

MARRIOTT INTERNATIONAL INC /MD/
Form 10-Q/A
December 10, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarter Ended March 23, 2001

Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.

Delaware
(State of Incorporation)

52-2055918
(I.R.S. Employer Identification Number)

10400 Fernwood Road
Bethesda, Maryland 20817
(301) 380-3000

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months, and (2) has been subject to such filing requirements
for the past 90 days.

Yes No

Class	Shares outstanding at November 30, 2001
----- Class A Common Stock, \$0.01 par value	----- 240,980,998

MARRIOTT INTERNATIONAL, INC.
INDEX

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

Forward-Looking Statements	3
Part I. Financial Information (Unaudited):	
Condensed Consolidated Statement of Income - Twelve Weeks Ended March 23, 2001 and March 24, 2000	4
Condensed Consolidated Balance Sheet - as of March 23, 2001 and December 29, 2000	5
Condensed Consolidated Statement of Cash Flows - Twelve Weeks Ended March 23, 2001 and March 24, 2000	6
Notes to Condensed Consolidated Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Quantitative and Qualitative Disclosures About Market Risk	20
Part II. Other Information and Signatures:	
Legal Proceedings	21
Changes in Securities	21
Defaults Upon Senior Securities	21
Submission of Matters to a Vote of Security Holders	21
Other Information	21
Exhibits and Reports on Form 8-K	22
Signatures	23

Forward-Looking Statements

When used throughout this report, the words "believes," "anticipates," "expects," "intends," "estimates," "projects," and other similar expressions, which are predictions of or indicate future events and trends, identify forward-looking statements. Such statements are subject to a number of risks and uncertainties which could cause actual results to differ materially from those projected, including: competition within each of our business segments; business strategies and their intended results; the balance between supply of and demand for hotel rooms, timeshare units, senior living accommodations and corporate apartments; our continued ability to obtain new operating contracts and franchise agreements; our ability to develop and maintain positive relations with current and potential hotel and senior living community owners; the effect of international, national and regional economic conditions, including the duration and severity of the current economic downturn in the United States and the aftermath of the September 11, 2001 terrorist attacks on New York and Washington; the availability of capital to allow us and potential hotel owners to fund investments; the effect that internet hotel reservation channels may have on rates that we are able to charge for hotel rooms; and other risks

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

described from time to time in our filings with the Securities and Exchange Commission, including those set forth on Exhibit 99 filed herewith. Given these uncertainties, we caution you not to place undue reliance on such statements. We also undertake no obligation to publicly update or revise any forward-looking statement to reflect current or future events or circumstances.

3

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

MARRIOTT INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(\$ in millions, except per share amounts)
(Unaudited)

	Twelve weeks ended	
	March 23, 2001	March 24, 2000
	(As revised)	(As revised)
SALES		
Management and franchise fees	\$ 204	\$ 189
Distribution services	361	307
Other	481	422
	-----	-----
	1,046	918
Other revenues from managed properties	1,415	1,259
	-----	-----
	2,461	2,177
	-----	-----
OPERATING COSTS AND EXPENSES		
Distribution services	359	319
Other	461	406
	-----	-----
	820	725
Other costs from managed properties	1,415	1,259
	-----	-----
	2,235	1,984
	-----	-----
OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST ..	226	193
Corporate expenses	(30)	(26)
Interest expense	(22)	(23)
Interest income	16	5
	-----	-----
INCOME BEFORE INCOME TAXES	190	149
Provision for income taxes	69	55
	-----	-----
NET INCOME	\$ 121	\$ 94
	=====	=====
DIVIDENDS DECLARED PER SHARE	\$.060	\$.055
	=====	=====
EARNINGS PER SHARE		

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

Basic Earnings Per Share	\$.50	\$.39
	=====		=====	
Diluted Earnings Per Share	\$.47	\$.37
	=====		=====	

See notes to condensed consolidated financial statements.

4

MARRIOTT INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED BALANCE SHEET
 (\$ in millions)
 (Unaudited)

	March 23, 2001	December 2 2000
	-----	-----
ASSETS		
Current assets		
Cash and equivalents	\$ 370	\$ 334
Accounts and notes receivable	719	728
Inventory	110	97
Other	272	256
	-----	-----
	1,471	1,415
	-----	-----
Property and equipment	3,131	3,241
Intangibles	1,834	1,833
Investments in affiliates	793	747
Notes and other receivables	699	661
Other	350	340
	-----	-----
	\$ 8,278	\$ 8,237
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 675	\$ 660
Other	1,054	1,257
	-----	-----
	1,729	1,917
	-----	-----
Long-term debt	2,012	2,016
Other long-term liabilities	1,078	1,037
Shareholders' equity		
ESOP preferred stock	-	-
Class A common stock, 255.6 million shares issued	3	3
Additional paid-in capital	3,454	3,590
Retained earnings	895	851
Unearned ESOP shares	(462)	(679)
Treasury stock, at cost	(381)	(454)
Accumulated other comprehensive income	(50)	(44)

	3,459	3,267
	\$ 8,278	\$ 8,237

See notes to condensed consolidated financial statements.

5

MARRIOTT INTERNATIONAL, INC.
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 (\$ in millions)
 (Unaudited)

	Twelve weeks ended	
	March 23, 2001	March 2000
OPERATING ACTIVITIES		
Net income	\$ 121	\$ 9
Adjustments to reconcile to cash provided by operations:		
Depreciation and amortization	46	4
Income taxes and other	60	5
Timeshare activity, net	(107)	(6)
Working capital changes	(94)	(9)
Cash provided by operations	26	2
INVESTING ACTIVITIES		
Dispositions	241	
Capital expenditures	(125)	(24)
Note advances	(35)	(2)
Note collections and sales	7	
Other	(52)	(1)
Cash provided by (used in) investing activities	36	(28)
FINANCING ACTIVITIES		
Commercial paper activity, net	(298)	39
Issuance of other long-term debt	299	
Repayment of other long-term debt	(4)	(
Issuance of Class A common stock	31	
Dividends paid	(15)	(1
Purchase of treasury stock	(39)	(23
Cash (used in) provided by financing activities	(26)	14
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	36	(11
CASH AND EQUIVALENTS, beginning of period	334	48
CASH AND EQUIVALENTS, end of period	\$ 370	\$ 37

See notes to condensed consolidated financial statements.

6

MARRIOTT INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements present the results of operations, financial position and cash flows of Marriott International, Inc. (together with its subsidiaries, we, us or the Company).

The accompanying condensed consolidated financial statements have not been audited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States. We believe the disclosures made are adequate to make the information presented not misleading. However, you should read the condensed consolidated financial statements in conjunction with the consolidated financial statements and notes to those financial statements included in our Annual Report on Form 10-K (our Annual Report) for the fiscal year ended December 29, 2000. Capitalized terms not otherwise defined in this quarterly report have the meanings specified in our Annual Report.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Accordingly, ultimate results could differ from those estimates.

In our opinion, the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of March 23, 2001 and December 29, 2000 and the results of operations and cash flows for the twelve weeks ended March 23, 2001 and March 24, 2000. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities included in these financial statements.

Financial Statement Revision

We have revised the consolidated financial statements to change our method of accounting for the Marriott Rewards Program in accordance with Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements." The effect of adopting SAB No. 101 on January 1, 2000 was to increase both revenues and expenses by \$63 million for the year ended December 29, 2000 and by \$20 million for the twelve weeks ended March 23, 2001. However, there was no change in financial position, cash flows, net income or basic and diluted earnings per share. We have also revised the consolidated financial statements for the twelve weeks ended March 23, 2001 and March 24, 2000 to present expanded line items related to sales and operating costs and expenses and to expand the number of reportable segments under Statement of Financial Accounting Standards (FAS) No. 131,

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

"Disclosures about Segments of an Enterprise and Related Information" to include Full Service Lodging, Select Service Lodging, Extended Stay Lodging, Timeshare, Senior Living Services and Distribution Services. In addition, we added

7

disclosures related to revenue recognition and certain other items to the notes to the consolidated financial statements.

Revenue Recognition

Our sales include (1) management and franchise fees, (2) sales from our distribution services business, (3) sales from lodging properties and senior living communities owned or leased by us, and sales made by our other businesses; and (4) certain other revenues from properties managed by us. Management fees comprise a base fee, which is a percentage of the revenues of hotels or senior living communities, and an incentive fee, which is generally based on unit profitability. Franchise fees comprise initial application fees and continuing royalties generated from our franchise programs, which permit the hotel owners and operators to use certain of our brand names. Other revenues from managed properties include direct and indirect costs that are reimbursed to us by lodging and senior living community owners for properties that we manage. Other revenues include revenues from hotel properties and senior living communities that we own or lease, along with sales from our timeshare and ExecuStay businesses.

We recognize base fees as revenue when earned in accordance with the contract. In interim periods we recognize incentive fees that would be due as if the contract were to terminate at that date, exclusive of any termination fees payable or receivable by us. As of March 23, 2001 we have recognized \$58 million of incentive management fees, retention of which is dependent on achievement of hotel profitability for the balance of the year at levels specified in a number of our management contracts.

Distribution Services: We recognize revenue from our distribution services business when goods have been shipped and title passes to the customer in accordance with the terms of the applicable distribution contract.

Timeshare: We recognize revenue from timeshare interest sales in accordance with Statement of Financial Accounting Standards (FAS) No. 66, "Accounting for Sales of Real Estate." We recognize sales when a minimum of 10 percent of the purchase price for the timeshare interval has been received, the period of cancellation with refund has expired, receivables are deemed collectible and certain minimum sales and construction levels have been attained.

Owned and Leased Units: We recognize room sales and revenues from guest services for our owned and leased units, including ExecuStay, when rooms are occupied and services have been rendered.

Franchise Revenue: We recognize franchise fee revenues in accordance with FAS No. 45, "Accounting for Franchise Fee Revenue." Franchise fees are recognized as revenue in each accounting period as fees are earned and become receivable from the franchisee.

Other Revenues from Managed Properties: We recognize other revenues from managed properties when we incur the related reimbursable costs.

We recognized sales in the twelve weeks ended March 23, 2001 and March 24, 2000 as shown in the following table. Lodging includes our Full Service, Select Service, Extended Stay and Timeshare business segments.

	Twelve weeks ended				
	March 23, 2001				
	Lodging	Senior Living Services	Distribution Services	Total	Lodging
Sales					
(\$ in millions)	(As revised)			(As revised)	(As revised)
Management and franchise fees	\$ 196	\$ 8	\$ -	\$ 204	\$ 183
Other	405	76	361	842	348
	601	84	361	1,046	531
Other revenues from managed properties	1,334	81	-	1,415	1,190
	1,935	165	361	2,461	1,721
Operating costs and expenses					
Operating costs	378	83	359	820	328
Other costs from managed properties	1,334	81	-	1,415	1,190
	1,712	164	359	2,235	1,518
Operating profit before corporate expenses and interest	\$ 223	\$ 1	\$ 2	\$ 226	\$ 203

2. Earnings Per Share

The following table reconciles the earnings and number of shares used in the basic and diluted earnings per share calculations (in millions, except per share amounts).

Twelve weeks ended

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

	March 23, 2001	March 24, 2000
	-----	-----
Computation of Basic Earnings Per Share		
Net income	\$ 121	\$ 94
Weighted average shares outstanding	243.7	244.1
	-----	-----
Basic Earnings Per Share	\$.50	\$.39
	=====	=====
Computation of Diluted Earnings Per Share		
Net income	\$ 121	\$ 94
	=====	=====
Weighted average shares outstanding	243.7	244.1
Effect of Dilutive Securities		
Employee stock option plan	8.7	6.1
Deferred stock incentive plan	5.2	5.1
	-----	-----
Shares for diluted earnings per share	257.6	255.3
	=====	=====
Diluted Earnings Per Share	\$.47	\$.37
	=====	=====

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. The calculation of diluted earnings per share for 2001 excludes 5.7 million options granted in 2001, the inclusion of which would have an antidilutive impact for the period.

3. Marriott Rewards

We defer revenue received from managed, franchised, and Marriott-owned/leased hotels and program partners equal to the fair value of our future redemption obligation. We recognize the component of revenue from program partners that corresponds to program maintenance services over the expected life of the points awarded. Upon the redemption of points, we recognize as revenue the amounts previously deferred, and recognize the corresponding expense relating to the cost of the awards redeemed. The liability for the Marriott Rewards program was \$580 million at March 23, 2001 and \$554 million at December 29, 2000, of which \$354 million and \$310 million, respectively, are included in other long-term liabilities in the accompanying consolidated balance sheet.

4. Dispositions

In the first quarter of 2001, we closed on sales of eight lodging properties and one senior living community for cash proceeds of \$241 million, resulting in gains of \$5 million. We recognized \$4 million of the gain and the balance will be recognized as certain contingencies in the sales contracts expire. We will continue to operate seven of these hotels

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

under long-term management agreements.

5. Comprehensive Income

Total comprehensive income was \$115 million and \$89 million, for the twelve weeks ended March 23, 2001 and March 24, 2000, respectively. The difference between net income and total comprehensive income primarily relates to foreign currency translation adjustments, and changes in the market value of investments available for sale.

6. New Accounting Standards

We will adopt FAS No. 142, "Goodwill and other Intangible Assets," in the first quarter of 2002. The new rules require that goodwill is not amortized, but is reviewed annually for impairment. We estimate that adoption of FAS No. 142 will result in an annual increase in net income of approximately \$30 million.

In the first quarter of 2001, we adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which resulted in no material impact to our financial statements.

7. Business Segments

We are a diversified hospitality company with operations in six business segments:

- . Full Service Lodging, which includes Marriott Hotels, Resorts and Suites, The Ritz-Carlton Hotels, Renaissance Hotels, Resorts and Suites, Ramada International and the fees we receive for the use of the Ramada name in the United States and Canada;
- . Select Service Lodging, which includes Courtyard, Fairfield Inn and SpringHill Suites;
- . Extended Stay Lodging, which includes Residence Inn, TownePlace Suites, ExecuStay and Marriott Executive Apartments;
- . Timeshare, which includes the operation, ownership, development and marketing of Marriott's timeshare properties under the Marriott, Ritz-Carlton Club and Horizons brands;
- . Senior Living Services, which includes the operation, ownership and development of senior living communities; and
- . Distribution Services, which includes our wholesale food distribution business.

We evaluate the performance of our segments based primarily on operating profit before corporate expenses and interest. We do not allocate income taxes at the segment level.

11

We have aggregated the brands and businesses presented within each of our segments considering their similar economic characteristics, types of customers, distribution channels, and the regulatory business environment of the brands and operations within each segment.

Twelve weeks ended	
-----	-----
March 23, 2001	March 24, 2000
-----	-----

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

(As revised)

(As revised)

(\$ in millions)

Sales

Full Service	\$ 1,349	\$ 1,231
Select Service	213	192
Extended Stay	139	125
Timeshare	234	173
	-----	-----
Total Lodging	1,935	1,721
Senior Living Services	165	149
Distribution Services	361	307
	-----	-----
	\$ 2,461	\$ 2,177
	=====	=====

Operating profit (loss) before corporate expenses and interest

Full Service	\$ 117	\$ 117
Select Service	44	38
Extended Stay	19	12
Timeshare	43	36
	-----	-----
Total Lodging	223	203
Senior Living Services	1	2
Distribution Services	2	(12)
	-----	-----
	\$ 226	\$ 193
	=====	=====

Sales from Distribution Services do not include sales (made at market terms and conditions) to our other business segments of \$39 million for each of the twelve weeks ended March 23, 2001 and March 24, 2000.

8. Contingencies

 We issue guarantees to lenders and other third parties in connection with financing transactions and other obligations. These guarantees were limited, in the aggregate, to \$240 million at March 23, 2001, including guarantees involving major customers. We are currently unable to estimate the impact that the recent terrorist attacks on New York and Washington could have on the extent to which we may fund under these guarantees. In addition, we have made physical completion guarantees relating to three hotel properties with minimal expected funding. As of March 23, 2001, we had extended approximately \$862 million of loan commitments to owners of lodging properties and senior living communities under which we expected to fund approximately \$305 million by December 28, 2001, and \$474 million in total. Letters of credit

outstanding on our behalf at March 23, 2001, totaled \$52 million, the majority of which related to our self-insurance programs. At March 23, 2001, we had repurchase obligations of \$47 million related to notes receivable from timeshare interval purchasers, which have been sold with limited recourse.

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

New World Development and another affiliate of Dr. Cheng, a director of the Company, have severally indemnified us for guarantees by us of leases with minimum annual payments of approximately \$59 million.

In addition to the foregoing, we are from time to time involved in legal proceedings which could, if adversely decided, result in losses to the Company. Although we believe that the lawsuit described below is without merit, and we intend to vigorously defend against the claims being made against us, we cannot assure you as to the outcome of this lawsuit nor can we currently estimate the range of any potential loss to the Company.

On March 30, 2001, Green Isle Partners, Ltd., S.E. (Green Isle) filed a 63-page complaint in Federal district court in Delaware against The Ritz-Carlton Hotel Company, L.L.C., The Ritz-Carlton Hotel Company of Puerto Rico, Inc. (Ritz-Carlton Puerto Rico), Marriott International, Inc., Marriott Distribution Services, Inc., Marriott International Capital Corp. and Avendra L.L.C. (Green Isle Partners, Ltd. S.E., v. The Ritz-Carlton Hotel Company, L.L.C., et al, civil action no. 01-202). Ritz-Carlton Puerto Rico manages The Ritz-Carlton San Juan Hotel, Spa and Casino located in San Juan, Puerto Rico under an operating agreement with Green Isle dated December 15, 1995 (the Operating Agreement).

The claim asserts 11 causes of action: three Racketeer Influenced and Corrupt Organizations Act (RICO) claims, together with claims based on the Robinson-Patman Act, breach of contract, breach of fiduciary duty, aiding and abetting a breach of fiduciary duty, breach of implied duties of good faith and fair dealing, common law fraud and intentional misrepresentation, negligent misrepresentation, and fiduciary accounting. The complaint does not request termination of the Operating Agreement.

The claim includes allegations of: (i) national, non-competitive contracts and attendant kick-back schemes; (ii) concealing transactions with affiliates; (iii) false entries in the books and manipulation of accounts payable and receivable; (iv) excessive compensation schemes and fraudulent expense accounts; (v) charges of prohibited overhead costs to the project; (vi) charges of prohibited procurement costs; (vii) inflation of Group Service Expense; (viii) the use of prohibited or falsified revenues; (ix) attempts to oust Green Isle from ownership; (x) creating a financial crisis and then attempting to exploit it by seeking an economically oppressive contract in connection with a loan; (xi) providing incorrect cash flow figures; and (xii) failing appropriately to reveal and explain revised cash flow figures.

The complaint seeks as damages the \$140 million, which Green Isle claims to have invested in the hotel (which includes \$85 million in third party debt), which the plaintiffs seek to treble to \$420 million under RICO and the Robinson-Patman Act.

On May 25, 2001, defendants moved to dismiss the complaint or, alternatively, to stay or transfer. Briefing of the motion is complete but oral argument has not yet been scheduled. On

June 25, 2001, Green Isle filed its Chapter 11 Bankruptcy Petition in the Southern District of Florida.

9. Subsequent Events

Dispositions

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

In the second quarter of 2001, we sold four lodging properties for \$102 million. We will continue to operate the hotels under long-term management agreements. In the second quarter of 2001, in connection with the sale, the buyer terminated lease agreements for three properties sold and leased back to us in 1997 and 1998. In the third quarter of 2001, an additional six lease agreements were terminated. We now manage these nine previously leased properties under long-term management agreements, and gains on the sale of these properties of \$5 million were recognized in both the second quarter and third quarter as a result of the lease cancellations.

In the second quarter we sold land, at book value, for \$31 million to a joint venture which plans to build two resort hotels in Orlando, Florida, for \$547 million. We will provide development services and have guaranteed completion of the project. The initial owners of the venture have the right to sell 20 percent of the venture's equity to us upon the opening of the hotels. At opening we also expect to hold approximately \$120 million in mezzanine loans that we have agreed to advance to the joint venture. We have provided the venture with additional credit facilities for certain amounts due under the first mortgage loan and to provide for limited minimum returns to the equity investors in the early years of the project, although we expect fundings under such support to be less than \$5 million.

In the third quarter of 2001, we sold two lodging properties, and some undeveloped land, for cash proceeds of \$146 million, resulting in gains of \$7 million. We recognized \$1 million of the gain and the balance will be recognized as certain contingencies in the sales contracts expire. We will continue to operate the two hotels under long-term management agreements.

Convertible Debt

On May 8, 2001 we received cash proceeds of \$405 million from the sale of zero-coupon convertible senior notes due 2021, known as LYONs.

The LYONs are convertible into approximately 6.4 million shares of our Class A common stock and will carry a yield to maturity of 0.75 percent. We may not redeem the LYONs prior to May 8, 2004, but may at the option of the holders be required to purchase the LYONs at their accreted value on May 8 of each of 2002, 2004, 2011 and 2016. We may choose to pay the purchase price for redemptions or repurchases in cash and/or shares of our Class A common stock.

We are amortizing the issuance costs of the LYONs into interest expense over the one-year period ending May 8, 2002. The LYONs are classified as long-term based on our ability and intent to refinance the obligation with long-term debt if we are required to repurchase the LYONs.

September 11, 2001 Terrorist Attacks

The Company has been adversely affected in the aftermath of the recent terrorist attacks on New York and Washington. Since the attacks, our hotels have experienced significant short-term declines in occupancy compared to the prior year. At present, it is not possible to predict either the severity or duration of such declines in the medium- or long-term, or the potential impact on the Company's results of operations, financial condition or cash flows. However, as a result of the significant short-term declines in occupancy, the Company has taken steps to reduce costs, including reductions in staff. The Company is undertaking a comprehensive

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

analysis of its cost structure including, among other things, overall staffing levels and facilities related costs. Furthermore, the Company is evaluating hotel financial performance subsequent to September 11, 2001 and its impact on the Company's investments and contingent obligations. Declines in hotel profitability reduce management and franchise fees and could give rise to fundings or losses under investments and contingent obligations that we have made in connection with hotels that we manage or franchise. The outcome of the Company's analysis may result in charges to operations and potentially a material adverse impact on our financial position, results of operations and cashflows.

15

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations

RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for the twelve weeks ended March 23, 2001 and March 24, 2000. Revenue per available rooms (REVPAR) is calculated by dividing room sales for comparable properties by room nights available to guests for the period. We consider REVPAR to be a meaningful indicator of our performance because it measures the period over period growth in room revenues for comparable properties. REVPAR may not be comparable to similarly titled measures such as revenues. Comparable REVPAR, room rate and occupancy statistics used throughout this report are based upon U.S. properties operated by us, except that data for Fairfield Inn also include comparable franchised units.

Twelve Weeks Ended March 23, 2001 Compared to Twelve Weeks Ended March 24, 2000

We reported net income of \$121 million for the 2001 first quarter on sales of \$2,461 million. This represents a 29 percent increase in net income and a 13 percent increase in sales over the first quarter of 2000. Diluted earnings per share of \$.47 for the quarter increased 27 percent as compared to the 2000 amount. Overall profit growth in 2001 was favorably impacted by a \$15 million pretax charge, recorded in the first quarter of 2000, related to the write-off of a contract investment by our distribution services business. Systemwide sales increased 11 percent for the quarter, to \$4.7 billion.

Marriott Lodging, which includes our Full Service, Select Service, Extended Stay, and Timeshare segments, reported a 10 percent increase in operating profit on 12 percent higher sales. Systemwide lodging sales increased to \$4.2 billion.

We added a total of 66 lodging properties (11,500 units) during the first quarter of 2001, and deflagged two properties (500 rooms), increasing our total properties to 2,163 (401,472 rooms). Properties by brand (excluding 7,000 rental units relating to ExecuStay) are as indicated in the following table.

Properties as of March 23, 2001		
Company-operated		Franchi
Properties	Rooms	Properties
-----	-----	-----

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

Marriott Hotels, Resorts and Suites	241	107,280	160
Ritz-Carlton	39	13,246	-
Renaissance Hotels, Resorts and Suites	81	30,856	32
Ramada International	5	1,068	57
Residence Inn	130	17,241	232
Courtyard	284	44,290	245
TownePlace Suites	34	3,612	55
Fairfield Inn	52	7,526	395
SpringHill Suites	13	1,872	52
Marriott Vacation Club International	47	5,617	-
Marriott Executive Apartments and other	9	1,733	-
	-----	-----	-----
Total	935	234,341	1,228
	=====	=====	=====

16

Across our Lodging brands, REVPAR for comparable company-operated U.S. properties grew by an average of 2.5 percent in the first quarter of 2001. Average room rates for these hotels rose 5.5 percent, while occupancy decreased to 72.9 percent. Management and franchise fees grew 7.1 percent over first quarter 2000. The operating results reflect the impact of a weaker economy, weather conditions in the Northeast, relatively flat group business and increases in labor and energy costs. Occupancy, average daily rate and REVPAR for each of our principal established brands are shown in the following table.

	Twelve weeks ended March 23, 2001	Change vs. 2000
	-----	-----
Marriott Hotels, Resorts and Suites		
Occupancy.....	73.2%	-2.6% pts.
Average daily rate	\$ 155.47	+5.2%
REVPAR	\$ 113.76	+1.5%
Ritz-Carlton		
Occupancy	71.2%	-6.6% pts.
Average daily rate	\$ 289.25	+11.0%
REVPAR	\$ 205.95	+1.6%
Renaissance Hotels, Resorts and Suites		
Occupancy	70.5%	-2.0% pts.
Average daily rate	\$ 150.23	+4.5%
REVPAR	\$ 105.89	+1.6%
Residence Inn		
Occupancy	79.5%	-1.0% pts.
Average daily rate	\$ 110.42	+6.1%
REVPAR	\$ 87.77	+4.7%
Courtyard		
Occupancy	73.5%	-1.1% pts.
Average daily rate	\$ 102.60	+6.5%
REVPAR	\$ 75.44	+4.9%
Fairfield Inn		
Occupancy	62.7%	-2.0% pts.
Average daily rate	\$ 62.76	+4.9%

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

REVPAR \$ 39.32 +1.6%

Across Marriott's full-service lodging brands (Marriott Hotels, Resorts and Suites, Ritz-Carlton and Renaissance Hotels, Resorts and Suites), REVPAR for comparable company-operated U.S. properties grew by an average of 1.6 percent in the 2001 first quarter. Average room rates for these hotels rose nearly 5.5 percent, while occupancy declined 2.8 percentage points to 72.7 percent.

Our domestic select-service and extended-stay brands (Fairfield Inn, Courtyard, Residence Inn, SpringHill Suites and TownePlace Suites) have added a net of 154 properties, primarily franchises, since the first quarter of 2000. REVPAR for comparable properties increased 4.9 percent while occupancy decreased 1.2 percentage points and average room rates increased 6.6 percent.

17

Results for international lodging operations were favorable as a result of profit growth in Asia, Europe, and the Middle East. In addition, 26 percent of our worldwide rooms opened in the 2001 first quarter were outside of the U.S.

Marriott Vacation Club International posted substantial profit growth in the 2001 first quarter on a 19 percent increase in contract sales. Results reflected strong demand at resorts in California, Hawaii, Utah, Florida and Aruba. Note sale gains of \$13 million compared to \$7 million in the prior year also contributed to stronger comparisons. We sold \$62 million in notes compared to \$52 million in the year ago quarter, and we benefited from wider financing spreads.

The overall lodging profit margin, before other revenues and other costs from managed properties, declined versus the year earlier quarter. Margins were impacted by higher sales and marketing costs in the timeshare brands, as well as newly leased properties that have not yet reached stabilized occupancy levels.

Marriott Senior Living Services (SLS) posted 11 percent sales growth in the 2001 first quarter, reflecting a four-percentage point increase in occupancy for comparable communities to 85 percent. The Company operates 152 facilities (25,800 units).

Marriott Distribution Services (MDS) posted an 18 percent increase in sales in the 2001 first quarter reflecting the commencement of new contracts in 2001 and increased sales from contracts established in 2000. Operating profit of \$2 million compared favorably to an operating loss of \$12 million in the first quarter 2000, due to the prior year write-off of the \$15 million investment in a contract with Boston Market, Inc., offset by operating inefficiencies due to the commencement of new contracts.

Corporate activity. Interest expense in first quarter 2001 decreased by \$1 million reflecting slightly lower average borrowings. Interest income increased substantially to \$16 million for the quarter, due to income associated with higher loan balances, including the loans made to the Courtyard joint venture in the fourth quarter of 2000. Corporate expenses increased \$4 million reflecting the \$6 million write-off of an investment in a technology partner and \$3 million associated with the start-up of Avendra, LLC, offset by the reversal of a long-standing \$10 million insurance reserve related to a lawsuit at one of our hotels. The reversal of the reserve was as a result of us being approached, during the quarter by the plaintiffs' counsel, who indicated that a settlement could be reached in an amount that would be covered by insurance. We determined that it was no longer probable that the loss contingency would result in a material outlay by us and accordingly, we reversed the reserve during the quarter. The effective income tax rate decreased from 37.0 percent to 36.5

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

percent primarily due to the increased proportion of operations in countries with lower effective tax rates and the impact of the tax advantaged investments we have made in recent years.

Avendra LLC. In January 2001 we contributed our hospitality procurement business into a newly formed joint venture, together with the procurement business of Hyatt Hotels Corporation. The joint venture, Avendra LLC, is an independent professional procurement services company serving the North American hospitality market and selected industries. Bass Hotels and Resorts, Inc., ClubCorp USA Inc., and Fairmont Hotels and Resorts, Inc. joined Avendra LLC in May 2001.

18

LIQUIDITY AND CAPITAL RESOURCES

We have credit facilities, which support our commercial paper program and letters of credit. At March 23, 2001, our cash balances combined with our available borrowing capacity under the credit facilities was nearly \$2.4 billion. We consider these resources, together with cash expected to be generated by operations, adequate to meet our short-term and long-term liquidity requirements, to finance our long-term growth plans, and to meet debt service and other cash requirements. We monitor the status of the capital markets, and regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans.

The Company has been adversely affected in the aftermath of the recent terrorist attacks on New York and Washington. Since the attacks, our hotels have experienced significant short-term declines in occupancy compared to the prior year. At present, it is not possible to predict either the severity or duration of such declines in the medium- or long-term, or the potential impact on the Company's results of operations, financial condition or cash flows. However, as a result of the significant short-term declines in occupancy, the Company has taken steps to reduce costs, including reductions in staff. The Company is undertaking a comprehensive analysis of its cost structure including, among other things, overall staffing levels and facilities related costs. Furthermore, the Company is evaluating hotel financial performance subsequent to September 11, 2001 and its impact on the Company's investments and contingent obligations. Declines in hotel profitability reduce management and franchise fees and could give rise to fundings or losses under investments and contingent obligations that we have made in connection with hotels that we manage or franchise. The outcome of the Company's analysis may result in charges to operations and potentially a material adverse impact on our financial position, results of operations and cashflows.

Cash and equivalents totaled \$370 million at March 23, 2001, an increase of \$36 million from year end 2000. Net income is stated after recording depreciation expense of \$29 million and \$26 million for the twelve weeks ended March 23, 2001 and March 24, 2000, respectively, and after amortization expense of \$17 million and \$15 million, respectively, for the same time periods. Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) for the twelve weeks ended March 23, 2001 increased by \$45 million, or 21 percent, to \$258 million. The increase reflects growth in lodging operations and the impact of the prior year \$15 million write-off of our investment contract in our Distribution Services business. EBITDA is an indicator of operating performance, which can be used to measure the Company's ability to service debt, fund capital expenditures and expand its business. However, EBITDA is not an alternative to net income, operating profit, cash from operations, or any other operating or liquidity measure prescribed by accounting principles generally accepted in the United States.

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

Net cash provided by investing activities totaled \$36 million for the twelve weeks ended March 23, 2001, and consisted primarily of the disposition of eight lodging properties, offset by capital expenditures for lodging properties and notes receivable advances.

We purchased 1.2 million shares of our Class A Common Stock in the twelve weeks ended March 23, 2001, at a cost of \$48 million. As of March 23, 2001, we were authorized by our Board of Directors to repurchase an additional 18.4 million shares.

In April 1999, January 2000, and January 2001, we filed "universal shelf" registration statements with the Securities and Exchange Commission in the amounts of \$500 million, \$300 million and \$300 million, respectively. As of March 23, 2001, we had offered and sold to the public under these registration statements, \$300 million of debt securities at 7 7/8 %, due 2009 and \$300 million at 8 1/8 %, due 2005, leaving a balance of \$500 million available for future offerings.

In January 2001, we issued, through a private placement, \$300 million of seven percent senior unsecured notes, due 2008, and received net proceeds of \$297 million. We have agreed to make

19

and complete a registered exchange offer for these notes and, if required, to implement a resale shelf registration statement. If we fail to do so on a timely basis, we will pay additional interest to the holders of these notes. The registered exchange offer is expected to be completed in the fourth quarter of 2001 and while we will make additional interest payments, we do not expect those payments to be significant.

On May 8, 2001, we issued zero-coupon convertible senior notes due 2021, known as LYONS, and received cash proceeds of \$405 million. The LYONS are convertible into approximately 6.4 million shares of our Class A common stock and carry a yield to maturity of 0.75 percent.

In 1996, MDS became the exclusive provider of distribution services to Einstein/Noah Bagel Corp. (ENBC), which operates over 450 bagel shops in 29 states and the District of Columbia. In March 2000, ENBC disclosed that its independent auditors had expressed substantial doubt about ENBC's ability to continue as a going concern, due to its inability to meet certain financial obligations. On April 27, 2000, ENBC and its majority-owned operating subsidiary filed voluntary bankruptcy petitions for protection under Chapter 11 of the Federal Bankruptcy code in the U.S. Bankruptcy Court for the District of Arizona in Phoenix. On April 28, 2000, the Court approved a \$31 million debtor-in-possession credit facility to allow for operation of the companies during reorganization, and also approved the payment in the ordinary course of business of prepetition trade creditor claims, including those of MDS, subject to recovery by the debtors under certain circumstances. On July 27, 2000, the Court entered an order approving ENBC's assumption of the MDS contract. MDS continues to distribute to ENBC and has been receiving full payment in accordance with the terms of its contractual agreement. On June 19, 2001, ENBC was acquired by New World Coffee-Manhattan Bagel Inc. and the contract was assumed by the new owner.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposures to market risk since December 29, 2000.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

Incorporated by reference to the description of legal proceedings in the "Contingencies" footnote in the financial statements set forth in Part I, "Financial Information."

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
12	Statement of Computation of Ratio of Earnings to Fixed Charges (incorporated by reference to Exhibit 12 to our Form 10-Q for the fiscal quarter ended March 23, 2001).
99	Forward-Looking Statements.

(b) Reports on Form 8-K

None

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q/A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARRIOTT INTERNATIONAL, INC.

10th day of December, 2001

/s/ Arne M. Sorenson

Arne M. Sorenson
Executive Vice President and
Chief Financial Officer

/s/ Linda A. Bartlett

Linda A. Bartlett
Vice President and Controller
(Principal Accounting Officer)