1959 was \$171,473,530 compared with \$159,014,304 during the preceding year. This was an increase of 8 per cent.

Total Reported Earnings were \$5,350,739 compared with \$4,833,460 a year ago. (See opposite page for per share earnings.)

Earnings from Operations, which excluded profits from sale of properties, securities, and from other capital transactions, were \$3,349,802 compared with \$3,731,883 a year earlier. These earnings were after deducting \$14,144,378 during the past year and \$14,163,623 the preceding year as reserves for possible depreciation.

Cash Flow, representing net Earnings from Operations to which depreciation reserves (including some "accelerated depreciation") has been added back, was \$17,494,180 compared with \$17,895,506 a year ago.

Capital Gains, derived largely from the exchange of assets of the Sheraton Central Credit Corporation for securities of The Diners' Club, Inc. — amounted to \$2,000,937 compared with capital gains reported for the preceding year of \$1,101,577.

Regular Quarterly Dividends amounting to a total of 60 cents 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 cents in cash and 2 per cent in stock was declared. Cash dividends have been paid without interruption for 18 years. As a result of stock dividends, stock splitups, and occasional increases in the dividend rate, shareholders have had larger cash distributions than were paid in the preceding year in fifteen out of these eighteen years.

REPURCHASE OF SHARES

During the past fiscal year, 51,471 shares of the Company's common stock were repur-

chased at the market at an average price of \$18.83 per share. This represents slightly more than half the number of shares distributed as a result of the 2 per cent stock dividend. During the same period, 28,714 shares were issued due to the exercise of outstanding warrants, and the exercise of conversion privileges pertaining to the Company's 4¾ per cent convertible debentures. Only \$1,241,000 of this convertible issue remains outstanding.

INDICATED NET ASSET VALUE

Sheraton officers compute semi-annually the indicated net asset value of outstanding common shares in accordance with yardsticks often used by buyers of real estate. This does not provide an exact measure of value, but is believed by Company officers to reflect with reasonable accuracy the price at which income real estate can be sold. In the many instances when Sheraton properties have been disposed of, the Company has always realized prices in excess of estimated valuations.

According to officers' estimates arrived at by "capitalizing" so-called Free and Clear earnings, the indicated net asset value of Sheraton shares at the year end was \$30.02 per share compared with \$26.80 a year ago. All per share comparisons are adjusted for stock dividends to the basis of 4,675,434 shares outstanding April 30, 1959.

SALE OF SECURITIES

Sheraton completed the sale of its 6½ per cent subordinated income debentures of 1981. Subsequently a new issue of twenty-five million dollars of 7½ per cent Capital Income Sinking Fund Debentures of 1989 was offered by Paine, Webber, Jackson & Curtis and S. D. Lunt & Company together with a group of dealers. On June 26, 1959 when the general public offering was terminated, more than twenty million dollars of this issue had been sold.

The rate of 7½ per cent on these capital debentures was in lieu of the conventional conversion privileges often offered in order to make junior financing attractive. Since debenture interest is tax deductible, the net cost of interest payments on the 7½ per cent debentures

SHERATON'S growth consolidated in thousands of dollars

Years Ended April 30	Total Assets at Estimated Values (a)	Total Assets at Book Values	Gross Income	Depreciation	Net Operating Income (b)	Other Credits	Net Profits on Capital Transactions (b)	Total Net Income and Net Profits (b)
1959	\$346,910	\$245,503	\$171,474	\$14,144	\$3,350	\$ —	\$2,001	\$5,351
1958	304,007	217,325	159,014	14,164	3,732	—	1,101	4,833
1957	304,645	219,866	153,792	11,920	4,748	—	654	5,402
1956	243,697	172,468	121,672	8,098	4,436	—	2,215	6,651
1955	193,033	134,543	89,376	5,390	4,114	—	4,760	8,874
1954	132,520	89,568	72,771	4,507	3,417	—	1,878	5,295
1953	129,475	91,313	68,142	3,857	2,915	—	1,007	3,922
1952	113,524	82,459	62,773	3,490	2,572	414	1,196	4,182
1951	101,861	74,982	56,071	3,253	2,903	816	1,191	4,910
1950	87,874	73,029	39,739	2,626	1,968	139	1,457	3,564
1949	60,279	54,541	31,605	1,795	1,903	—	1,470	3,373
1948	55,710	47,643	28,663	1,569	1,608	—	68	1,676
1947	49,860	42,332	21,511	1,128	1,013	—	1,161	2,174

(a) Estimated by Company Officers.

(b) After Minority Interests.

tures is comparable to the cost of dividends (not deductible) on a 3¾ per cent preferred stock. For this reason, the sale of these Capital Income debentures, involving no dilution of the common stock equity, should prove advantageous.

Cash Position. Cash on hand and in the banks on April 30, 1959 was \$14,028,662 compared with \$12,668,141 a year earlier. Government bonds at market amounted to \$3,570,863 compared with \$144,943 a year earlier.

Long Term Debt excluding Capital debentures amounted to \$143,323,967, compared with \$137,409,615 a year ago.

Long Term Debt including Capital debentures amounted to \$159,614,617.

The long term debt was 45 per cent of total assets at estimated market value less current liabilities when capital debentures are excluded, and 50.2 per cent when "Capital Income Debentures" are included.

Most of the consolidated debt consists of liabilities of subsidiaries on which the parent company is not an obligor.

THOMPSON INDUSTRIES, INC.

Sheraton's 73 per cent owned subsidiary which supplies stainless steel stampings and other parts to the major automobile manufacturers had a good year despite limited automobile production during early months of the 1958-1959 fiscal year. Earnings of \$1,214,193 were \$98,099 ahead of the previous year despite the poor initial showing.

Since the end of the last fiscal year, Sheraton ownership in Thompson Industries, Inc. has been increased to over 80 per cent. A copy of the Thompson Industries, Inc. annual report is being mailed to all Sheraton stockholders.

ROOM OCCUPANCY

Sheraton Hotels — exclusive of resort hotels which are affected by seasonal forces — reported a 70.4 per cent average occupancy compared with 73.4 per cent for the preceding year. The corresponding industry figures, as compiled by Harris, Kerr, Forster & Company were 66.4 per cent and 67.5 per cent. A strike in Pittsburgh and new competition in Montreal affected Sheraton's occupancy figures adversely.

SHERATON'S growth consolidated per common share

Years Ended April 30	Estimated Net Asset Values (a) (c)	Book Net Asset Value (c)	Cash Flow (e)	Depreciation	Net Operating Income (d)	Other Credits	Net Profits on Capital Transactions (b)	Total Net Income and Net Profits (d)
1959	\$30.02*	\$11.49	\$3.73	\$3.02	\$.71	\$ —	\$.43	\$1.14
1958	26.80*	11.04	3.80	3.01	.79	—	.24	1.03
1957	25.88*	10.61	3.54	2.53	1.01	—	.14	1.15
1956	22.72*	10.06	2.66	1.72	.94	—	.47	1.41
1955	19.42*	9.45	2.01	1.14	.87	—	1.01	1.88
1954	16.50	7.94	1.65	.94	.71	—	.39	1.10
1953	14.36	7.00	1.39	.79	.60	—	.20	.80
1952	12.23	6.33	1.21	.70	.51	.08	.24	.83
1951	10.97	5.76	1.25	.66	.59	.17	.24	1.00
1950	7.74	4.79	.91	.53	.38	.03	.30	.71
1949	5.12	3.90	.72	.36	.36	—	.30	.66
1948	4.70	3.21	.61	.31	.30	—	.01	.31
1947	4.35	2.94	.41	.23	.18	—	.23	.41

* Adjusted for stock dividends and stock split-ups, and Estimated Net Asset Values at April 30, 1955 to 1959 allow for Exercise of Warrants and First Conversion Privilege of 4¾% Debentures.

(c) After Liabilities, Minority Interests and Preferred Stock. (d) After Minority Interests and Preferred Dividends.

(e) Net Operating Income Plus Depreciation.

ECONOMIC GAINS

Sheraton earnings, adjusted for changes in the estimated market value of its assets, has been referred to in previous reports as "economic gains" or "gainings". This yardstick is of interest to the management for it measures — within the limits of accuracy of market value estimates — the actual progress of the company. Indicated "economic gains" per share for the year were \$3.82 compared with \$1.51 a year ago. (See Table page 9.)

The improvement reflects in part the rise in the value of many Sheraton properties following the "lifting" of the recent recession, and in part the effectiveness of many millions invested in improvements which often add more than their cost to the value of improved properties.

INTERPRETATION OF REPORTED EARNINGS

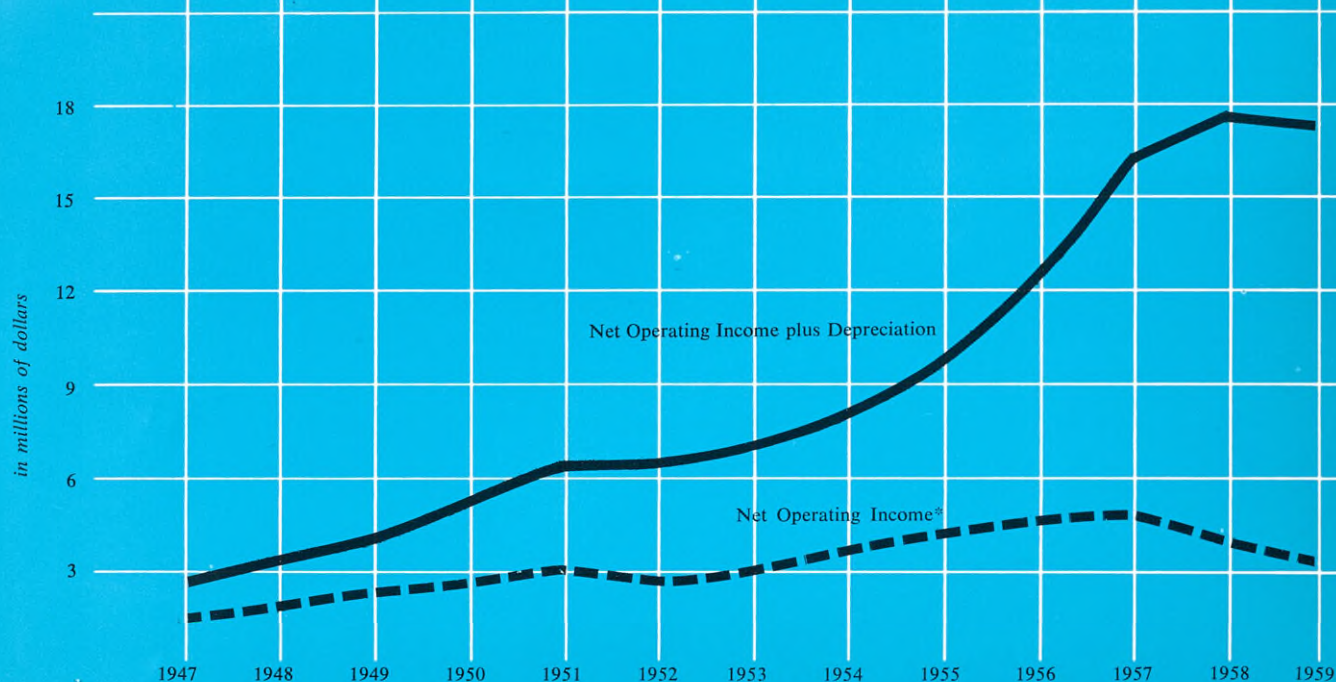
The conventional method of presenting so-called "reported earnings" is perhaps inadequate in two respects.

Since some latitude exists under Treasury

rulings with respect to deductible depreciation reserves, there is a corresponding leeway in the amount of reportable earnings. Sheraton believes that with propriety its depreciation reserves could be reduced by several million dollars, — in part by eliminating accelerated depreciation, and in part by taking into account improvements which add more than their cost to the value of these properties, thereby reducing the need for as much depreciation. If reductions in depreciation reserves had been made, reported earnings might conceivably have been twice as large. Unfortunately such procedure would require added income taxes.

A second factor affecting "reported earnings" adversely, although actual losses are rarely involved, arises from the fact that many of Sheraton's subsidiaries are in the red ink, even though in most instances the Cash Flow they "generate" is satisfactory. Nearly three millions of "losses" were recorded during the past year by these "loss" companies. These losses were subtracted from the earnings of so-called profitable subsidiaries when determining "reported earnings".

CASH FLOW from operations (Net Operating Income plus Depreciation)



*after minority interests

The loss companies, many in the process of rehabilitation, might be termed "Development Corporations". They are valued by Sheraton at over \$100,000,000, out of a total estimated valuation of some \$280,000,000 for all Sheraton real estate, computed on the basis of the "cash throw off" of these properties, adjusted for any unusual or nonrecurring expenses. Even though a market exists for these "loss" companies of approximately \$100,000,000, if Sheraton disposed of these even by giving them away, the result would be to *increase* by nearly three million dollars the reported pre-tax earnings. This, however, would mean larger income tax payments and therefore reduced "cash flow".

We believe it would be unwise to sell these so-called "loss companies", even at their full market value, — for these present perhaps the most promising opportunity for further appreciation.

Inconsistencies which appear to exist in conventional accounting practice, presumably due to the custom of applying to real estate companies accounting procedures applicable to industries of a quite different nature, explains why Sheraton prefers the yardstick we call

economic gains, to the more usual measure known as "reported earnings".

UNFAVORABLE FACTORS

A number of unfavorable factors, for the first time in many years, resulted in a slight decrease in cash flow.

The adverse factors were:

(a) Especially heavy competition from new hotels, to some extent Canadian Government subsidized, in Montreal and Toronto.

(b) A costly strike in Pittsburgh.

(c) The 1958 recession.

(d) Heavy promotional expenses in connection with the new Sheraton-Dallas Hotel.

(e) Losses of the Ritz-Carlton in Atlantic City, and the Terrace Motel in Austin, Texas. (Sold February and July 1959 respectively.)

(f) Heavy initial costs of introducing Sheraton's "Reservatron" electronic reservation system.

Most of the difficulties encountered in the past fiscal year will, it is hoped, be of a non-recurring nature.

Although further competition in Toronto and Montreal is expected, signs of improvement are already evident in Montreal where Sheraton has two of its larger hotels.

The strike at the Penn-Sheraton Hotel in Pittsburgh, a city-wide affair that lasted three weeks during October, was largely responsible for the earnings drop in our Pittsburgh hotel. However, full recovery in the next few years is not expected in that city for there will be competition from a new hotel next year.

The impact of short lived recessions on a hotel are not unduly severe. However, such repercussions, when felt, tend to lag several months behind the normal course of a recession. Little impact was noted from the recent recession during the fiscal year ended April 30, 1958. The effects were more pronounced during the fiscal year just ended. Currently both sales and indicated earnings of Sheraton Hotels appear to be favorable.

Advertising and promotional expense was

increased to publicize the new Sheraton-Dallas Hotel which opened on April 15.

Losses from ownership of the Ritz-Carlton Hotel in Atlantic City and the Terrace Motel in Austin, Texas during the past fiscal year were substantial. Some of this loss was due to rehabilitation expenses. It was later felt that ownership of these two properties was a mistake, and they have therefore been sold. It was believed Sheraton would make greater progress in other areas, such for instance as Honolulu where four newly acquired Waikiki Beach hotels are currently experiencing a sharp rise in occupancy. An eighteen million dollar investment in these properties will, we believe, prove very desirable.

Sheraton's Reservatron (pronounced reserv-a-tron) installation, as is usual with electronic data processing devices, involves heavy extra expenses during the first year or two of operation. This nearly instantaneous device for recording the availability of 26,500 rooms sixty

SHERATON'S "economic performance" per common share*

Years Ended April 30	Quoted Market Price	Estimated Net Asset Value (per Company Officers)	Increase in Estimated Net Asset Value During Year	Cash Dividends Paid During Year	"ECONOMIC PERFORMANCE," i.e., Asset Value Increase Plus Dividends Paid (Includes Estimated Appreciation)	Price-Performance Ratio (Shows Ratio of Market Price of Shares to "Economic Performance") (Note 1)
1959	\$18.50	\$30.02*	\$3.22	\$.60	\$3.82	4.8
1958	11.15	26.80*	.92	.59	1.51	7.4
1957	12.13	25.88*	3.16	.50	3.66	3.3
1956	10.80	22.72*	3.30	.42	3.72	2.9
1955	12.14	19.42*	2.92	.28	3.20	3.8
1954	5.61	16.50	2.14	.22	2.36	2.4
1953	4.57	14.36	2.13	.19	2.32	2.0
1952	3.82	12.23	1.26	.19	1.45	2.6
1951	3.16	10.97	3.23	.19	3.42	.9
1950	2.47	7.74	2.62	.12	2.74	.9
1949	1.70	5.12	.42	.12	.54	3.1
1948	1.85	4.70	.35	.12	.47	3.9
1947	2.20	4.35	1.48	.11	1.59	1.4
1946	4.09	2.87	.27	.06	.33	12.4
1945	1.38	2.60	1.64	.04	1.68	.8

* Adjusted for stock dividends and stock split-ups, and Estimated Net Asset Values at April 30, 1955 to 1959 allow for Exercise of Warrants and First Conversion Privilege of 4¾% Debentures.

Note 1.—Should not be confused with the more familiar price earnings ratio which excludes any unrealized appreciation.



Princess Kaiulani

SurfRider



Moana

World famous Royal Hawaiian Hotel on beautiful Waikiki Beach

days ahead should eventually save close to two hundred thousand dollars a year. Added initial expenses for the past year, however, were high, a loss that should be smaller in the current fiscal year.

Despite heavy charges against earnings, many of a nonrecurring nature, Sheraton's "cash flow" earnings for the past year fell below those of the preceding year by only slightly more than 2 per cent.

With deepest regret we record the passing in October 1958 of Eugene C. Eppley, one of the country's great hotel men, a Sheraton Director and Honorary Chairman of our Board.

Following Sheraton's acquisition of a substantial interest in The Diners' Club, Inc., Ralph E. Schneider, President of The Diners' Club, Inc. has become a Sheraton Director.

Elmer E. Boswell, having reached retirement age, has relinquished the post of a Senior Vice President after having contributed brilliantly during twenty-two years to the progress of the Company.

On April 12, 1959 three Sheraton Vice Presidents became Senior Vice Presidents as a token of appreciation for their long-time contributions to the Company as well as in recog-

niton of their ever increasing responsibilities. They are Robert M. Brush, Robert B. Kelsey and Fred S. Kummer.

Conclusion: With many adverse factors eliminated, with a favorable trend to sales of Thompson Industries, Inc., with more hotels in operation than ever before, Sheraton is looking forward to an increase in cash flow as well as to rising "economic gains" for the current year.

Even "reported earnings", so highly prized by many investors, though of less significance in the opinion of the management, may also show some improvement if present favorable trends continue.

As a shareholder of this Company, may we invite you to make the fullest use of Sheraton's outstanding facilities on your next trip to a Sheraton city. Your Sheraton guest card enables you to charge hotel services to your account, and cash checks.

With continued support from our shareholders, directors, and employees, the Company is looking forward with confidence to another year of progress.

Ernest Henderson

an
ch







Newly opened Sheraton Inn, Binghamton, N.Y.

OPERATIONS

HAWAIIAN ACQUISITION

SHERATON highlighted its expansion program for the fiscal year with the acquisition of the famous Matson Navigation Company hotels on Waikiki Beach in Honolulu — The Royal Hawaiian, the Princess Kaiulani, The Moana and the SurfRider. The four hotels occupy most of Waikiki Beach and with a good occupancy record already, Sheraton hopes by its improvement program to make the hotels profitable additions to the Sheraton group. In addition to the four hotels, Sheraton acquired valuable adjacent acreage and is presently planning construction of another 600 room hotel.

SHERATON ACQUIRES HOTEL CLEVELAND

Consolidating its position in the midwest, Sheraton acquired in Cleveland, Ohio, the 1000 room Hotel Cleveland. An extensive program for complete air conditioning and refurbishing is now underway.

SHERATON-DALLAS OPENS

A super luxury hotel — the newly completed 600 room Sheraton-Dallas opened its doors on April 13 with a series of colorful ceremonies attended by celebrities, top business and professional people, and government leaders from all parts of the country. The ultra-modern Sheraton-Dallas is a part of Southland Center which boasts the highest building west of the Mississippi. The two buildings were dedicated in joint ceremonies.

SHERATON OPENS FIRST "HIGHWAY HOTEL"

In a move combining big city hotel luxury and motel accessibility, Sheraton opened the first of its 'Highway Hotels' in Binghamton, New York. Known as The Sheraton Inn, the 200 room hotel, centrally located, serves the Tri-City Binghamton industrial area as well as passing motorists. Sheraton Inn has complete convention facilities, a ballroom capable of seating 675, and a fine restaurant. A typically Sheraton gala opening combined with a conference on Urban Highway Development launched the Sheraton Inn.

Responsible for Development Policy are, from left to right: Robert M. Brush, Senior Vice President, Development; Fred B. Mills, 2nd Vice President, Engineering; Gerard Henderson, 2nd Vice President, Project Control; and Fred B. Kummer, Senior Vice President, Engineering.



A view of the patio from the Dining Room of the Sheraton-West



SHERATON ADDS ANOTHER SOUTHERN LINK

Acquisition of the historic Battle House in Mobile, Alabama, carried the Sheraton marquee into one of the largest seaports in the south. Over \$100,000 is being spent in modernizing this famous 250 room southern hostelry.

In Chicago an ambitious rebuilding program to cost nearly \$8,000,000 is underway at the Sheraton-Towers that will add 600 rooms, more than doubling present capacity.

The Sheraton-Towers has been noted for some of the best meeting and convention facilities in the midwest, but has heretofore been unable to capitalize on these to the fullest extent due to limited accommodations of only 450 rooms.

PROPERTY IMPROVEMENTS

In line with Sheraton's policy of constantly improving and upgrading its properties, 1959 saw some outstanding improvements and renovations.

The specialty restaurant division of the food and beverage department completed a major project at a cost of nearly \$350,000 with the opening in January of the Kon Tiki restaurant in the Sheraton-Mt. Royal in Montreal, its first venture into the Polynesian dining theme. A well publicized opening, combined with the most exotic of settings has produced a facility that is now operating at profits even better than estimated. The success of the Polynesian type specialty dining rooms has led the company to plan several more Kon Tiki restaurants in other Sheraton hotels. Special permission to use the



SHERATON PROPERTIES

UNITED STATES

AKRON, OHIO
Sheraton

ALBANY, NEW YORK
Sheraton-Ten Eyck

BALTIMORE, MD.
Sheraton-Belvedere
*Sheraton**

BINGHAMTON, N. Y.
Sheraton Inn

BOSTON, MASS.
Sheraton-Plaza

BUFFALO, NEW YORK
Sheraton

CEDAR RAPIDS, IOWA
Sheraton-Montrose

CHICAGO, ILLINOIS
Sheraton Towers
Sheraton-Blackstone

CINCINNATI, OHIO
Sheraton-Gibson

CLEVELAND, OHIO
Sheraton-Cleveland

DALLAS, TEXAS
Sheraton-Dallas

DETROIT, MICHIGAN
Sheraton-Cadillac

FRENCH LICK, IND.
French Lick-Sheraton

HOUSTON, TEXAS
*Sheraton**

INDIANAPOLIS, IND.
Sheraton-Lincoln

LOS ANGELES, CALIF.
Sheraton-West

LOUISVILLE, KENTUCKY
Sheraton
The Watterson

MINNEAPOLIS, MINN.
*Sheraton**

MOBILE, ALABAMA
The Battle House

NEW ORLEANS, LA.
Claiborne Towers

NEW YORK, N. Y.
Sheraton-East
Sheraton-McAlpin
Park-Sheraton Hotel
Sheraton-Russell Hotel

OAKLAND, CALIF.
*Sheraton**

OMAHA, NEBRASKA
Logan
Sheraton-Fontenelle

PASADENA, CALIF.
Huntington-Sheraton

PHILADELPHIA, PENN.
Sheraton

PITTSBURGH, PENN.
Penn-Sheraton

PORTLAND, OREGON
*Sheraton**

PROVIDENCE, R. I.
Sheraton-Billmore

RAPID CITY, S. D.
Sheraton-Johnson

ROCHESTER, N. Y.
Sheraton

SAN FRANCISCO, CALIF.
Sheraton-Palace

SIoux CITY, IOWA
Sheraton-Martin
Sheraton-Warrior

SIoux FALLS, S. D.
Sheraton-Carpenter
Sheraton-Cataract

SPRINGFIELD, MASS.
Sheraton-Kimball

ST. LOUIS, MISSOURI
Sheraton-Jefferson

SYRACUSE, NEW YORK
*Sheraton**

WASHINGTON, D. C.
Sheraton-Carlton
Sheraton-Park

HONOLULU, HAWAII
Royal Hawaiian
Moana
SurfRider
Princess Kaiulani

CANADA

EDMONTON, ALBERTA
*Sheraton**

HAMILTON, ONTARIO
Sheraton-Connaught

MONTREAL, QUEBEC
Laurentien
Sheraton-Mt. Royal

NIAGARA FALLS, ONT.
Foxhead
Sheraton-Brock

TORONTO, ONTARIO
King Edward Sheraton

FOREIGN

Puerto Rico*
Jamaica, B. W. I.*

*Under Construction or Announced

SHERATON BUILDINGS Rittenhouse Sq. Bldg.-Phila. Sheraton Bldg.-Boston Sheraton-Whitehall Bldg.-N.Y. Sheraton Bldg.-Washington, D.C.



name was granted by Thor Heyerdahl, author of *Kon Tiki* and his publisher, Rand-McNally, who rendered invaluable assistance in publicizing the restaurant.

The Gay Nineties theme, successfully used in the Sheraton-Fontenelle's Little Nugget, has been appropriately enough adopted by the Sheraton-Gibson in Cincinnati for its Gibson Girl lounge.

The Sheraton-Towers in Chicago has recently installed a large hoist to carry automobiles and heavy machinery up to the ballroom, making it possible for the hotel to accommodate automobile shows.

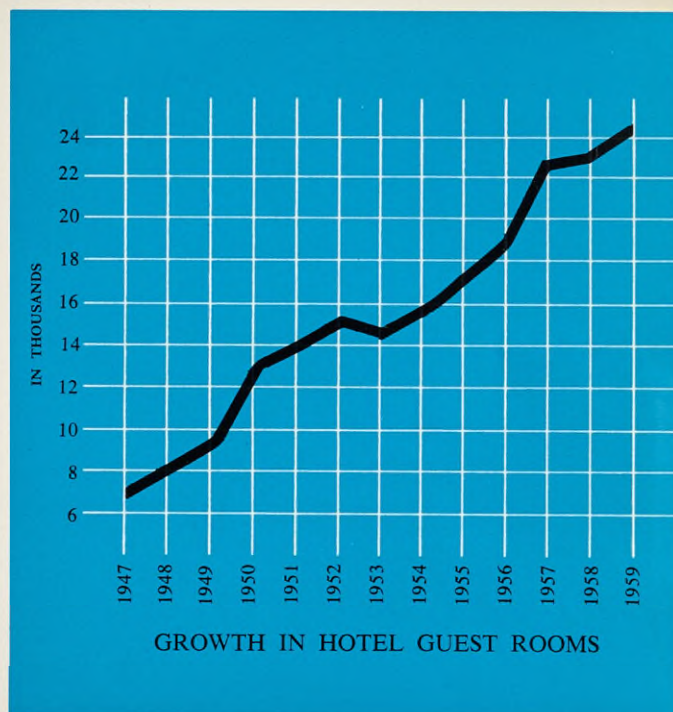
Another of the outstanding profit improvement projects this year has been the Secretarial Office program under the direction of the Projects Department. Taking space which was either unused or not productive of full profit potential, private offices for lease at attractive rents and handsomely furnished, were created, air conditioned and fluorescent lighted. A Sheraton attendant provides personalized telephone answering service and mail handling combined with stenographic service. The secretarial office program is now operating at the King Edward Sheraton in Toronto, the Sheraton Hotel in Philadelphia and in the home office building of the corporation at 470 Atlantic Avenue in Boston. An additional facility will open soon in Montreal's Laurentien Hotel.

Future plans call for an extension of the concept to sixteen other Sheraton cities.

In Canada a substantial improvement project is underway at the Sheraton-Brock Hotel in Niagara Falls, Ontario. A Grand Ballroom addition to the hotel has been started. The three-story masonry and glass addition accommodating conventions of more than 1,000 persons will be completely modern with a floor to ceiling glass wall overlooking the Falls and Rainbow Bridge. Uniquely constructed, the new ballroom will be elevated on piers over a portion of the present parking lot so as not to interfere with this facility.

Another attractive addition to the hotel is a glass-enclosed terrace lounge seating 150 people on the present third floor open terrace overlooking the Canadian and American Falls.

In addition to the improvements mentioned



above, Sheraton has been placing increasing emphasis on maintenance and housekeeping facilities. Major economies have been effected by improved and redesigned basic services.

Dial telephone service has been installed in the Sheraton-Plaza, the Sheraton-Dallas and the Sheraton-Mt. Royal and, in the next fiscal year, similar installations are planned in twelve of the larger hotels. In the last year alone, Sheraton saved over \$100,000 in telephone costs, as a result of these and other improvements.

A new laundry system pioneered by Sheraton in Washington, D. C. over a year ago and already installed in two more hotels is expected to save over \$100,000 in the forthcoming year while giving better and more efficient guest service.

PLANNING FOR THE FUTURE

Basically a growth company, Sheraton is well aware of the need for perpetuating a young, aggressive organization. Sheraton has



Convenience and service for the business man—a typical Sheraton Secretarial Suite

Senior Vice President Robert Kelsey confers with Vice President Richard Boonisar (finance) and Treasurer Ernest Henderson III.



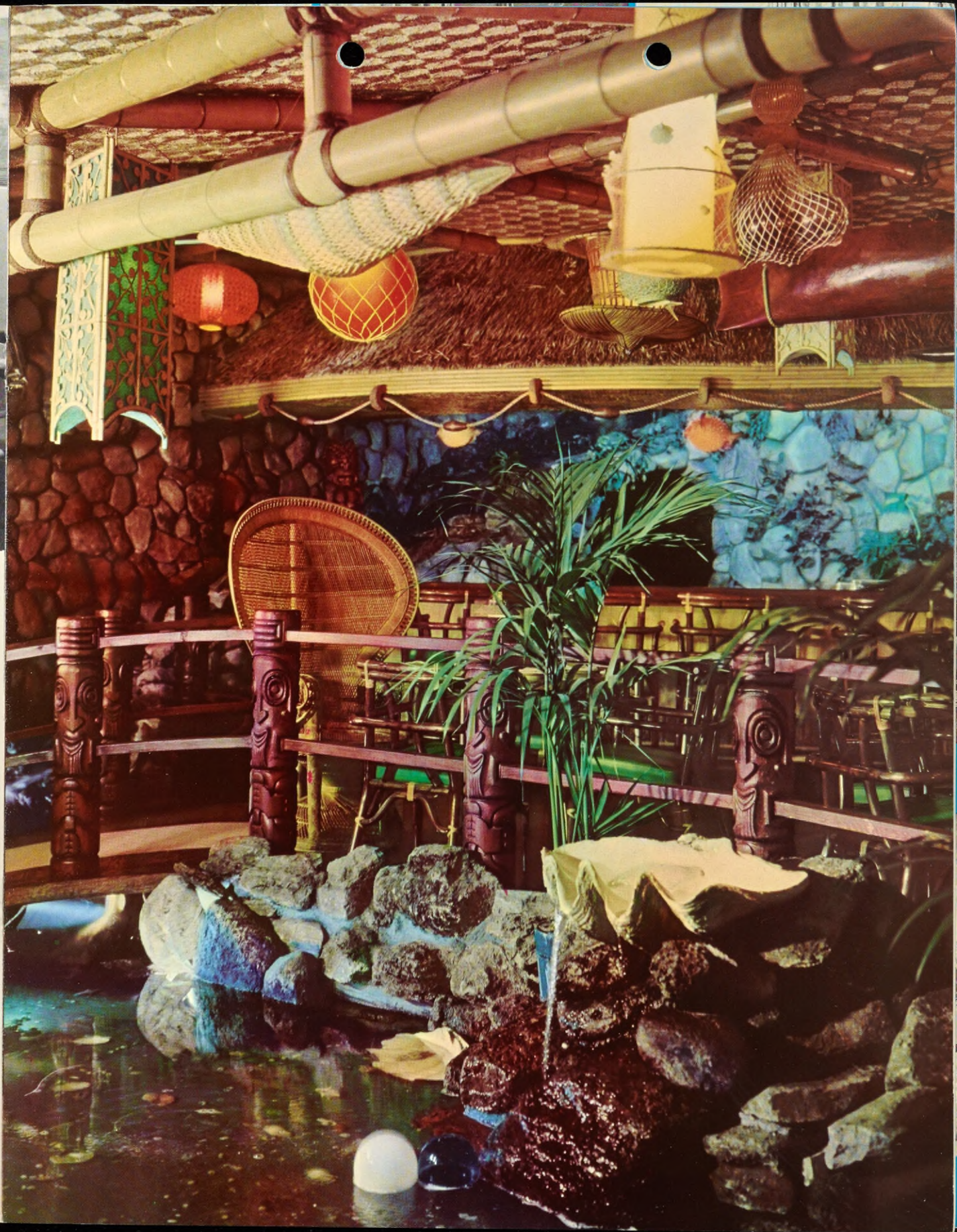
placed considerable emphasis on development and training of executives. It has always been the belief of the founders that it is through delegation of authority that a competent, responsible organization, extending down through the entire corporation, can retain the aggressive spirit that has developed Sheraton from an original ten thousand dollar beginning to the present \$300,000,000 corporation.

Expansion policies, projected in 1959 reflect Sheraton's belief in the future of its industry both in America and throughout the world.

In Minneapolis, Sheraton is projecting a 400-room luxury hotel to be ready for occupancy in 1962. The ten-million dollar hotel will comprise most of one block of the eight-square-block Gateway Center, currently under development by the Knutson Company of Minneapolis.

In Edmonton, Alberta, Canada, negotiations were successfully completed to construct a new 19-story, 400-room convention hotel in the downtown area.

The Sheraton-Mt. Royal's Kon Tiki Room—the first of several such rooms planned across the country





Queen Elizabeth II arrives at the Sheraton-Mount Royal in Montreal, Canada, during her tour marking the opening of the St. Lawrence Seaway.

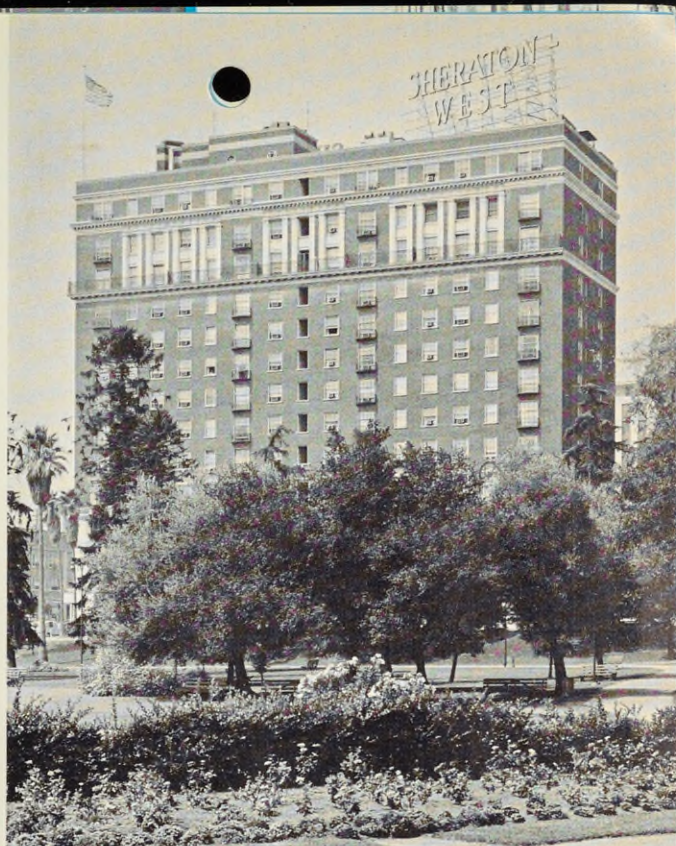
Her Majesty, the Queen, and Prince Philip were guests of honor at a luncheon in the Normandie Room of the hotel, tendered by the Mayor of Montreal, the Honorable Santo Fournier. Preceding the luncheon the Queen visited the four room Royal Suite which was redecored in honor of her visit.

Sheraton Has Further Manifested Its Interest in the Booming Economy of the Southwest by contracting to erect a \$15-million 600-room luxury hotel in Houston, Texas. The new hotel will be the first major one to be built in downtown Houston in 30 years. It will be financed largely by the Lincoln Liberty Life Insurance Company. The modern structure will house the Sheraton-Lincoln Hotel as well as the home office of the insurance company.

In Baltimore, as in Binghamton, Sheraton will again offer the traveling public the maximum in luxury and convenience. The multi-million dollar hostelry of an attractive contemporary design, the first hotel to be constructed in Baltimore for 28 years, will be built adjacent to a proposed new medical office building near the Johns Hopkins Medical Institution. Sheraton believes that the need for additional hotel facilities in the outskirts of Baltimore coupled with the additional requirements for housing accommodations for outpatients and visitors attracted by a world famous medical institution will make this a successful and profitable operation.

On the West Coast a Sheraton Hotel is being considered in Oakland, California. The \$4-million 200-room luxury hotel is to have banquet facilities for 500 as well as a specialty restaurant, Minute Chef and Coffee Shop. It will also feature attractive lanai accommodations surrounding a landscaped swimming pool.

In The Caribbean Sheraton is mapping expansion areas of greatest economic development — San Juan, Puerto Rico and Kingston, Jamaica. The Sheraton-Jamaica will be constructed in the island's capital city, Kingston, booming center of the British West Indies. The hotel is to be the largest hotel on the island with approximately 200 rooms and will be the only major hotel in Kingston. In San Juan, Sheraton will assume operation of a new 425-room, \$10-million dollar oceanside luxury hotel, which will be the tallest building in Puerto Rico. Scheduled to open in 1961, the hotel will be situated on five-and-a-half acres in the Candado section of Santurce, San Juan with some 700 feet of natural Caribbean beachfront.



One of the West Coast's most luxurious hotels, The Sheraton-West, formerly the Town House

The Sheraton-East long a Park Avenue landmark



RATIO of Long-Term Debt to Total Assets at Estimated Value Less Current Liabilities

April 30	Total Assets At Estimated Value*	Less Current Liabilities	Net	Long-Term Debt (inc. capital debentures)	Ratio
1959	\$346,910	\$28,641	\$318,269	\$159,615	50.2%
1958	304,007	24,345	279,662	137,410	49.1%
1957	304,645	26,028	278,617	140,524	50.4%
1956	243,697	20,865	222,832	99,584	44.7%
1955	193,033	16,746	176,287	68,267	38.7%
1954	132,520	12,199	120,321	36,394	30.3%
1953	129,475	10,899	118,576	43,085	36.3%
1952	113,524	11,375	102,149	35,266	34.5%
1951	101,861	9,260	92,601	32,483	35.1%
1950	87,874	12,396	75,478	30,171	40.0%
1949	60,279	6,803	53,476	22,776	42.6%

*Estimated by Company Officers.

Above Amounts in Thousands of Dollars

FINANCIAL COMMENTS

OF primary significance in Sheraton's financial history is its outstanding growth record which has only been exceeded by one of the well known companies listed on the New York Stock Exchange between the time World War II began late in 1941 and the time this computation was made by Sheraton statisticians late in 1958. During this period, Sheraton shares outperformed by several fold some of the most prominent "growth" shares of the country.

Three Factors Combined to Produce Sheraton's Record Growth among growth companies listed on the New York Stock Exchange.

The first of these factors is reported earnings which amount to less than 6% on the net asset value of Sheraton's 4,675,434 shares outstanding April 30, 1959.

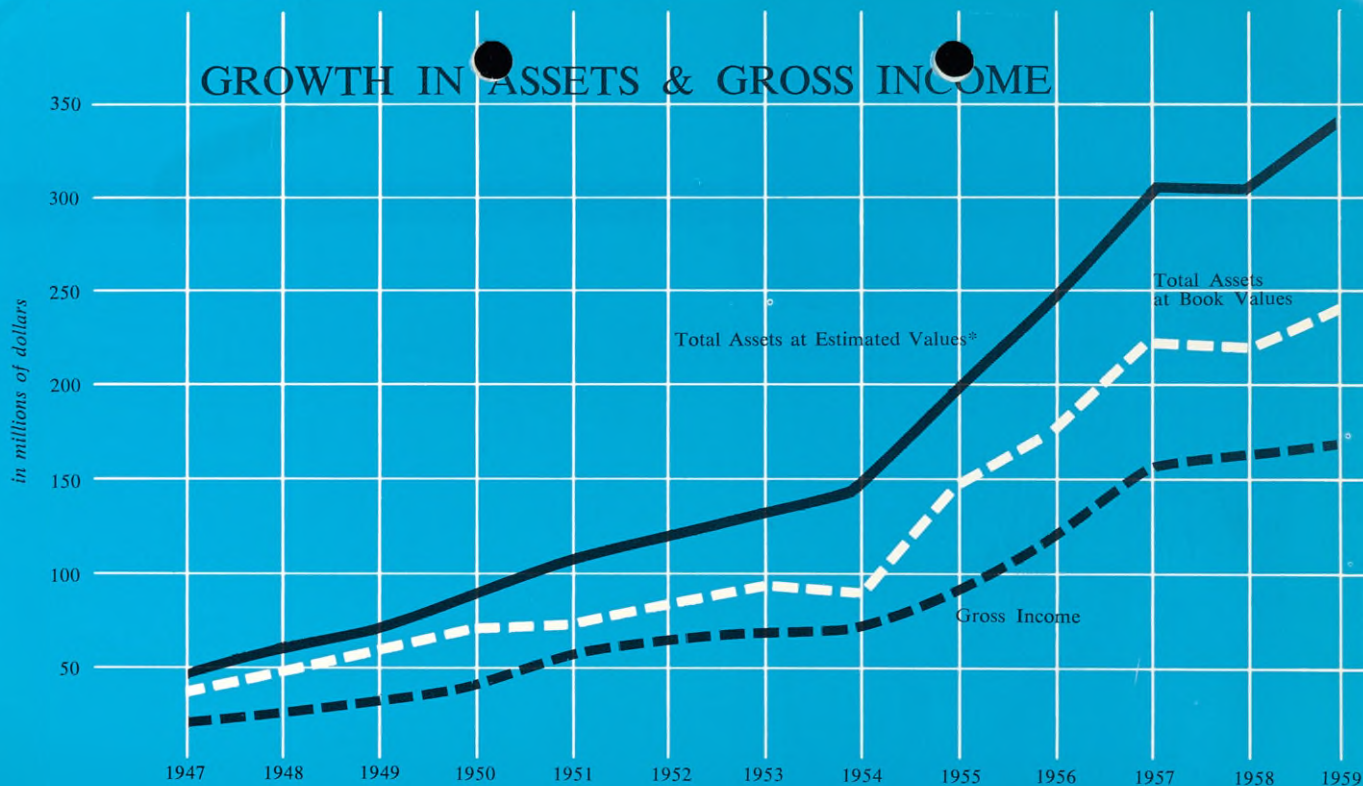
This 6% is cut in half by income taxes and most of the balance is paid out in dividends to stockholders. Very little of the reported earnings remain to contribute to the enhancement of the net asset value of the company's shares.

The second and more important source from which net worth is increased, derives from the high depreciation reserves being deducted from reported earnings. The Revenue Law of 1954 permits real estate holding companies like Sheraton to take accelerated depreciation on its properties — much like the depletion reserves set up for oil wells.

By subtracting this depreciation from taxable earnings and spending the money which would otherwise be paid out in taxes, on improvements and new projects, the value of Sheraton's net assets increases every year although reported net earnings after taxes may appear to be lower than expected.

The third and often most important category of forces contributing to the yearly increases in the company's worth, consists of profits accumulating from improvement projects. Every project is calculated to add considerably more than its actual cost to the value of the property in which it is made. These

GROWTH IN ASSETS & GROSS INCOME



*estimated by company officers

improvements not only increase the income to Sheraton from the properties, but also add to the real value of the property as much as two dollars for each dollar spent on the project.

The accuracy of Sheraton's judgment in spending one dollar to add two dollars to the value of a project is best proved in instances when a property is sold. At this time the unrealized capital gains reflected in the market value of a property become "realized".

An example of this may be seen in the case of the Astor Hotel which Sheraton purchased for \$8,000,000. A sum of \$2,000,000 was spent on such improvements as air conditioning, changes in kitchen lay-out, modernizations, etc. These improvements made it possible for the hotel to earn \$500,000 more per year than previously. Less than two years later the Astor was re-sold to the same group from which it was purchased for \$12,000,000 — \$4,000,000 more than Sheraton paid for it. The improvement program of \$2,000,000

added \$4,000,000 to the market value of the property. In certain instances this is even more dramatically demonstrated. The Sheraton-Park in Washington was initially purchased for three and three quarter million dollars and today after investing approximately \$3,000,000 in renovation and improvements, is considered to have a market value of some \$12,000,000.

STOCK INVESTMENT IN THE DINERS' CLUB, INC.

In the fall of 1958 Sheraton exchanged the assets of a subsidiary company for shares of The Diners' Club, Inc. The shares, now listed on the New York Stock Exchange, were valued at several million dollars.

This gave Sheraton a 12% ownership in this all purpose credit card company. Sheraton also acquired warrants to purchase additional shares of The Diners' Club, Inc. over a period of several years.

COMPARATIVE CONSOLIDATED
BALANCE SHEET

SHERATON CORPORATION OF A

ASSETS

	April 30, 1959	April 30, 1958
CURRENT ASSETS		
Cash		
Demand Deposits	\$ 12,185,867	\$ 11,030,640
Restricted Deposits	518,885	499,897
On Hand	1,323,910	1,137,604
	<u>14,028,662</u>	<u>12,668,141</u>
Securities—Marketable—at Cost		
U. S. Treasury Bonds	3,585,103	144,037
Other	66,045	69,953
(Market Values \$3,618,031 and \$202,150)	3,651,148	213,990
Accounts and Notes Receivable	14,318,471	9,443,575
Less: Estimated Uncollectible Accounts and Notes	421,776	398,710
	<u>13,896,695</u>	<u>9,044,865</u>
Accrued Interest Receivable	38,980	32,515
Mortgages Receivable—Payments Due Within One Year (below)	685,051	666,229
Inventories—at Cost	6,961,516	4,412,440
Prepaid Expenses	2,407,121	1,968,285
<i>Total Current Assets</i>	<u>\$ 41,669,173</u>	<u>\$ 29,006,465</u>
INVESTMENTS—AT COST (Notes 1 and 2)		
Securities—Other Than Marketable	\$ 3,486,870	\$ 64,370
(Officers' Estimated Values \$3,489,870 and \$67,370)		
Securities of Subsidiaries—not Consolidated	248,625	248,625
(Estimated Values \$497,075 and \$450,295)		
Mortgages Receivable	8,396,170	9,189,129
(Officers' Estimated Values \$10,714,596 and \$10,986,446)		
Less: Mortgage Payments Due Within One Year (above)	(685,051)	(666,229)
<i>Total Investments</i>	<u>\$ 11,446,614</u>	<u>\$ 8,835,895</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3)		
Land and Leaseholds	\$ 41,813,718	\$ 39,048,937
Buildings and Improvements	155,519,092	143,329,442
Leasehold Improvements	1,937,506	1,393,426
Furniture and Equipment	58,242,723	52,156,261
	257,513,039	235,928,066
Less: Depreciation to Date	70,118,088	59,537,589
<i>Total Property, Plant and Equipment</i>	<u>\$187,394,951</u>	<u>\$176,390,477</u>
(Officers' Estimated Values \$288,000,000 and \$261,000,000)		
OTHER ASSETS		
Options and Deposits on Contracts (Note 8)	\$ 500,250	\$ —
Notes and Contracts Receivable—Due After One Year	139,450	99,770
Unamortized Debt Discount and Expense (Note 10)	2,812,800	1,728,878
Security and Other Deposits	606,739	658,610
Life Insurance—Cash Surrender Value	245,435	228,812
Other (Note 1)	687,915	376,499
<i>Total Other Assets</i>	<u>4,992,589</u>	<u>3,092,569</u>
TOTAL ASSETS	<u>\$245,503,327</u>	<u>\$217,325,406</u>

See Notes to Consolidated Financial Statements.

AMERICA & SUBSIDIARIES

COMPARATIVE CONSOLIDATED
BALANCE SHEET

LIABILITIES, CAPITAL SHARES AND SURPLUS

	April 30, 1959	April 30, 1958
CURRENT LIABILITIES		
Notes and Contracts Payable (Note 2)	\$ 12,719,171	\$ 15,017,059
Less: Payments Due After One Year (below)	10,960,335	12,564,576
	<u>1,758,836</u>	<u>2,452,483</u>
Accounts Payable	11,215,610	7,625,225
Accrued Liabilities		
Interest	1,227,420	788,313
Federal, Canadian and State Taxes	3,226,195	3,109,248
Other	5,105,201	4,726,471
Bonds and Mortgages Payable—Payments Due Within One Year (below)		
Capital Income Sinking Fund Debentures	500,350	—
Other Bonds and Mortgages	5,608,104	5,642,918
<i>Total Current Liabilities</i>	<u>\$ 28,641,716</u>	<u>\$ 24,344,658</u>
LONG-TERM INDEBTEDNESS (Notes 2, 3, 4 and 5)		
Bonds and Mortgages Payable (except Capital Debentures)	\$137,125,115	\$128,993,903
Less: Payments Due Within One Year (above)	5,608,104	5,642,918
	<u>131,517,011</u>	<u>123,350,985</u>
Notes and Contracts Payable—Due After One Year (above)	10,960,335	12,564,576
Federal and State Taxes Payable	846,621	1,494,054
	<u>143,323,967</u>	<u>137,409,615</u>
Capital Income Sinking Fund Debentures (1989)	16,791,000	—
Less: Payments Due Within One Year (above)	500,350	—
	<u>16,290,650</u>	<u>—</u>
<i>Total Long-Term Indebtedness</i>	<u>\$159,614,617</u>	<u>\$137,409,615</u>
Total Liabilities	<u>\$188,256,333</u>	<u>\$161,754,273</u>
MINORITY INTERESTS	<u>\$ 3,527,906</u>	<u>\$ 3,635,865</u>

CAPITAL SHARES AND SURPLUS

SHARES

	April 30, 1959	April 30, 1958
Capital Shares (Notes 4 and 5)		
Common—Par \$.50		
Authorized	6,000,000	6,000,000
Issued and Issuable	5,055,451	4,938,755
Less: In Treasury	380,017	328,546
Outstanding	<u>4,675,434</u>	<u>4,610,209</u>
<i>Total Capital Shares</i>	<u>\$ 2,337,717</u>	<u>\$ 2,305,104</u>
Surplus (Note 6)		
Paid In Surplus	28,901,529	28,491,902
Earned Surplus	19,777,548	18,436,668
Surplus from Consolidation (Note 1)	2,702,294	2,701,594
Total Capital Shares and Surplus	<u>\$ 53,719,088</u>	<u>\$ 51,935,268</u>
TOTAL LIABILITIES, CAPITAL SHARES AND SURPLUS	<u>\$245,503,327</u>	<u>\$217,325,406</u>

COMPARATIVE CONSOLIDATED
INCOME STATEMENT

SHERATON CORPORATION OF

	For the Year ended	
	April 30, 1959	April 30, 1958
GROSS OPERATING INCOME		
Hotels		
Rooms	\$ 60,598,392	\$ 57,414,154
Food and Beverages	58,607,690	58,256,363
Other	12,488,925	11,960,091
	<u>131,695,007</u>	<u>127,630,608</u>
Commercial Buildings	3,829,480	3,741,468
Apartment Buildings	1,647,569	1,665,798
Thompson Division	30,944,393	22,912,666
Other	2,671,868	2,260,162
<i>Total</i>	<u>\$170,788,317</u>	<u>\$158,210,702</u>
OPERATING COSTS AND EXPENSES		
Departmental Costs and Expenses	\$ 72,851,312	\$ 71,617,018
Administrative and General	11,580,541	10,207,563
Officers' Salaries and Directors' Fees	895,797	831,169
Advertising and Promotion	5,001,443	4,020,240
Heat, Electricity and Water	5,455,860	5,198,399
Repairs and Maintenance	7,677,650	7,852,630
Rent	1,820,407	1,354,073
Real Estate and Personal Property Taxes	5,752,455	5,351,703
Insurance	181,884	164,566
Bad Debts Expense	492,741	407,804
Thompson Division		
Cost of Sales	24,941,616	17,673,816
Other	2,388,714	1,980,069
Other	3,166,456	2,949,980
<i>Total</i>	<u>\$142,206,876</u>	<u>\$129,609,030</u>
OPERATING INCOME	\$ 28,581,441	\$ 28,601,672
OTHER INCOME		
Dividends and Interest	679,181	794,445
Other	6,032	9,157
<i>Total</i>	<u>\$ 29,266,654</u>	<u>\$ 29,405,274</u>
OTHER DEDUCTIONS FROM INCOME		
Depreciation	\$ 14,144,378	\$ 14,163,623
Interest and Debt Expense	7,292,032	6,849,261
<i>Total</i>	<u>\$ 21,436,410</u>	<u>\$ 21,012,884</u>
ORDINARY INCOME	<u>\$ 7,830,244</u>	<u>\$ 8,392,390</u>
INCOME TAXES		
Federal Income	\$ 2,265,236	\$ 1,905,605
Canadian	1,551,359	2,093,815
State	97,968	105,794
<i>Total</i>	<u>\$ 3,914,563</u>	<u>\$ 4,105,214</u>
NET INCOME before Profit from Capital Transactions	<u>\$ 3,915,681</u>	<u>\$ 4,287,176</u>
Profit from Capital Transactions	\$ 2,000,937	\$ 1,656,117
Less: Income Taxes Thereon	—	554,540
Net Profit from Capital Transactions	<u>\$ 2,000,937</u>	<u>\$ 1,101,577</u>
Income and Profits for the Year	<u>\$ 5,916,618</u>	<u>\$ 5,388,753</u>
Net Income and Profits Applicable to Minority Interests	565,879	555,293
NET INCOME AND PROFITS FOR THE YEAR	<u>\$ 5,350,739</u>	<u>\$ 4,833,460</u>

See Notes to Consolidated Financial Statements.

AMERICA & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF
SURPLUS

For the Year ended April 30, 1959

PAID IN SURPLUS

CONSOLIDATED PAID IN SURPLUS APRIL 30, 1958		\$28,491,902
Additions		
Portion of Earned Surplus transferred to Paid In Surplus in connection with August 1, 1958 2% Stock Dividend (87,982 shares at \$12.50 per share)		1,099,775
Excess of Amounts Received over Par Value of 25,074 shares issued at \$8.333 per share upon the Exercise of Warrants		
<i>Paid By:</i>	<i>Amounts Received</i>	
6% Debenture Bonds	\$ 13,800	
Cash	195,150	
Total	208,950	
Par Value of Shares Issued	12,537	196,413
Excess of Par Value of 4¾% Sinking Fund Convertible Debentures Surrendered for Conversion over Par Value of shares of Common Stock Issued therefor and Cash Paid in lieu of fractional shares		
	<u>Par Value</u> <u>Shares</u>	
First Conversion Option	\$ 53,500	3,463
Second Conversion Option	5,500	177
	<u>\$ 59,000</u>	<u>3,640</u>
		57,083
		1,353,271
		<u>29,845,173</u>
Deduction		
Excess of Amount Paid over Par Value of 51,471 shares of Common Stock purchased (Total Cost \$969,380)		943,644
CONSOLIDATED PAID IN SURPLUS APRIL 30, 1959		<u>\$28,901,529</u>

EARNED SURPLUS

CONSOLIDATED EARNED SURPLUS APRIL 30, 1958	\$18,436,668
Addition	
Net Income and Profits for the Year ended April 30, 1959	5,350,739
	<u>23,787,407</u>
Deductions	
2% Stock Dividend (Note 1)	
87,982 shares at \$13.00 per share	1,143,766
Cash in lieu of Fractions	54,933
	<u>1,198,699</u>
Cash Dividends	
Common—\$.60 per share	2,811,160
	<u>4,009,859</u>
CONSOLIDATED EARNED SURPLUS APRIL 30, 1959	<u>\$ 19,777,548</u>

NOTE 1 — The charge to Earned Surplus of \$13.00 per share represents the closing sales price on July 3, 1958, 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 \$12.50 per share.

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED STATEMENTS

1 — BASIS OF CONSOLIDATION

The consolidated financial statements include figures of the Corporation and its 50% or more owned domestic and Canadian subsidiaries, except two domestic subsidiaries also 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 \$248,450 more than the cost of these investments. The equity in the net income of these companies for the year ended April 30, 1959 was \$45,680. No dividends were received from these subsidiaries during the year.

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, \$809,983 to land and leaseholds, and \$1,859,202 to buildings.

As goodwill from consolidation, the unamortized portion of which, \$91,586, 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 at April 30, 1959 was \$6,283,439, which amount 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, 1960 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, 1959 exchange rate.

2 — INVESTMENTS

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

Securities of Subsidiaries — Eliminated in Consolidation — book value	\$10,827,420
Mortgages Receivable (Estimated Value \$6,528,488) — book value	5,281,655

3 — PROPERTY, PLANT AND EQUIPMENT

Substantially all of the real estate and furniture and equipment are pledged to secure mortgages or 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 12%), 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	\$ 2,392,600
4¾% Convertible Debentures, due March 1, 1967	1,241,000
5% Debentures, due March 1, 1967	7,212,500
6½% Income Subordinated Debentures, due January 1, 1981	13,883,200

Sales to the public of the 7½% Capital Income Sinking Fund Debentures, due January 1, 1989, were discontinued on June 26, 1959. At that date the amount outstanding was \$20,120,200.

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 on April 1, 1959 was paid in full. Debentures in the Treasury at April 30, 1959 aggregated \$41,400.	

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.

\$150,000 principal amount of Debentures on March 1, 1960. For each subsequent year, not more than \$598,000 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. At the election of the Corporation, the sinking fund call on March 1, 1959 was increased from \$150,000 to \$300,000. Debentures in the Treasury at April 30, 1959 aggregated \$284,000.

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 ⅓ of 1% annually from 101 through January 1, 1973 to par at January 1, 1981. The payment required December 31, 1958 was paid in full. Debentures in the Treasury at April 30, 1959 aggregated \$357,500.

7½% Debentures, due January 1, 1989

1959 through 1978, 3% of the principal amount of Debentures issued prior to the preceding November 1. 1979 through 1987, 10% of the principal amount of Debentures outstanding on October 31, 1979. The redemption price for sinking fund reduces ⅓ of 1% annually from 102½ at January 1, 1965 to par at January 1, 1985. Debentures in the Treasury at April 30, 1959 aggregated \$3,500.

The 4¾% Debentures are convertible until redemption or maturity date 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 are 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

Of the total common shares shown as issued and issuable, 10,274 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:

280,680 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.

61,722 shares for the conversion of 4¾% sinking fund Debentures, of which 59,535 shares are applicable to Debentures outstanding, and 2,187 shares are applicable to Debentures held in the Treasury.

359,917 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 \$4,526,605, which is subject to a 5% withholding tax on dividends.

In connection with an issue of Debentures in October 1956, payment of dividends by Sheraton Limited 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, 1959 amounted to \$19,434,321.

7—LONG-TERM LEASES

An office building in New York City is leased by a subsidiary under a long-term lease agreement. This subsidiary operates the building under a lease expiring June 11, 2010. The terms of the lease require the payment, in addition to local taxes assessed against the property, of an annual rental of \$750,000 to December 11, 1961, and \$130,000 thereafter. The rental to December 11, 1961 is guaranteed by Sheraton Corporation of America, but such guarantee in total is limited to \$200,000 at April 30, 1959. The guarantee reduces \$100,000 annually.

The new hotel in Dallas, Texas, was completed during the year and is leased by a subsidiary. Performance by the subsidiary of the terms of the lease (including rent estimated at \$800,000 per year) is guaranteed by the Corporation for the first ten years of the lease, which term commenced March 14, 1959.

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, 1959, the unpaid principal balance was \$1,109,389. The guarantee of the Corporation remains in effect until the principal balance is reduced to \$750,000.

Agreement has been made for the lease of a hotel by a subsidiary of the Corporation, effective when construction is completed. In connection therewith, the subsidiary must provide an estimated \$1,300,000 for construction costs, furnishings and equipment, of which amount \$230,000 had been advanced by the Corporation as at April 30, 1959. A debt financing commitment of \$600,000 had been obtained at April 30, 1959 and repayment of this debt will be guaranteed by the Corporation. Performance by the subsidiary of the terms of the lease (including estimated annual rentals of \$350,000 per year for twenty-five years) is guaranteed by the Corporation.

On June 1, 1959, a 90% owned subsidiary of the Corporation acquired certain real estate and personal property in Hawaii for approximately \$17,650,000, of which amount \$500,000 paid prior to April 30, 1959 is included in the accompanying balance sheet under the caption Options and Deposits on Contracts. The purchase price was financed by first mortgage notes of \$8,500,000, notes payable—bank, \$3,500,000 and the balance was paid in cash.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders,
Sheraton Corporation of America,
Boston 10, Massachusetts

We have examined the accompanying consolidated balance sheet of Sheraton Corporation of America and its Subsidiaries as at April 30, 1959 and the related consolidated surplus and income statements for the year then ended.

The 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

In connection with the exchange of assets of a subsidiary for shares of a credit card company, the Corporation has agreed that if the amounts received by the credit card company from the date of exchange and before December 1, 1959 for certain memberships total less than \$660,000, it will pay the deficiency in cash. It is anticipated that the eventual liability will be substantially less than that amount.

On June 14, 1955, the Corporation executed an Agreement and Declaration of Trust, creating 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.

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, 1959 were \$174,235, 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 \$276,283, of which \$74,895 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 \$1,460,000 at April 30, 1959.

The Corporation and substantially all of its United States subsidiaries inaugurated an Employee 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 \$91,739.

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 life 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.

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, 1958.

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, 1959 and 1958 and the results of their transactions for the years ended on those dates, in conformity with generally accepted principles of accounting applied on a consistent basis for the two years.

HARRIS, KERR, FORSTER & COMPANY

Boston, Massachusetts, July 27, 1959



THE SHERATON CORPORATION OF AMERICA

To our shareholders:

Last year, as you will note from this report, represented the greatest growth in Sheraton's history with respect to total assets and increase in scope of operations. There was, however, another factor of growth not specifically mentioned in the final reports that we regard as of equal importance, that is growth in efficiency and capacity of our internal management organization. The senior officers of the company made it their especial concern during the year to build up and promote our able younger executive officers to positions of greater responsibility and authority in the shaping and supervision of major matters of policy and control of all phases of the business.

New Senior Vice Presidents were appointed and now a Senior Vice President heads each of the major divisions, Legal, Operating, Engineering, and Accounting. These and one or two of the younger Vice Presidents now constitute committees that pass on all major policy matters and every important aspect of the company's affairs. Great study was given to the most modern of the management techniques and the setting up of a line and staff organization.

We believe that today we have a management group second to none in our line of endeavor. With 22,000 employees, we have been putting increased emphasis on matters of training and we feel we can best increase our business by increasing the value of the services we render and those will depend largely on the skill and training of the people rendering them.

We are encouraging employees to enroll in various schools and colleges at company expense for courses in specialized training. Job evaluation up to managerial levels is now carefully planned and studied, and through a committee on managerial examinations, we expect to develop and perpetuate the strongest possible executives, promoting from within as new talents appear. Our plans for further growth are being tempered with a conservative spirit to guard against unwise expansion into ventures that can not be adequately handled by our efficient staff and our financing capabilities.

We look to the future with a distinct note of confidence tempered with a recognition of a need for continuous caution.

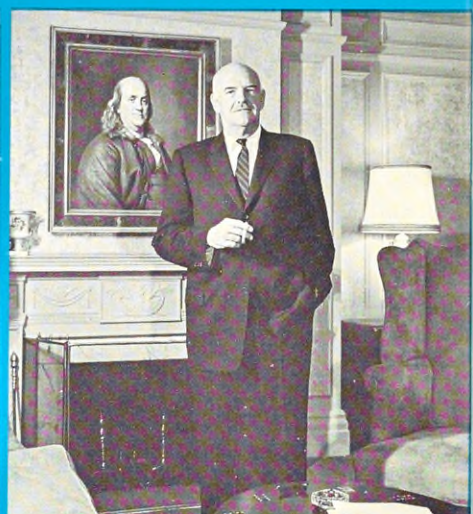
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Chairman of the Board



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Partner, Paine, Webber, Jackson & Curtis



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President, General Telephone & Electronics Corporation



SHIRLEY D. MURPHY
President, Thompson Industries, Inc.

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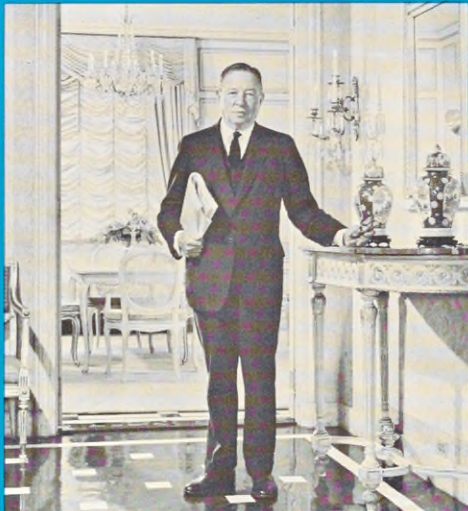
MELVIN H. BAKER
Chairman of the Board, National Gypsum Co.



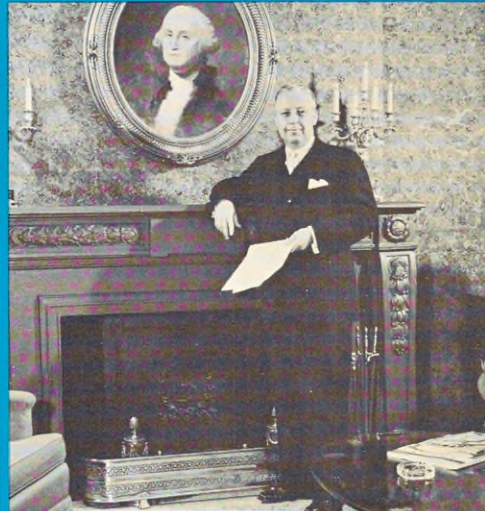
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