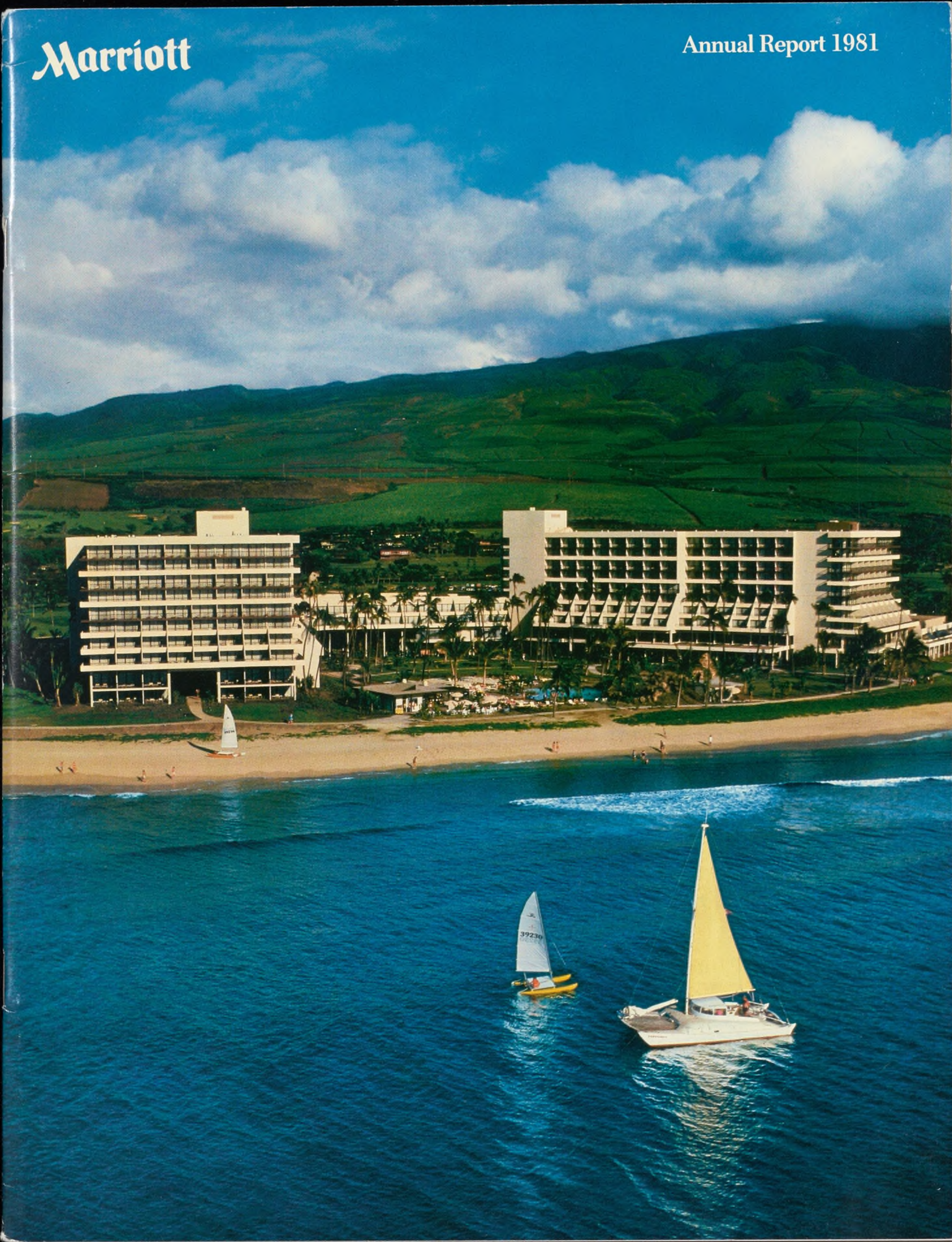
Marriott

Annual Report 1981



Contents

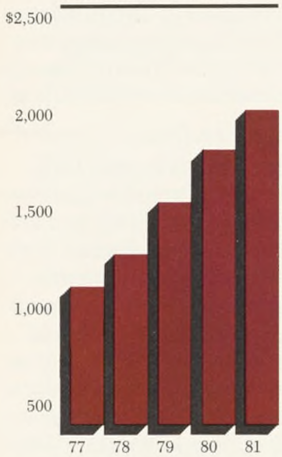
Cover: The opening of the 720-room Maui Marriott Resort marked the company's 25th anniversary in the hotel business and its 100th property. In recent years, Marriott has become a leading resort operator. We now have 18 resorts with a total of 6,000 rooms, in addition to our fine downtown, suburban and airport hotels.

Marriott Annual Report 1981

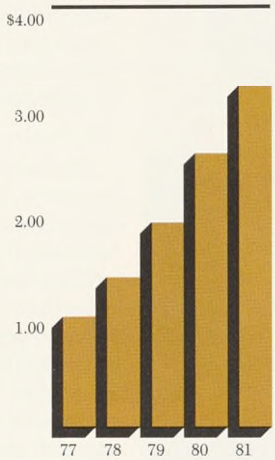
Financial Highlights

	1981	1980	Percent Change
Sales	$2,000,314,000	$1,718,725,000	+16%
Operating Income	219,360,000	193,034,000	+14
Net Income	86,136,000	72,030,000	+20
Earnings Per Share	3.20	2.60	+23
Funds from Operations	186,641,000	150,292,000	+24
Shareholders' Equity Per Share	16.12	12.43	+30
Return on Equity	23.4%	23.8%	

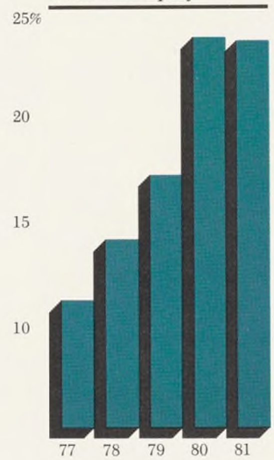
Total Sales ($ in millions)



Earnings Per Share



Return on Equity



About Marriott

Marriott Corporation is a diversified company in the lodging, food service and entertainment businesses.

Founded in 1927 by J. Willard Marriott, the company began as a small root beer stand in Washington, D.C. Today it has more than 81,000 employees, with operations and franchises in 48 states and 24 countries.

Principal operations in 1981 included a rapidly growing group of hotels, resorts and franchised inns; airline catering and food service management; restaurants—primarily fast food restaurants and coffee shops; two large theme parks; and a fleet of cruise ships.

Two major acquisitions early in 1982 will provide strong expansion in Marriott's existing airport terminal restaurant and fast food businesses.

To Our Shareholders

Marriott Corporation achieved significant growth again in 1981, despite a troubled economy and disrupted air traffic. Net income increased 20%, earnings per share increased 23%, and return on shareholders' equity remained above 23%.

The company has maintained an exceptional record over the last five years. Sales have doubled, reaching the $2 billion level. Earnings per share have compounded at an annual rate of 30%. Return on equity has more than doubled.

As we move through the 1980s, we are guided by three strategic principles that have served us well in the recent past:

☐ Controlled expansion within existing lines of business.

☐ Application of operating expertise to deliver superior products and services efficiently.

☐ Full commitment of investment capacity to opportunities offering attractive returns.

We believe that through successful application of these principles Marriott will achieve 20% average earnings growth throughout the 1980s, will increase dividends commensurately, and will maintain a return on equity greater than 20%.

Expand Existing Businesses

Our strategy calls for continued expansion of business segments in which we can build and sustain a competitive advantage.

Hotels are Marriott's largest, most visible single vehicle for growth. During 1981, we successfully added 23 hotels, increasing total rooms by 34%. We plan to add approximately 30,000 rooms to our system over the next three years. Financing for these rooms has been largely completed.

We also intend to expand our position in strong markets now served by Roy Rogers fast food restaurants. The acquisition of Gino's Inc. common stock in early 1982 for $48 million is a step in this direction. Marriott will convert approximately 200 Gino's units to Roy Rogers over two years—accomplishing more than three years of normal growth in existing markets at a lower investment, after conversion, than would have been required to build new stores. The remaining units acquired in the transaction will be sold.

The acquisition of the common stock of Host International, Inc. since year-end for approximately $148 million provides us with a strong airport terminal restaurant business. Marriott has nearly 25 years experience in this business and has long recognized the value of Host and its excellent management. Spanning 25 airports, Host's airport operations accounted for approximately 70% of its sales in 1981. The airline catering, hotel and specialty restaurant portions of Host's operations also fit with our existing businesses.

In addition, we continue to believe there are excellent opportunities to expand our non-hotel businesses through internal growth. For example, we are expanding our Food Service Management Division as rapidly as we can develop qualified managers. Profits from this operation increased more than 50% in 1981. Selective expansion also continues in our airline catering operations worldwide, as well as in our Big Boy coffee shops.

While we are pursuing expansion in selected areas, we continue to dispose of businesses that do not fit our long-range plans. In early 1982, we sold Farrell's Ice Cream Parlour Restaurants for $15 million.

Emphasize Operating Excellence

Marriott's principal asset is its operating expertise. We will continue to refine our operating systems and invest heavily in developing the managers who run them.

We believe these operating systems are essential in providing superior products and services across a range of food, lodging and entertainment businesses. In these businesses, we rely on millions of face-to-face customer contacts each day to convey the Marriott philosophy of "we do it right". We are pleased that our hotel guests and food service customers recognize us for our "friendly and efficient" service.

A strong commitment to management development is an integral part of our operating philosophy. Marriott carefully invests substantial time and funds in comprehensive programs to develop professionals to manage our businesses profitably, using some of the most sophisticated information and performance measurement systems in the hospitality industry.

Utilize Investment Capacity

Marriott Corporation constantly seeks investment opportunities that offer unusually attractive returns, consistent with our stated strategy. In 1979 and 1980, we used our investment capacity to repurchase approximately one third of our stock, which we believed to have been undervalued. During 1981, we actively considered several acquisition prospects that fit our lines of business but ultimately were not economically priced.

Early in 1982, we used our short-term investment capacity to acquire Host and Gino's.

The company's balance sheet does not fully reflect the extent of its investment capacity. It does not show $421 million in value derived from existing hotel management agreements, nor does it indicate that most of our owned hotels, currently valued at $755 million, could be sold and converted to long-term management agreements.

We continually evaluate alternative financing sources and new ways to improve capital productivity. One result of this process is a hotel equity syndication to be offered to the public this spring. Under this plan, 11 hotels costing $365 million have been debt financed by commercial banks and will be offered to investors in the form of limited partnership interests. A Marriott subsidiary will operate these hotels under a management agreement and Marriott, as general partner, will continue to realize substantial tax benefits from these properties.

Outlook

The economic problems we face in the coming year appear to be at least as formidable as those in the last. Despite these short-term challenges, we remain enthusiastic about the company's ability to build on its strengths for the long term.

Marriott's future growth is built upon continuing emphasis on operating excellence, prudent asset management and a lasting commitment to quality and value. We believe our position in the market segments we serve will become even more attractive in the years ahead. We invite you to share a glimpse of these markets in the next few pages.

Difficult years measure the strength of any company. We are especially proud of our people, and are grateful for their dedication and strong performance again in 1981.

J. Willard Marriott

J. Willard Marriott
Founder and
Chairman of the Board

JW Marriott, Jr.

J. W. Marriott, Jr.
President and
Chief Executive Officer

March 11, 1982

J. Willard Marriott *J. W. Marriott, Jr.*

Twenty-three hotels totaling 10,250 rooms were added to our system in 1981, including the new Lexington Marriott Resort.

Marriott Corporation is a classic American success story. Born over half a century ago from one man's recognition of an unfilled need, the company today is a diversified enterprise where close attention to the marketplace remains vital. Our businesses constantly grow larger and more sophisticated, yet they still are bound by a common thread. . . . We take special care of people away from home.

Our hotels serve three key markets: individual business and pleasure travelers, and groups of all types. Marriott Hotels' target guest typically is a business manager or professional between 35 and 44, earning over $25,000 a year. This group travels more and will continue to grow faster than the overall population in the 1980s.

Marriott's food and beverage operations contribute substantially to our hotel sales and profitability.

About 40% of our hotel revenues come from business guests—traveling alone or with one or two colleagues. They appreciate the consistent quality of Marriott Hotels and the high level of personalized services. They know that, wherever they stay in a Marriott, they can expect fine food, gracious service, and close attention to every detail.

Group meetings—whether corporate, trade associations, seminars or incentive packages—represent another 40% of hotel sales. The Marriott system includes a highly trained staff of group sales and meeting experts plus prime locations around the United States and abroad. Our approach ensures a successful event. From downtown convention hotels, convenient airport or suburban sites to exciting resorts, we have great places to hold meetings.

Group meetings—whether at our Essex House in New York City or at any Marriott Hotel—are an important target market.

Marriott offers attractive locations around the country —including our new resort on Hilton Head Island.

Airport hotels like the new Tampa Marriott are convenient for both the individual business traveler and a growing number of regional group meetings.

Pleasure travelers—individuals, couples and families—contribute the remaining 20% of Marriott's hotel revenues. Marriott is a leading resort operator, offering 18 attractive destinations with every amenity for carefree relaxation. From world class golf courses, exciting ski slopes and exotic beaches to gracious dining and entertainment, a range of attractions is offered to help make each guest's stay a special experience.

In addition to its luxurious resorts, Marriott also has hotels in the major American cities most popular with pleasure travelers from around the globe.

Elegant specialty restaurants, such as the new J. W. Carver's *in Marriott's Pavilion Hotel in St. Louis, are found throughout the Marriott system.*

The world's major airlines, airport terminal authorities, businesses, educational and health care institutions comprise the primary markets for our contract food services. They rely on Marriott's long experience in this field, its reputation for consistency and quality, and its careful management of food service for others.

Marriott provides in-flight catering service to over 100 airlines worldwide. We expanded our service to TWA in 1981.

Our rapidly growing group of food service management clients includes businesses, hospitals, and educational institutions such as American University in Washington, D.C.

Airport terminal restaurants are an increasingly important Marriott business. One of the most successful is our Honolulu operation.

Roy Rogers restaurants are known for high quality fast food, including roast beef, burgers and chicken. This division has a rapidly growing presence in its existing markets.

Bob's Big Boy coffee shops offer a variety of appetizing fare for the whole family.

Active adults and families are the principal customers for Marriott's major popularly priced restaurant concepts. Roy Rogers offers the highest quality fast food in its geographic markets, which are concentrated primarily on the East Coast. Bob's Big Boy coffee shops, a West Coast institution for more than 40 years, also serve selected Eastern and Midwestern markets.

Our theme parks feature beautiful landscaping and attractive design.

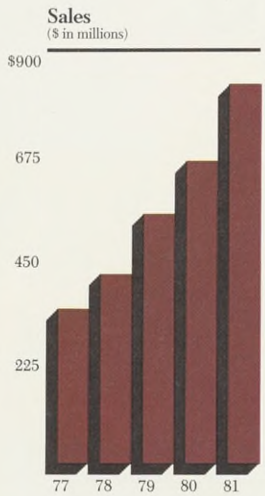
Marriott's Great America theme parks serve regional markets in the Chicago-Milwaukee and San Francisco areas. Offering wholesome family entertainment, the two parks host more than five million visitors annually. The parks feature a variety of attractions—including five authentically recreated eras of America's past, thrill and family rides, live entertainment, games, merchandise and food.

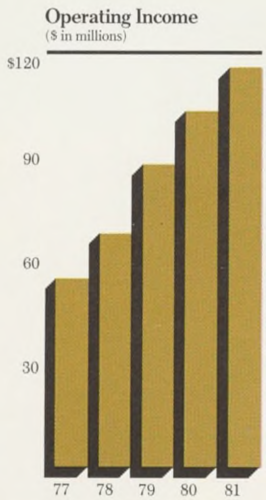
Marriott's Great America theme parks have something for everyone, including a host of colorful Warner Brothers characters like Foghorn Leghorn.°

° ©Warner Bros. Inc. 1982

A thrilling new attraction at our Illinois park is the American Eagle, one of the world's largest wooden racing roller coasters.

The new Washington Marriott offers downtown convenience in the District of Columbia.





In the quarter-century since it entered the lodging business, Marriott has become a leader in the operation of hotels and resorts.

The company consistently has achieved among the industry's highest occupancy and profitability rates. Over the past five years, sales and operating income in Marriott's Hotel Group have grown at average annual rates of 24% and 25%, respectively. Maintaining such a strong record is a constant challenge—seldom greater than that faced in 1981.

Marriott is one of the fastest-growing hotel systems. At the end of 1981, Marriott offered more than 40,000 rooms in hotels, resorts and franchised inns located in 74 cities, primarily in the United States. An intensive expansion program will increase the total number of rooms to approximately 80,000 by the end of 1985.

Management believes Marriott's prospects for continued success in this industry are enhanced by the company's strategic strengths and its aggressive expansion program.

Performance in 1981

The Hotel Group's results for 1981 were strong considering 1981's drop in air traffic and the hotel industry's widespread occupancy declines. Operating income rose 12% over 1980, and sales were up 25%.

Sales benefited from the addition of 23 hotels and improved room rates. However, since it normally takes nearly a year for a new hotel to establish itself in the marketplace, these new properties did not contribute significantly to profits. Reported operating income margins declined slightly because of a higher proportion of managed and leased (versus owned) hotels in 1981. Of course the reduced capital investment freed up cash to fuel the company's growth.

The group's management strength was demonstrated again in 1981 by strong financial results and a decline of less than one percentage point of occupancy for comparable units—despite greater reductions in industry occupancy levels. These achievements were aided significantly by the implementation of two programs:

☐ *Emergency business plan.* A comprehensive plan was put into effect to reduce controllable costs without significantly affecting Marriott's guest service standards. Cost savings from the plan partially offset sluggish economic conditions throughout the year.

☐ *Special marketing and promotion programs.* Marriott's sales efforts were intensified through aggressive special programs—including broadened promotional programs, a higher proportion of contract rooms, and increased food and beverage discount offers such as "inflation fighter" meals.

Strategic Strengths

The growth of Marriott's hotel business in recent years, and the company's confidence in its future prospects, are based on a number of underlying strengths and capabilities:

☐ *Inflation and recession resistance.* Our hotels have provided an excellent hedge against inflation in good years and bad. Over the past 15 years, operating cash flow per room generally has increased at a greater rate than inflation, even during recessionary periods. Historical experience and occupancy rates show that Marriott's primary markets—particularly individual business travelers and group meetings—have tended to remain relatively strong even in hard times.

☐ *Geographic dispersion.* Our geographic dispersion across the U.S. and our balanced mix of locations (including downtown, suburban, airport and resort sites) help mitigate the impact of temporary or localized market conditions.

☐ *Unique management and marketing systems.* Marriott hotels have much more comprehensive management involvement and control than is typical in the industry, particularly in important areas such as food and beverage, and marketing. A regional executive team oversees every seven to ten hotels, helping to ensure high service standards and to maintain productivity.

Marriott has the most intensive individual sales effort in the industry. There is one salesperson for every 90 rooms. Activity focuses on the three key markets for each hotel (individual business and pleasure travelers, and group meetings).

The regional team management and strong individual sales effort, coupled with highly trained and experienced management at each hotel, have helped the company maintain high occupancy rates and profit margins even in difficult periods.

☐ *Reduced capital intensity.* Outside investors own about 75% of our hotel rooms, which Marriott operates under long-term operating agreements. The higher proportion of company-operated hotels owned by outsiders has enabled Marriott to capitalize on its hotel management expertise. Thus our hotel business has become far less capital intensive, permitting Marriott to continue its dynamic expansion program.

☐ *Assured future growth.* Growth of rooms in the Marriott system at an annual rate in excess of 20% through the mid-1980s is virtually assured by projects already under construction and financed. All projects to be completed through 1983, and most of those in 1984, are progressing satisfactorily. The remaining 1984 and 1985 projects have been developed to the extent that we are confident of producing an adequate supply of additional rooms to reach our expansion objectives.

While financing new hotels obviously has become more difficult, we have been able to continue to expand at an acceptable rate using alternative sources of financing. One innovative new source of funding is an equity syndication involving 11 Marriott hotels, to be offered in the form of limited partnership interests in the spring of 1982. Bank commitments to this partnership already have been arranged.

Expansion in 1981 and 1982

In 1981, the total number of rooms in the Marriott system increased by 10,250, or 34%. This was accomplished through the addition of 23 hotels, resorts and franchised inns, and expansion at six existing properties.

Such growth obviously presents difficult challenges in manpower planning and development, but the company's management development systems have proven equal to the task. Years of careful preparations for our hotel growth in the early 1980s now are reaching fruition.

New hotels opened in 1981 included (rooms in brackets): Anaheim, California (746), Atlanta Airport (653), Des Moines (416), Gaithersburg, Maryland (301), Houston Greenspoint (400), LaGuardia Airport (440), Nashville (400), Salt Lake City (518), Seattle (462), South Bend (300), Tampa (312), Tysons Corner, Virginia (398), Washington, D.C. (350) and Westchester, New York (444). New resorts were opened at Hilton Head Island, South Carolina (341), Lexington, Kentucky (317) and Maui, Hawaii (720). New franchised inns opened in Buffalo (360) and Columbus, Ohio (306). The company acquired the Mountain Shadows Resort in Scottsdale, Arizona (346), the Grand Hotel—a resort in Point Clear, Alabama (172) and a hotel in Oak Brook, Illinois (350). One new international hotel was opened in Amman, Jordan (300).

For 1982, approximately 10,000 rooms are scheduled to be added, of which 8,600 will come from 18 new hotels and from existing hotels gained in the Host merger. The remainder will result from expansion at four existing locations.

Heated swimming pools and extensive health facilities, like those at our new Atlanta Airport hotel, are found throughout the Marriott system.

No one does banquets better than Marriott, here at our luxurious new Hilton Head Island resort.

Breakfast is another good Marriott meal—whether at an all-purpose restaurant such as Allie's *in our new Des Moines hotel, or from room or banquet service.*

In recent years, Marriott has upgraded the design features of its standard guest room.

Projects scheduled to be completed in 1982 include new hotels at Albuquerque (414), Boston/Long Wharf (400), Charleston, West Virginia (356), Dallas/Fort Worth Airport (500) and Dallas/Quorum Center (563), Dayton (300), Denver/City Center (612), El Paso (300), Hartford/Farmington, Connecticut (300), Nassau, New York (361), Omaha (306), Raleigh, North Carolina (312) and Washington, D.C./Crystal Gateway (454). New inns will open in San Antonio (300) and Worcester, Massachusetts (250). International hotels are expected to open in Athens (292), Cairo (1,255) and Panama City, Panama (400). Expansion projects are scheduled for Marco Island, Miami and Orlando, Florida, and Santa Clara, California.

A complete list of Marriott Hotels appears on page 23.

Outlook

Marriott significantly improved its leadership position in the lodging industry during 1981, through its strong expansion program and successful financial performance in a difficult economic environment.

The quality of our hotel product, management and other systems, coupled with our constantly broadening base of rooms, make us very enthusiastic about the prospects for solid long-term growth in this, the company's largest business.

Contract Food Services

The company provides a wide range of food service capabilities to a diverse group of clients through the Contract Food Services Group, which operates more than 350 units in the United States and 18 other countries.

Marriott pioneered airline catering in the 1930s. Today, it supplies in-flight food service from 70 flight kitchens to more than 100 airlines in the U.S. and abroad. The company also serves travelers through a growing number of airport terminal restaurants as well as tollway restaurants.

Food service management capabilities for business, health care and educational institutions are provided to more than 230 clients. Facilities managed by Marriott include restaurants, cafeterias, conference centers and other installations.

Marriott's leadership in this industry has been sustained by basic operating strengths that help it to continue growing even in hard times, and position it for solid long-term growth.

Performance in 1981

Results for Contract Food Services were significantly improved in 1981, even with the Professional Air Traffic Controllers (PATCO) strike and continued soft air travel due to economic conditions. Operating income increased 14%, while sales rose 13%.

The year's performance reflected inflation and some unit expansion. Intensive marketing efforts built new business unit volume that more than offset the impact of both domestic airline schedule cutbacks and competition in certain international airline catering markets. Continuing cost control and productivity improvement programs helped protect margins.

Key Strengths

The group's consistent growth in recent years has been achieved largely because of several important strengths that also provide a basis for future profit expectations. These strengths include:

☐ *Reputation for outstanding quality.* Marriott has carefully built a reputation for quality food service, facilities and management in this industry over many years. A highly trained management group, plus our comprehensive procurement and service standards, help maintain this position. Obviously, the company's reputation enhances its ability to acquire and retain good customers.

☐ *Strong marketing efforts.* In recent years, a strong marketing effort in all business segments has helped the group to capitalize on its quality reputation and to attract profitable new business in sufficient volume to offset fluctuations in some markets.

☐ *Stringent cost controls and high productivity.* The group has been able to maintain and/or improve profit margins through a system of tight cost controls and comprehensive productivity improvement programs. The value of these systems was proven again in the difficult 1981 economic climate. Any meaningful future gains in volume from the existing unit base should improve profitability.

Operations

☐ *Airline catering.* Results for the U.S. In-Flite Division were ahead of 1980 levels, despite continued softness in air travel and cutbacks in airline schedules due to the PATCO strike (which reduced our expected volume by about 5%). New accounts in a number of locations as well as stable food costs helped to offset the effects of reduced traffic. Flight kitchens were added in Seattle and Miami.

Profits from international operations were below 1980 levels. Increased competition in the United Kingdom, Argentina and Brazil, coupled with the impact of the devaluation of several foreign currencies against a stronger U.S. dollar, hurt profitability. Also, Marriott absorbed substantial costs in connection with employee reductions in Spain, the U.K. and Argentina. Absorption of this expense in 1981 should help improve earnings in the years to come, as should an aggressive effort to gain profitable new international business. This effort includes a new program to provide specialized consulting services to international clients.

☐ *Terminal restaurants.* Sales and profits for Marriott-managed airport terminal restaurants improved in 1981 despite reductions in passenger traffic at several locations. This improvement was largely due to contributions for a portion of the year from acquired terminal facilities in Las Vegas and Anchorage. Marriott opened terminal restaurants in Saudi Arabia and additional facilities in the Hawaiian Islands during the year, and will continue to pursue new opportunities at home and abroad.

Performance for the company's tollway restaurants was slightly ahead of 1980 levels.

☐ *Food service management.* Results for the Food Service Management Division increased strongly again in 1981. Effective marketing efforts produced extensive new business. Retention of existing accounts, productivity improvements and stable food costs also contributed to the substantial profit growth.

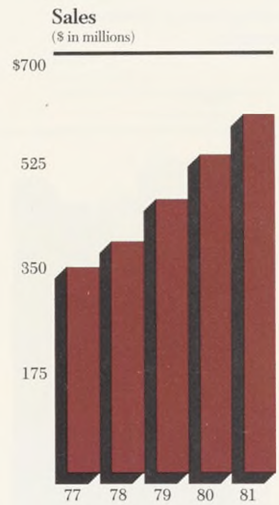
During 1981, Food Service Management added 20 net new accounts. The division also has an outstanding record in account retention. Its longest continuous client association spans 42 years.

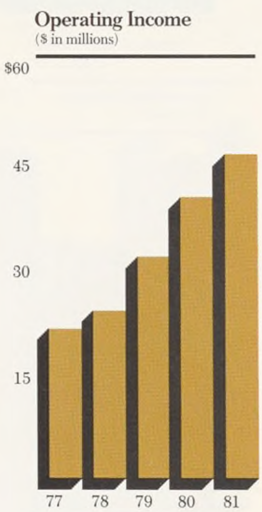
Among major new accounts added in 1981 were the division's first international client—a hospital in Abu Dhabi, United Arab Emirates—and the following domestic accounts: Pfizer, Inc. corporate headquarters, New York City; Bechtel Corp., Houston; the Federal Reserve Bank of Chicago; and American University, Washington, D.C.

Outlook

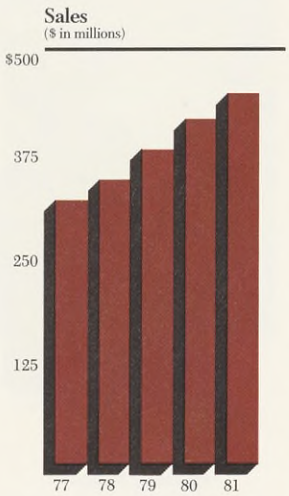
Performance for the Contract Food Services Group in 1981 again demonstrated the group's ability to overcome weakness in the economy and depressed air travel. For the near term, the outlook must be tempered by the timing of economic recovery, but long-term prospects for continued growth in this business are favorable.

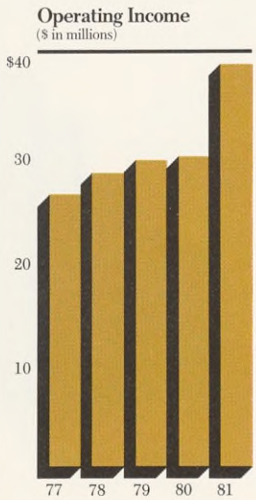
British Caledonian was a major new international addition to our roster of airline catering clients in 1981.





The new large roast beef sandwich is a favorite at Roy Rogers, our fastest-growing restaurant operation.





Nearly 55 years ago, Marriott Corporation began as a nine-seat root beer stand in Washington, D.C. At the end of 1981, Marriott's Restaurant Group included 549 company-operated and 1,083 franchised units serving popularly priced food in 46 states, Canada and Japan.

The two largest divisions are Roy Rogers fast food restaurants and Bob's Big Boy coffee shops. Together they accounted for approximately 85% of the group's operating income in 1981. Other operations include Hot Shoppes cafeterias and service restaurants, located primarily in the Washington, D.C. area.

Careful analysis of the restaurant business has led to significant events in recent months: the sale of the Farrell's Division, development of a dynamic new strategic plan for Roy Rogers and, as an element of that plan, acquisition of Gino's Inc. These moves have helped Marriott position itself for solid growth in the restaurant industry.

Performance in 1981

The Restaurant Group performed well in a very competitive environment during 1981. Sales rose 8%, while operating income increased 17% before losses on closed units. Including losses on dispositions (which occurred primarily in 1980), the group showed a 30% increase in operating income in 1981. Profits improved in all major divisions.

Results reflected contributions from 59 new company-operated and franchised units, heavy promotion, stable food prices and improved productivity. Average checks increased, but customer counts declined slightly, reflecting economic conditions in our markets.

Operations

☐ *Roy Rogers.* Strong profit gains were recorded in the Roy Rogers Division in 1981, as aggressive promotion and the expanded menu of high quality fare introduced in 1980 proved successful.

Developments during 1981 included the addition of a new large roast beef sandwich, and an improved breakfast menu in selected stores. Significant progress was made in the division's "Cookin'" program, where older units are given updated interior design packages and signage to make them compatible with new Roy's stores. Approximately 40% of the older stores have been refurbished under this program.

The number of company-operated Roy's was expanded by 17% with the net addition of 34 new units.

☐ *Big Boy.* Results for the Big Boy Division were paced by its West Coast operations, where special emphasis on improved value and productivity yielded solid profit growth. Big Boy has a strong market position in this area, and has continued to expand in existing markets.

Eastern operations also posted improved profits in 1981. Expanded salad bars and a new, more creative menu are being tested in selected Big Boy coffee shops in this region. The menu features more extensive sandwich selections and includes new hot entrees. Customer response will continue to be monitored in the test units. If response remains satisfactory, the new menu and expanded salad bar will be rolled out gradually to other stores in the region.

Positioning for Growth

Three significant steps were taken in 1981, resulting in transactions completed in early 1982 that substantially enhance the group's ability to grow.

☐ *Farrell's sale.* In March 1982, the company completed the sale of Farrell's Ice Cream Parlour Restaurants for $15 million. This sale is consistent with the decision to concentrate efforts of the Restaurant Group primarily in the fast food and coffee shop market segments.

☐ *Roy Rogers strategy.* A Roy Rogers strategy study was completed in late 1981 and helped define a long-term plan for the division. The study concluded that an aggressive expansion program in selected markets is attractive from both financial and marketing perspectives. Research found that customers in Roy's markets perceive its food quality to be very high and that Roy's strengths can support expansion.

Management has adopted the study's recommendations, which include expansion of Roy's in attractive markets, through selected new construction and acquisition of existing restaurant units. Franchising will be used selectively to enhance the economics and speed of expansion. The division will continue to refine current Roy's concepts to meet evolving consumer needs, while maintaining the concept position of high quality/high volume.

☐ *Gino's acquisition.* An early application of the new Roy's strategy is Marriott's acquisition of Gino's Inc. under a $48 million tender offer completed in February 1982. Gino's is a Philadelphia-based chain of 500 restaurants. Marriott will convert approximately 200 of the Gino's restaurants to Roy Rogers units over two years. Since the existing Gino's have a physical format similar to that of Roy's, the conversion process will be much like that used in Roy's remodeling program. A few units will be converted to Bob's Big Boys.

The Gino's transaction has accelerated our present timetable that calls for the addition of about 50 Roy Rogers units a year. The company will achieve more than three years of expansion in a shorter time, yielding sales and profits earlier than through construction of new units, and at a lower capital investment. This move will help in development of the Philadelphia, Northern New Jersey, Baltimore and Washington, D.C. markets. It also will provide a source of experienced management for future growth.

The company has signed an agreement in principle for the sale of a minimum of 80 Gino's units to KFC Corporation. Marriott intends to sell other Gino's units that do not fit its expansion plans.

Marriott welcomes the more than 12,000 dedicated Gino's managers and employees to our restaurant operations.

Outlook

The success of Marriott's Restaurant Group in the highly competitive markets of 1981, and the strategic moves accomplished early in 1982, provide the basis for renewed confidence in our long-term prospects for this business.

Marriott's two Great America theme parks are located in Santa Clara, California, near San Francisco, and in Gurnee, Illinois, between Chicago and Milwaukee.

Hosting a total of more than five million guests annually, these parks combine a wide range of thrill and family rides, exciting live stage musicals, street entertainment, arcades and games, merchandise and food. The attractions are set in five sections, each representing an era in American history and appealing strongly to the whole family. The Santa Clara park is open from March to October, and the Gurnee park operates from May through September.

Marriott also manages Rye Playland, an amusement park in Westchester County, New York, under contract with the local government.

Performance in 1981

The Theme Park Group posted improved results in 1981, with operating income increasing by 7% on a 12% sales gain.

Total attendance increased by 8% over 1980. The Gurnee park had record attendance despite an unusually heavy number of rain days and a depressed local economy. Increased group sales and promotional efforts contributed to attendance gains.

Strategic Strengths

Both Great America parks enjoy choice locations, with high quality facilities and strong entertainment value. Each park is the primary attraction of its type in its regional market. It appears unlikely that either will have direct local competition from new parks because of the high cost of building and financing similar facilities today.

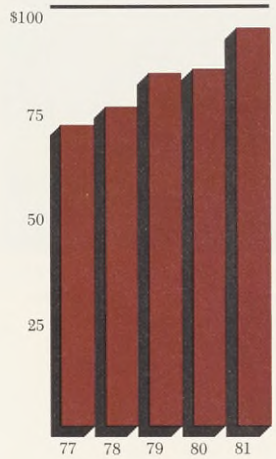
These parks have been valuable sources of cash flow to Marriott since they opened. A new creative marketing strategy implemented in 1981 enhanced the parks' appeal to families and contributed to the improved attendance and profits.

Outlook

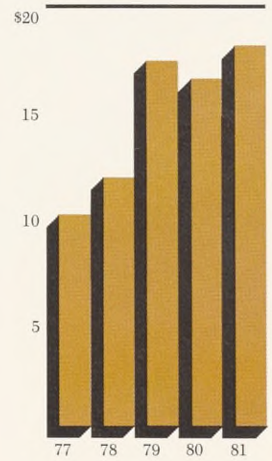
Marriott does not plan to build new theme parks, but will selectively add attraction value to existing parks. We expect continued improvement in return on assets and substantial cash flow to be generated from our existing parks in the 1980s.

The new American Eagle roller coaster attracted over 1.5 million riders in 1981 at our Gurnee theme park.

Sales
($ in millions)

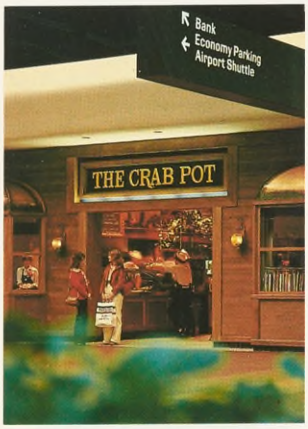


Operating Income
($ in millions)



Cruise Ships

Sun Line's Stella Oceanis *offers luxurious cruises in the Caribbean.*



Terminal restaurants at major U.S. airports like San Francisco International are a primary part of Host's operations.

Sun Line's fleet of cruise ships offers luxurious sailing in both the Caribbean and the Aegean/Mediterranean, where Sun Line has long been recognized as the leader. Sun Line's three vessels— *Stella Oceanis, Stella Maris* and the 45%-owned *Stella Solaris* —conduct approximately 140 cruises each year.

Performance in 1981

Sun Line experienced many of the problems common in its industry in 1981, as both sales and profits were below record 1980 levels.

Soft economic conditions depressed demand, and led to unexpected market softness in the Caribbean as well as some decline in occupancy levels in the Aegean, though Sun Line fared better than its competitors in the latter area. Profits also were restricted by the unfavorable impact of devaluation of several major European currencies against a stronger U.S. dollar. Sun Line management has taken steps to minimize the impact from future currency fluctuation by adopting a more flexible pricing program.

Outlook

Near-term prospects for this business obviously will be influenced by the timing of an economic recovery. However, performance should reflect improved charter utilization of one ship, higher Aegean occupancies on the others, and the absence of some of the unusual problems of 1981. Sun Line has a fine reputation in its industry and should continue to contribute to Marriott's profits.

Host Acquisition

On March 3, 1982, Host International, Inc. and a Marriott subsidiary were merged. Based in Santa Monica, California, Host will be operated as a separate division of Marriott Corporation.

Founded in 1897, Host has a long history of food service. It has served the air traveler for nearly 30 years through its airport terminal restaurants. This addition provides a way to expand some of Marriott's principal lines of business and the experienced management to help accomplish this growth.

Host provides food, beverages, merchandise and hotel accommodations to the public at 25 airports in the United States. Major airport operations include Los Angeles, San Francisco, San Diego and San Jose, California; Kennedy, LaGuardia and Newark in the New York City area; Seattle, Detroit, Boston, Baltimore-Washington, Minneapolis-St. Paul, St. Louis and Tampa. The type and extent of facilities differ at each airport. They include restaurants, coffee shops, snack bars and cocktail lounges, as well as gift, merchandise and duty-free shops.

Host also has airline catering kitchens at seven airports. It operates hotels as part of airport terminal complexes in Houston, Tampa, Sacramento and Detroit.

Other Host operations include a group of 52 specialty restaurants in California and on the East Coast, and various merchandise and duty-free outlets.

Revenues for those Host operations to be retained by Marriott totaled approximately $294 million in 1981. Host has agreed to sell a chain of fast food restaurants and certain of its duty-free and merchandise shops.

Marriott is pleased to welcome Host's fine management team and more than 12,000 dedicated employees to our corporate family.

Marriott Locations*

MARRIOTT HOTELS**
United States

Alabama
Point Clear
Grand Hotel

Arizona
Scottsdale
Camelback Inn
Mountain Shadows Resort
Tucson

California
Anaheim
Los Angeles
Marina del Rey
Newport Beach
Rancho Mirage
Rancho Las Palmas Resort
San Francisco Bay
Berkeley Marina
Santa Barbara
Santa Barbara Biltmore
Santa Clara

Colorado
Denver
City Center***
Southeast
Vail
Mark Resort

Connecticut
Hartford/Farmington***
Stamford

Florida
Fort Lauderdale
Key West
Casa Marina Resort
Marco Island
Marco Beach Resort
Miami
Orlando
Tampa

Georgia
Atlanta
Airport
Downtown
Interstate North
Perimeter Center

Hawaii
Maui

Illinois
Chicago
Downtown
O'Hare
Lincolnshire
Oak Brook

Indiana
Fort Wayne
Indianapolis
Louisville/Clarksville
South Bend

Iowa
Des Moines

Kentucky
Lexington
Griffin Gate Resort

Louisiana
New Orleans

Maryland
Baltimore
Hunt Valley Inn

Massachusetts
Boston
Newton
Long Wharf***
Springfield
Worcester***

Michigan
Ann Arbor
Grand Rapids

Minnesota
Minneapolis/Bloomington

Missouri
Kansas City
Osage Beach
Tan-Tar-A Resort
St. Louis
Airport
Pavilion (downtown)

Nebraska
Omaha***

New Jersey
Saddle Brook
Somerset

New Mexico
Albuquerque***

New York
Buffalo
Long Island
Nassau***
New York City
Essex House
LaGuardia
Rochester
Airport
Thruway
Syracuse
Westchester/Tarrytown

North Carolina
Raleigh***

Ohio
Cincinnati
Cleveland
Airport
East
Columbus
East
North
Dayton***

Oregon
Portland

Pennsylvania
Harrisburg
Philadelphia
Pittsburgh
Greentree
Monroeville

Rhode Island
Providence

South Carolina
Hilton Head

Tennessee
Nashville

Texas
Austin
Dallas
Airport***
Market Center
North
Quorum Center***
El Paso***
Galveston
Hotel Galvez
Houston
Astrodome
Brookhollow
Galleria
Greenspoint
San Antonio
Downtown
North***

Utah
Salt Lake City

Virginia
Blacksburg

Washington
Seattle
Sea-Tac Airport

Washington, D.C. Area
Bethesda
Crystal City
Crystal Gateway***
Dulles
Gaithersburg
Key Bridge
Twin Bridges
Tysons Corner
Washington

West Virginia
Charleston***

Wisconsin
Milwaukee

International

Egypt
Cairo***

Greece
Athens***

Jordan
Amman

Kuwait
Kuwait City

Mexico
Acapulco
Paraiso

The Netherlands
Amsterdam

Panama
Panama City***

Saudi Arabia
Dhahran
Riyadh
Khurais
Riyadh

West Indies
Barbados
Sam Lord's Castle Resort

Future Hotels

Florida
Miami
Downtown '83

Georgia
Atlanta
Peachtree Center '84

Illinois
Chicago
Schaumburg '83

Massachusetts
Boston
Burlington '83
Copley Place '84

North Carolina
Charlotte '83
Greensboro '83

Virginia
Roanoke '83

Washington, D.C.
National Place '84

Hotel Reservations
Call Toll-Free
800/228-9290

*Except where noted, locations are listed as of January 1, 1982.
Host International and Gino's locations are not included.
**Includes hotels, resorts and franchised inns.
***Opening in 1982.

CONTRACT FOOD SERVICES*

Airline Catering

U.S. Flight Kitchens

Arizona
Phoenix

California
Los Angeles (2)
San Francisco (2)
San Jose

Colorado
Denver

Florida
Fort Lauderdale (2)
Miami (5)
Orlando
Tampa
West Palm Beach

Georgia
Atlanta (2)

Hawaii
Honolulu (2)

Illinois
Chicago (2)

Louisiana
New Orleans

Maryland
Baltimore

Massachusetts
Boston (2)

Minnesota
Minneapolis/St. Paul

Missouri
Kansas City

Nevada
Las Vegas

New Jersey
Newark

New Mexico
Albuquerque

New York
New York City (3)

Oklahoma
Oklahoma City

Texas
Dallas/Fort Worth (2)
Houston (2)

Utah
Salt Lake City

Washington
Seattle (2)

Washington, D.C. (2)

International

Argentina
Buenos Aires

Brazil
Rio de Janeiro

Chile
Santiago

Egypt
Cairo

England
London (2)

France
Paris

Jamaica
Kingston
Montego Bay

Mexico
Acapulco
Mexico City

Panama
Panama City

Peru
Lima

Portugal
Lisbon

Puerto Rico
San Juan

South Africa
Johannesburg

Spain
Barcelona
Gerona
Madrid
Malaga
Palma de Mallorca

Venezuela
Caracas

Virgin Islands
St.Croix

West Indies
Antigua
Barbados

Management Contracts

Business (executive dining rooms, cafeterias, snack shops)	115
Health care (hospitals, nursing homes, retirement homes)	94
Education (schools, colleges, universities)	22
Airline terminal restaurants and shops	27
Highway restaurants	14

RESTAURANTS*

Company-Operated Units	549
Bob's Big Boy Coffee Shops	197
Roy Rogers Restaurants Fast Food	238
Other Restaurant Operations	
Hot Shoppes Cafeterias and Service Restaurants	24
Farrell's Ice Cream Parlour Restaurants****	76
Big Boy Jrs.	14
Franchised Units	1,083
Big Boy	955
Roy Rogers	97
Farrell's****	31

THEME PARKS

California
Santa Clara
Marriott's Great America (serves San Francisco area)

Illinois
Gurnee
Marriott's Great America (serves Chicago/Milwaukee area)

New York
Rye
Rye Playland (management contract)

SUN LINE CRUISES

(luxury cruises in the Mediterranean and Caribbean)
Stella Solaris
Stella Oceanis
Stella Maris

Cruise Reservations
Call Toll-Free
800/223-5760

*Except where noted, locations are listed as of January 1, 1982. Host International and Gino's locations are not included.
****Sold in March 1982.

Financial Review

Despite recession, reduced air traffic and higher capital costs, Marriott Corporation continued to meet its principal financial goals of maintaining high capital productivity and 20% average annual earnings per share (EPS) growth.

☐ EPS grew 23% from $2.60 to $3.20, producing a five-year compound annual EPS increase of 30%.

☐ Return on shareholders' equity (ROE) of 23% maintains Marriott among the top 20% of Standard & Poor's 500 firms.

Comparisons of Marriott's EPS and ROE to Standard & Poor's 500 are shown in the charts at right.

Profit Growth Continues

Sales and operating income increased 16% and 14%, respectively, fueled by unit expansion and inflation.

Hotel sales rose 25%, driven by an additional 10,250 rooms and room rate increases that exceeded inflation. Operating income increased a disproportionate 12%, principally because an increasing proportion of hotels are managed. Marriott reports total sales of managed hotels yet earns only management fees. The owner's share of operating income, which must cover capital cost, is recorded as an operating expense. Thus an increasing element of ownership capital cost is present in Marriott's operating expenses. Capital cost for owned hotels is reflected as "interest expense", not operating expense.

The top chart on page 26 shows that if Marriott reported only its management fees as sales, hotel profit margins would increase to 34% in 1981 and would show an increasing trend over the last five years. Consolidated profit margins would increase to 14.4% in 1981, compared to 13.9% in 1980. Some analysts feel this presentation more accurately reflects Marriott's operating performance and it will be included in future annual reports.

Contract Food Services sales and operating income rose 13% and 14%, respectively, reflecting modest unit expansion and inflation. Aggressive marketing produced new customers to offset sales decreases from reduced air travel and domestic airline schedule cutbacks necessitated by the PATCO situation. Domestic divisions, paced by Terminals and Food Service Management, more than made up for a decline in international profits.

Restaurant sales increased 8% with 6% more units, which reflected customer count declines and small price increases during 1981's weak economy. However, operating income rose 17% due to stable food costs and improved labor productivity. Theme Park operating profit increased 7% with an 8% attendance gain.

Net income increased 20% based on good operating performance, relatively small increases in corporate overhead and an aggressive program to utilize tax credits offered by the Economic Recovery Tax Act of 1981.

Discretionary Cash Flow per share increased 30% to $5.84 as reflected in the Current Value Statement. Discretionary Cash Flow represents the company's economic profit. It reports Funds from Operations less actual capital expenditures (rather than accounting depreciation) required to maintain the competitive position of existing fixed assets. The table below shows that Discretionary Cash Flow has averaged over 80% higher than accounting earnings since 1977.

Discretionary Cash Flow
vs. Net Income (in millions)

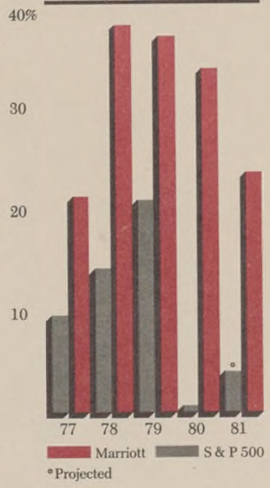
	1981	1980	1979	1978	1977
Cash Flow	$157	$125	$118	$100	$ 81
Net Income	86	72	71	54	39

Capital Productivity Remains High

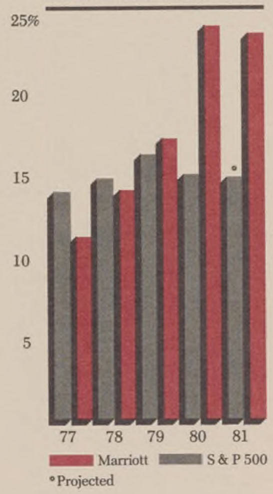
ROE was 23% and return on total capital was 18%. Capital productivity has doubled since 1975 in response to Marriott's aggressive program to improve capital efficiency.

Marriott plans to continue performing at these levels through the 1980s by carefully managing the balance sheet and continuing to expand hotels with management agreements. Several major transactions in 1981 boosted this program.

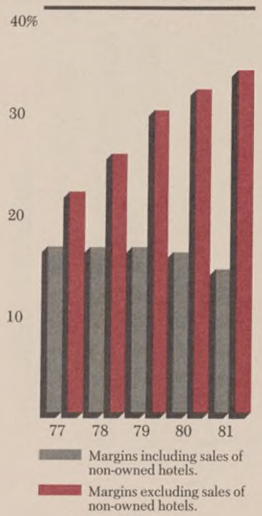
EPS Growth
Marriott vs. Standard & Poor's 500



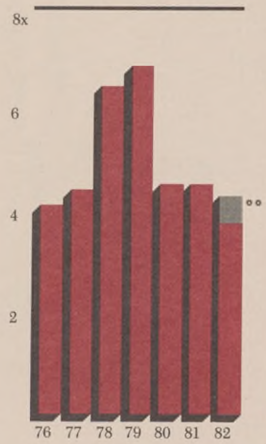
Return on Equity
Marriott vs. Standard & Poor's 500



Hotel Profit Margins



Interest Coverage*



*The ratio of earnings before net interest, taxes and non-cash charges, less required capital replacements, divided by net interest expense.

**Estimated range

☐ Eleven hotels costing $365 million were debt financed through commercial banks and will be syndicated to equity investors this spring, thereby eliminating Marriott's capital investment in these properties. A wholly owned Marriott subsidiary will earn substantial long-term management fees and Marriott, as general partner, will enjoy substantial tax benefits from the properties. Interest on the 12-year loan facility floats with the banks' cost of funds, but interest above 12.5% (increasing ratably to 15% over five years) is added to principal and amortized only from the partnership's available operating cash flow.

☐ The $159 million package hotel sale to The Equitable Life Assurance Society of the United States, which was negotiated in 1980 and largely financed Marriott's share repurchase program, was completed with the development and timely delivery of the last three hotels (Anaheim, Westchester and Nashville).

☐ Hotels totaling $476 million were developed and delivered to other institutions under long-term operating agreements, including Salt Lake City and Maui (Metropolitan Life), Denver City Center (Prudential) and Oak Brook, Illinois (Travelers).

☐ Farrell's Ice Cream Parlour Restaurants Division was sold for $15 million.

☐ Capital investment (net of hotel sales) was $234 million, of which 78% was allocated to new hotels and additional Roy Rogers units.

Capitalization Expands

Marriott's ambitious capital investment and acquisition program is financed by a combination of retained Discretionary Cash Flow, incremental debt on an expanding asset base and sales of hotels. Disciplined management of Marriott's highly liquid hotel assets enables the company to maintain targeted leverage.

Marriott bases target debt levels on cash flow coverage of interest expense rather than on traditional measures of debt-to-equity. Senior debt and lease obligations are 52% of historical cost capitalization but only 24% of Current Value capitalization, demonstrating that inflation makes the debt-to-equity ratio an unrealistic standard of debt capacity. Marriott's objective is to maintain about four times coverage, which is what lenders require to provide Marriott debt financing at prime rates.

Marriott can prudently utilize relatively high levels of debt in its capitalization because financial markets perceive relatively low risk in the company's predictable cash flow stream and strong real estate asset base.

As in the case of its 1980 share repurchase, Marriott will finance 1982 capital investments of about $250 million plus the Host and Gino's acquisitions primarily with a combination of internal cash flow and hotel dispositions. Thus coverage is maintained at targeted levels, as shown at left. It demonstrates once again that Marriott's high Discretionary Cash Flow ($5.84 per share versus EPS of $3.20), combined with the declining capital intensity of the company's hotel business, allows Marriott to expand hotel rooms 20% annually without commensurate capital requirements, thereby releasing investment capacity to fund additional corporate growth. This is the prime reason the company's compound five-year EPS growth of 30% has exceeded its target by 50%.

Marriott's objective is to increase the proportion of long-term, fixed rate debt in its capital structure when the fixed long interest rates return to economic levels. Debt with floating short interest rates reached 33% of capitalization during 1981, principally because Marriott's policy is to finance its construction in progress with floating rate debt. Marriott was protected from the sharp increases in short rates experienced during the year because 64% of these borrowings carried a negotiated weighted rate ceiling of 16%. In addition, about 29% of 1981 floating rate interest was capitalized as a cost of new hotels and will be recouped when the properties are placed with investors.

Long-term interest rates will decrease if there is a return to "normal" real return requirements, or if inflation expectations decline.

Interest rates are composed of real economic return plus inflation. With inflation at 7 to 8%, the chart at right shows that today's real economic returns of 7% are the highest in post-war history. Marriott's investments are in stable, long-term, real estate-related assets. These assets will not produce sufficient profits to justify such high real returns to debt holders without either applying an unrealistically high inflation rate to projected profits or reducing returns to Marriott shareholders.

Interest rates will decline commensurate with the reduction in inflation expectations. There is a reasonable probability that inflation will fall rather than rise in the 1980s, considering the Reagan administration's focus on this important economic issue. However, inflation will remain high by historical standards.

Marriott's profits are inflation-hedged and vary directly with the inflation rate. If inflation declines, Marriott's profit increases should moderate and interest rates will decline. For these reasons, Marriott has not added non-prepayable, fixed-rate, long-term debt that could present an expensive fixed cost element in the company's capital structure.

Debt maturity will remain well within Marriott's conservative policy limits, which require that total debt amortizing in the subsequent five-year period not exceed Funds Provided from Operations of the prior year. The company has met this policy constraint by increasingly wide margins since 1977 as shown below:

Debt Maturity Schedule
(dollars in millions)

Year	1981	1980	1979	1978	1977
1	$ 16	$ 9	$ 9	$ 11	$ 10
2	17	18	18	20	12
3	22	18	24	20	15
4	40	34	27	26	21
5	43	38	35	25	32
Total	$138	$117	$113	$102	$ 90
Funds Provided from Operations	$187	$150	$141	$122	$100
Ratio to 5-year Maturities	1.4	1.3	1.2	1.2	1.1

Dividends and Stock Price Increase

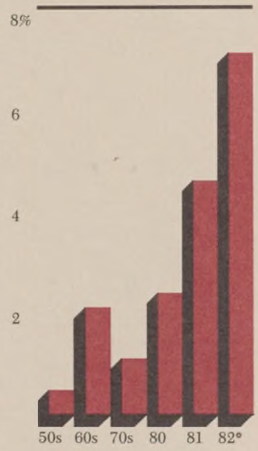
In November 1981, the Board of Directors increased the cash dividend 25% to 30 cents annually. This is consistent with Marriott's plan to increase dividends commensurately with earnings growth.

The company has a good record of reinvesting cash flow in growth businesses at high returns. Marriott will continue this reinvestment strategy to support planned profit growth averaging at least 20% annually through the mid-1980s. If management is successful, shareholders should profit through share appreciation taxed at advantageous capital gains rates, rather than through higher dividends taxed at ordinary rates.

The range of Marriott stock prices by quarter is:

Quarter Ended in	1981 High	1981 Low	1980 High	1980 Low
March	35	29¾	24	16⅜
June	47	33¼	21⅜	17¼
September	43⅜	33⅜	28	20¾
December	38⅝	31⅝	37	27⅛

Real Rate of Return
Interest Rates vs. Inflation Rates



	50s	60s	70s	80	81	82
Interest rate on 20-year govt. bonds (%)	3.1	4.6	7.6	11.4	13.7	14.6°°
Inflation rate (GNP deflator, %)	2.6	2.5	6.5	9.0	9.1	7.5°

°Estimated
°°January/February 1982

Current Value Increases

Shareholders' equity per share, expressed on a Current Value basis, increased 15% to $55 in 1981 from $48 in 1980. This compares favorably with the historical cost book value of $16 per share.

Historical cost accounting understates both the value of Marriott's real estate-based assets and its investment capacity. The company's Current Value balance sheet restates historical cost assets and liabilities to reflect 1981 year-end valuations. As shown, Current Value shareholders' equity increased during 1981, primarily from strong discretionary cash flow, new hotel management agreements and increases in value of operating properties.

The $1 billion increase in restated shareholders' equity from $422 million at historical cost to over $1.4 billion at Current Value results from a consistent policy of owning and managing real estate assets prudently financed with debt.

Outlook

Inflation continues as the most significant external economic force that will impact business in the 1980s despite efforts to moderate it. Inflation adversely affects many industries. However, Marriott's business profile and real estate-based assets should enable the company to meet its financial goals—despite inflation—and to continue to provide shareholders with real economic returns in excess of inflation.

Changes in Current Value Shareholders' Equity

	Millions	Per Share
Current Value—January 2, 1981	$1,201	$47.93
Discretionary Cash Flow	157	5.84
Changes in Current Value		
Operating Properties	57	2.12
Hotel Management and Lease Agreements	95	3.53
Deferred Taxes and Other	(98)	(3.42)
Current Value Increases	211	8.07
Common Stock Issuance and Other	24	(1.10)
Current Value—January 1, 1982	$1,436	$54.90

Condensed Consolidated Current Value Balance Sheet
as of January 1, 1982
(in thousands)

	Current Value	Historical Cost
Current Assets	$ 267,290	$ 267,290
Operating Properties	1,798,445	1,072,770
Hotel Management and Lease Agreements	420,761	—
Investments in Affiliates	67,280	41,309
Other Assets	53,807	73,507
	$2,607,583	$1,454,876
Current Liabilities	$ 287,418	$ 287,418
Senior Debt and Lease Obligations	560,458	607,743
Deferred Taxes	297,846	112,241
Other Liabilities	25,745	25,745
Shareholders' Equity	1,436,116	421,729
	$2,607,583	$1,454,876
Percentage of Senior Debt and Lease Obligations to Total Capital	24.2%	52.1%

Basis of Valuation

Property and equipment, hotel management agreements and investments in affiliates are valued on the basis of the present worth of estimated future cash flows after deducting anticipated asset maintenance requirements. Goodwill is assigned no value. Senior debt and lease obligations are discounted to present value. Discount rates reflect current market rates, which increased substantially in 1981, reducing the growth of asset values.

Deferred taxes are provided to reflect the present value of projected income tax payments arising from the difference between assets' current value and net tax value.

Financing Hotel Growth

Aggressive hotel room expansion provides an important basis for Marriott's anticipated long-term annual corporate profit growth of at least 20%. However, changes in financing markets and national economic conditions have altered the relatively favorable climate which existed for hotel growth in the 1970s.

☐ Chronic inflation and economic uncertainty have adversely affected the cost and availability of hotel capital. In the 1970s capital was inexpensive relative to inflation and readily available for skilled hotel operators like Marriott. Now inflation has driven nominal interest rates to higher levels with investors requiring historically high real returns in response to an unusual degree of economic uncertainty. While Marriott hotel cash flows increase with inflation, it is difficult to sustain profitability at the unprecedented real economic returns above inflation sought by lenders in the present economic environment. Long-term interest rates of 16% are unsupportable when long-term inflation is projected by most economists to be under 7%.

☐ Also in the 1970s there existed a large number of active independent real estate developers capable of developing and financing hotels for Marriott management. The rapid increase in financing costs and reduced availability of funds have altered the structure of the real estate development industry. The smaller independent developers—the source of many hotel deals in the past—have severely curtailed their activities or have gone out of business altogether.

☐ The inverted yield curve and rise in general inflation rates have decimated insurance industry general accounts and stemmed the flow of pension funds into insurance company separate accounts. This has materially reduced institutional funds available for commercial real estate.

Many investors have asked us how we expect to continue with our aggressive expansion plans in light of these fundamental changes in market conditions. The answer is that the company has implemented a two-pronged strategy to deal with these changes:

☐ Vertical integration of the development process.

☐ Establishment of alternative financing sources.

These changes will permit Marriott to continue annual hotel rooms growth of 20%.

Vertically Integrated Development Company

Historically Marriott has internally developed over half of its company-operated rooms. The company has built the expertise and organizational structure to simultaneously site, design and construct large numbers of complex hotel projects. We are now the industry's only major, totally vertically integrated hotel developer. In fact, Marriott has become one of the world's largest real estate developers, creating about $1 billion of product annually.

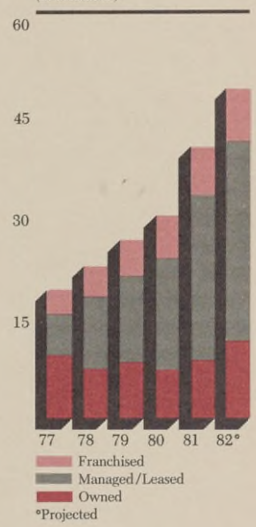
The inability of independent real estate developers to obtain project financing diminishes their anticipated contribution to Marriott's expansion plans. However, this materially improves the profitability of Marriott's expansion effort. By increasing its own development staff, Marriott has been able to internally develop projects originally slated for development by others. The company therefore avails itself of substantially greater profits that will increase dramatically in the 1980s. These are evidenced by the unrealized gains represented by the $421 million difference between the Current and Book Value of the company's owned hotels, and by the enhanced management fees flowing from the hotels developed or acquired by the company and placed with investors over the past several years.

Diversified Funding Sources

In 1981, as in 1975, institutional real estate funds virtually disappeared. The current inflation cycle has eliminated the savings and loan and life insurance industries' plentiful long-term, fixed-rate real estate funding at reasonable interest rates. We do not believe this favorable financing will reappear for a long time, if at all. From residential single family housing to office buildings, shopping centers and hotels, development in the real estate industry has been sharply curtailed. Marriott Corporation, however, has continued its development program by diversifying its funding sources.

During 1981, to supplement its general corporate financing, Marriott obtained approximately $600 million of firm project financing commitments, and negotiations are in process for an additional $400 million of commitments. All of this funding has been supplied by new sources, primarily commercial banks.

Hotel Rooms
(in thousands)



In one unique package, Marriott Corporation obtained, on behalf of a new limited partnership, a $456 million commitment from a syndicate of commercial banks to provide 100% financing for 11 hotels. The financing requires only 16% amortization over a 12-year term. Interest rates float with the bank cost of funds. However, interest owed above certain levels, but not actually supported by project cash flows, accrues and is amortized only from available cash flow. The financing, including accruals, is nonrecourse subject to a Marriott guarantee of $46 million. The guarantee is eliminated when certain operating cash flow levels are attained.

Marriott has registered a public hotel equity offering along with the debt syndication. This offering represents a major move into the public financing of the company's hotel real estate, and has particular value to Marriott at the present time:

☐ It opens a significantly larger and more stable source of funds for hotel capital than today's insurance company market.

☐ The interest rates float, permitting the company to avoid being locked into the extraordinarily high real returns demanded in today's long-term debt market. The financing is prepayable without penalty, permitting refinancing in more attractive future markets.

☐ Marriott is able to retain greater management fee income than that presently available with life insurance company financing.

☐ The commercial bank debt package permits equity structures that enable Marriott to obtain substantial tax benefits.

During the late 1970s, Marriott placed nearly $2 billion of hotel financing with large insurance companies. Nearly $1 billion of commercial bank financing should be in place by year-end 1982. In the 1980s, large public financings of Marriott hotel capital are anticipated in the form of limited partnership shares, convertible debt, participating mortgages and other creative instruments.

Recently, the company has begun to explore foreign capital sources for domestic hotel development. Foreign capital traditionally has avoided U.S. domestic hotel investment—preferring presumed less risky investment in office buildings and shopping centers. Marriott's operational track record and the wide domestic institutional holding of its real estate make the company's hotels more attractive to foreign investors at this time.

Condominium sales are a relatively minor yet potentially significant source of future financing for resort projects. Presently most of the company's 18 resorts are owned by investors, including Camelback Inn, which was sold in the early 1970s as one of the first SEC-registered condominium syndications. Condominium programs are under consideration for several other resorts now in the initial stages of development.

Marriott itself continues as a major provider of funds for its domestic hotel development effort. Over a third of the approximately $4 billion of funds required for domestic hotel development over the next five years may be company-funded through a combination of internally generated funds and prudent corporate borrowing.

By positioning itself as an unsecured borrower, Marriott has guaranteed itself access to the broad sources of corporate capital necessary to support development during the periods of cyclical contraction endemic to traditional project financing markets. These company-owned hotel projects may be held during poor hotel capital markets and placed with investors during strong markets. The capacity to own hotels has enabled the company to pursue its hotel development plans during cyclical downturns in the traditional hotel capital markets.

New funding sources should further insulate Marriott from the cyclical factors affecting real estate development programs. A strong operating track record with high financial returns is fundamental to Marriott's success in securing new funding sources for hotel development, and to its willingness to commit large amounts of its own capital toward this effort.

Outlook

Thus, access to capital and a large vertically integrated development capability will enable Marriott to successfully maintain its growth plan through the 1980s.

Marriott hotels remain a premier investment product in the hotel industry, with continuing access to large capital pools on favorable terms. It is anticipated that as long as the company maintains its operating strength, it will secure the capital necessary to fund its growth.

Consolidated Income

Marriott Corporation and Subsidiaries
Fiscal years ended January 1, 1982, January 2, 1981 and December 28, 1979

	1981	1980	1979
	(in thousands except per share amounts)		
Sales			
Hotel Group	$ 820,913	$ 656,116	$ 541,820
Contract Food Services Group	599,050	529,768	479,789
Restaurant Group	446,475	414,086	370,422
Theme Parks Group	94,655	84,833	83,953
Cruise Ships and Other	39,221	33,922	33,973
Total Sales	2,000,314	1,718,725	1,509,957
Operating Income			
Hotel Group	114,825	102,938	87,774
Contract Food Services Group	45,552	39,875	31,335
Restaurant Group	38,533	29,697	29,425
Theme Parks Group	17,714	16,630	17,533
Cruise Ships and Other	2,736	3,894	4,003
Total Operating Income	219,360	193,034	170,070
Interest Expense, net	52,024	46,820	27,840
Corporate Expenses	28,307	26,126	19,085
Income before Income Taxes	139,029	120,088	123,145
Provision for Income Taxes	52,893	48,058	52,145
Net Income	$ 86,136	$ 72,030	$ 71,000
Primary Earnings Per Share	$ 3.21	$ 2.61	$ 1.96
Fully Diluted Earnings Per Share	$ 3.20	$ 2.60	$ 1.95

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

Marriott Corporation and Subsidiaries
January 1, 1982 and January 2, 1981

	1981	1980
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,082	$ 11,900
Marketable securities, at cost which approximates market	35,084	15,536
Accounts receivable	140,690	124,454
Inventories, at lower of average cost or market	65,224	52,707
Prepaid expenses	20,210	13,559
Total current assets	267,290	218,156
Property and Equipment, at cost		
Land	106,632	95,834
Buildings and improvements	376,465	297,885
Leasehold improvements	379,564	304,737
Furniture and equipment	379,680	314,370
Property under capital leases	35,894	34,641
Construction in progress	122,834	140,604
	1,401,069	1,188,071
Depreciation and amortization	(328,299)	(271,688)
	1,072,770	916,383
Other Assets		
Investments in and advances to affiliates	41,309	37,587
Cost in excess of net assets of businesses acquired	19,700	18,875
Notes receivable	18,741	6,961
Other	35,066	16,302
	114,816	79,725
	$1,454,876	$1,214,264

The accompanying notes are an integral part of this balance sheet.

	1981	1980
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term loans	$ 3,373	$ 3,253
Accounts payable	119,622	97,682
Accrued wages and benefits	68,145	52,451
Other accrued liabilities	64,585	55,742
Income taxes payable	14,484	16,850
Current portion of debt and capital lease obligations	17,209	10,596
Total current liabilities	287,418	236,574
Senior Debt		
Mortgage notes payable	139,824	145,163
Unsecured notes payable	440,384	363,881
	580,208	509,044
Capital Lease Obligations	27,400	27,563
Deferred Income and Other Liabilities	25,745	29,053
Deferred Income Taxes	112,241	75,975
Convertible Subordinated Debt	135	24,550
Shareholders' Equity		
Common stock	29,424	29,424
Capital surplus	131,549	117,587
Deferred stock compensation and other	8,208	8,507
Retained earnings	303,515	223,950
Treasury stock, at cost	(50,967)	(67,963)
Total shareholders' equity	421,729	311,505
	$1,454,876	$1,214,264

Consolidated Changes in Financial Position

Marriott Corporation and Subsidiaries
Fiscal years ended January 1, 1982, January 2, 1981 and December 28, 1979

	1981	1980 (in thousands)	1979
Sources of Funds			
Net income	$ 86,136	$ 72,030	$ 71,000
Add expenses not requiring current outlay of working capital—			
Depreciation and amortization of property and equipment	66,437	55,863	50,623
Deferred income taxes	26,626	11,510	8,786
Other	7,442	10,889	10,525
From operations	186,641	150,292	140,934
New financing	176,783	202,199	70,972
Net funds after tax from hotel sales	109,902	70,798	—
Disposals of property and equipment	3,552	8,102	25,788
Stock issued	31,032	14,654	2,394
Total sources	507,910	446,045	240,088
Applications of Funds			
Additions to property and equipment	277,881	233,945	149,000
Acquisitions	80,020	5,142	9,516
Purchase of treasury stock	225	184,756	74,187
Change in notes receivable	11,780	(9,123)	(1,521)
Maturities and prepayments of debt	95,256	24,994	17,002
Conversions of convertible subordinated debt	24,415	—	—
Cash dividends	6,571	5,252	5,776
Other	13,472	8,720	4,243
Total applications	509,620	453,686	258,203
Decrease in Working Capital	$ (1,710)	$ (7,641)	$ (18,115)
Summary of Changes in Working Capital			
Increase (decrease) in working capital			
Cash and cash equivalents	$ (5,818)	$ (545)	$ (2,302)
Marketable securities	19,548	6,711	(29,685)
Accounts receivable	16,236	24,499	23,181
Inventories	12,517	6,078	5,521
Prepaid expenses	6,651	3,691	297
Short-term loans	(120)	801	(581)
Accounts payable, accrued liabilities and income taxes payable	(44,111)	(48,777)	(15,807)
Current portion of debt and capital lease obligations	(6,613)	(99)	1,261
	$ (1,710)	$ (7,641)	$ (18,115)

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Marriott Corporation and all subsidiaries. Investments in less than 50% owned affiliates in which the company possesses significant influence are accounted for under the equity method. All material intercompany transactions and balances have been eliminated.

Fiscal Year

The company's fiscal year ends on the Friday closest to December 31 for domestic operations and on November 30 for foreign operations. Fiscal 1980 (ended January 2, 1981) includes 53 weeks. All other years presented contain 52 weeks.

Managed and Leased Hotel Operations

The company operates 53 hotels under management and lease agreements where payments to owners are based primarily on hotel profits. Sales, expenses and operating working capital of managed and leased hotels operated with the company's employees are included in the accompanying consolidated financial statements. Payments to owners are included in rent expense.

Foreign Operations

The consolidated financial statements include net assets of foreign subsidiaries and affiliates of $76,253,000 at January 1, 1982 and $72,729,000 at January 2, 1981. Foreign net income was $8,177,000 in 1981, $11,389,000 in 1980 and $12,994,000 in 1979.

In 1981 the company adopted Statement of Financial Accounting Standards No. 52, Foreign Currency Translation (SFAS No. 52). Accordingly, cumulative translation adjustments through January 1, 1982 (other than those related to operations in highly inflationary economies) have been included in shareholders' equity. The effect on net income of adopting SFAS No. 52 was not material.

Theme Parks

Theme park costs incurred during the off-season are deferred (included in prepaid expenses) and charged to expense during the operating season based on budgeted sales.

Property and Equipment

The cost of new units includes interest, rent charges and real estate taxes incurred during development. Capitalized interest totaled $24,168,000 in1981, $12,546,000 in 1980 and $4,705,000 in 1979. Replacements and improvements, including most costs of converting units, are capitalized.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of asset or lease life.

Upon sale or retirement of property and equipment (excluding normal sales or retirements of theme park rides and equipment), the costs less accumulated depreciation and salvage are charged or credited to income. Theme park rides and equipment are depreciated using the composite method and no gain or loss is recognized on normal sales or retirements.

Cost in Excess of Net Assets of Businesses Acquired

Of the cost in excess of net assets of businesses acquired, $12,936,000 relates to acquisitions prior to October 31, 1970 (at which time amortization became mandatory) and is not being amortized because in the opinion of management it has continuing value. The remaining $6,764,000 at January 1, 1982 is being amortized over periods of up to 40 years.

Pre-Opening Costs

Operating costs incurred prior to opening are deferred and amortized over three years for hotels, five years for theme parks and one year for other major operations. Similar costs for all other operations are expensed as incurred.

Profit Sharing Plan

The company contributes to a profit sharing plan for the benefit of employees meeting certain eligibility requirements and electing participation in the plan. Company contributions are a specified percentage of the company's pre-tax income. Company contributions to the plan were $12,698,000 in 1981, $10,621,000 in 1980 and $10,337,000 in 1979.

Income Taxes

Income taxes are based on reported income. Deferred income taxes are provided for timing differences between the recognition of certain income and expenses for financial reporting and tax purposes, principally depreciation and interest. Investment tax credits are accounted for using the "flow-through" method.

Provision for income taxes has not been made on unremitted earnings of foreign subsidiaries ($36,340,000 as of January 1, 1982) because management considers these earnings to be permanently invested.

Earnings Per Share

Primary earnings per share are based on the weighted average number of shares outstanding during each year, adjusted for the dilutive effect of employee stock option and purchase plans, deferred stock compensation and the conversion of certain convertible debt.

Fully diluted earnings per share further assumes the conversion of all convertible debt. Primary and fully diluted shares averaged 26,876,251 and 26,933,932, respectively, in 1981.

Investments in Affiliates

The company's investments in and advances to less than 50% owned affiliates include:

	1981	1980
	(in thousands)	
Hotel joint ventures	$28,705	$25,720
Sun Line Greece Special Shipping Company	9,377	8,501
Other joint ventures	3,227	3,366
	$41,309	$37,587

The company has interests in seven joint ventures that own hotels operated by the company under long-term agreements. Payments by the company to the ventures are based primarily on profits of the hotels. At January 1, 1982, combined assets and liabilities of these hotel joint ventures were $316,774,000 and $253,228,000, including mortgages of $220,074,000. The mortgages are secured solely by venture assets without recourse to the company.

The company also has investments in seven other joint ventures presently constructing hotels that will be operated by the company.

At November 30, 1981, Sun Line Greece Special Shipping Company had total assets of $24,098,000 and liabilities of $9,792,000, including $1,464,000 of debt. The company has guaranteed 45% of this debt.

The excess of the company's investment over its equity in the underlying net assets of less than 50% owned affiliates is $2,205,000 and is being amortized over periods up to 40 years.

The company has formed a limited partnership which will own 11 hotel properties to be managed by a wholly owned subsidiary of the company. Management fees will be based primarily on available profits of the hotels. The company will serve as sole general partner. During 1982, the company expects to sell limited partnership interests in a public offering. The company will contribute its interest in certain existing hotels and work to date with respect to other hotels under construction or development.

A group of commercial banks has committed to lend the partnership $365 million to provide financing for the estimated cost of the 11 hotels. Upon closing of the sale of the limited partnership interests and contribution of the hotels to the partnership, the company will be reimbursed for its capital investment in the properties ($142 million as of January 1, 1982). The partnership also has a loan commitment for up to $91.25 million to pay certain required interest payments on indebtedness related to the completed hotels. Additionally, the company has agreed to advance up to $45.6 million to cover shortfalls in certain partnership debt service. Any such advances by the company are recoverable from subsequent partnership cash flows after partnership debt service. The company has also agreed to advance up to $36.5 million to cover construction cost overruns, if any, in excess of the estimated property costs. To date, no advances have been required under these guarantees.

Income Taxes

Income tax expense consists of:

	1981	1980	1979
	(in thousands)		
Current—Federal	$ 31,844	$34,810	$39,016
—State	5,043	5,577	5,878
—Foreign	4,673	6,620	5,199
Deferred	26,626	11,510	8,786
Tax credits			
Investment tax credit	(10,400)	(7,200)	(5,300)
Salaried employee stock ownership plan	(1,560)	(1,065)	(833)
Jobs tax credit	(2,300)	(2,194)	(601)
Income from investment tax credit purchased under "safe harbor" tax leases	(1,033)	—	—
Provision for income taxes	$ 52,893	$48,058	$52,145

The deferred provision is primarily attributable to the tax effect of excess tax over book depreciation equal to $12,629,000 in 1981, $7,100,000 in 1980 and $9,529,000 in 1979 and the tax effect of capitalized interest equal to $11,518,000 in 1981 and $5,526,000 in 1980. Tax credits arising from the company's contributions to a salaried employee stock ownership plan offset a corresponding charge to corporate expenses.

Reconciliation of the United States statutory tax rate and the company's consolidated income tax rate follows:

	1981	1980	1979
United States statutory tax rate	46.0%	46.0%	46.0%
State income taxes, net of U.S. tax benefit	3.6	3.7	3.6
Foreign earnings and losses subject to aggregate tax rate less than U.S. rate	(1.6)	(1.8)	(3.3)
Other items, net	1.0	.8	1.5
Effective gross income tax rate	49.0	48.7	47.8
Tax credits and other	(11.0)	(8.7)	(5.5)
Effective income tax rate	38.0%	40.0%	42.3%

Debt

Maturities of debt at January 1, 1982 are:

	(in thousands)
1983	$ 17,214
1984	21,540
1985	40,308
1986	43,272
to 2010	458,009
	$580,343

The company has debt of $390,908,000 as of January 1, 1982 at interest rates which vary based on the prime lending rate, London Euro-dollar interbank rate or negotiated rates based on the banks' cost of funds. Interest rates on other debt range from 4.25% to 12.0%.

The company's loan agreements require it to meet certain requirements including among other things, maintaining minimum net worth and asset-to-debt and debt-to-equity ratios. The loan agreements also have restrictions on cash dividends, other payments and the pledging of certain assets. At January 1, 1982 retained earnings of $151,177,000 are unrestricted and $302,952,000 of property and equipment, at net book value, is pledged or mortgaged.

Unsecured debt at year-end consists of:

	(in thousands)
Senior notes payable with interest at 10⅞% and maturing 1983 to 1997	$ 34,500
Notes payable with interest at 8.25% to 12.0% and maturing 1982 to 2010	18,039
Revolving bank loans with average interest at 13.8% and maturing through 1991 (includes short-term debt of $76,467,000 borrowed against revolving bank loans)	387,845
	$440,384

The company has $479,000,000 of revolving loan commitments at January 1, 1982. A commitment fee of up to one-half of one percent is payable on the unused portion. The company uses revolving loan commitments, short-term loans and commercial paper for its interim financing. Such financing is classified as noncurrent to the extent the company has funds available under its revolving loan agreements maturing beyond one year. The above maturity table reflects the maturities of unsecured debt on the basis of the permanent loan repayment schedule, the maturity schedule of revolving bank loans and management's estimation of prepayments.

Under certain bank agreements the company maintains average compensating balances equal to a percentage (3%-5%) of the amounts available or borrowed. All compensating balance agreements are informal and do not legally restrict withdrawal of funds. The average compensating balance during 1981 was $8,293,000.

The company called for redemption or conversion on October 14, 1981 of substantially all the convertible subordinated debt outstanding. During 1981, $25,020,000 of the debt was converted into 811,924 shares of common stock and $145,000 was redeemed for cash, leaving $135,000 outstanding.

Leases

Minimum future rentals under non-cancelable leases (primarily real estate and shopping center space) are:

Fiscal Year	Capital Leases	Operating Leases
	(in thousands)	
1982	$ 3,690	$ 19,391
1983	3,666	19,524
1984	3,651	18,575
1985	3,630	17,934
1986	3,565	17,971
Thereafter	33,820	166,169
Total minimum lease payments	52,022	$259,564
Amount representing interest	(23,400)	
Present value of net minimum lease payments	28,622	
Current portion of capital lease obligations	(1,222)	
Long-term capital lease obligations	$27,400	

Rent expense consists of:

	1981	1980	1979
	(in thousands)		
Minimum rentals on operating leases	$19,470	$17,982	$17,410
Additional rentals based on sales			
—operating leases	11,818	10,956	10,928
—capital leases	1,698	1,140	836
	$32,986	$30,078	$29,174
Payments to owners of leased and managed hotels based primarily on profits	$97,124	$68,155	$47,981

Most leases contain one or more renewal options, generally for periods of five or ten years.

During 1981 and 1980, the company sold eight hotels for $192,600,000. The company continues to operate the hotels under long-term agreements (75 years including renewal options) with rentals and management fees based primarily on hotel profits.

Capital Stock

Sixty million shares of common stock, with a par value of $1 per share, are authorized, of which 29,423,664 were issued at January 1, 1982 and 29,424,216 were issued at January 2, 1981, including treasury stock of 3,264,902 and 4,362,951, respectively. One million shares of preferred stock, without par value, are authorized. As of January 1, 1982 no preferred shares have been issued.

Total common stock shares reserved at January 1, 1982 are:

Employee stock option plan	2,294,925
Deferred stock compensation program (515,598 shares fully vested)	985,886
Employee qualified stock purchase plan	706,459
Restricted stock plan for key employees	71,000
Conversions of convertible subordinated debt	3,512
Total shares reserved	4,061,782

Under the employee stock option plan, options to purchase shares of common stock may be granted to key employees at not less than 100% of the fair market value on the date of grant. All options expire ten years after the date of grant and are exercisable in cumulative installments of one-fourth at the end of each of the first four years. Activity under the plan is summarized below:

	Shares Under Option	
	Number of Shares	Option Price Per Share
Balance, December 29, 1978	1,243,551	$ 9.31—16.31
Granted	270,900	12.75—16.69
Exercised	(80,263)	9.69—12.44
Canceled	(102,115)	9.69—16.69
Balance, December 28, 1979	1,332,073	9.31—16.69
Granted	355,050	18.44—34.50
Exercised	(456,169)	9.69—16.69
Canceled	(52,936)	9.69—28.69
Balance, January 2, 1981	1,178,018	9.31—34.50
Granted	291,160	33.13—41.56
Exercised	(85,954)	9.69—28.69
Canceled	(44,592)	9.69—33.44
Balance, January 1, 1982	1,338,632	$ 9.31—41.56

At January 1, 1982 options for 637,606 shares were exercisable and 956,293 shares were available for granting of additional options. No accounting is made for options until they are exercised.

Shares of deferred stock may be granted to key employees and reserved for their benefit. Granted shares generally vest in annual pro rata installments commencing one year after grant and continuing until retirement. However, upon termination all non-vested shares are forfeited. The company accrues compensation expense for the fair market value of the shares on the date of grant, less estimated forfeitures.

The purchase price for the shares reserved under the employee qualified stock purchase plan is the market value at the beginning or end of the plan year, whichever is less.

Business Segment Information

Results of operations by principal business segment are included in the Statement of Consolidated Income. Net assets employed, identifiable assets, capital expenditures and acquisitions, and depreciation and amortization by principal business segment are (in millions):

	Net Assets Employed*			Identifiable Assets			Capital Expenditures and Acquisitions			Depreciation and Amortization		
	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
Hotel Group	$ 525.4	$414.0	$376.0	$ 647.2	$ 505.0	$ 436.5	$247.7	$132.2	$ 80.6	$19.9	$17.7	$15.8
Contract Food Services	182.3	142.2	126.8	239.8	191.4	167.1	42.6	27.1	20.3	13.1	9.8	8.9
Restaurant Group	238.3	204.5	182.9	274.4	239.8	212.4	54.1	57.1	45.0	19.1	15.7	14.4
Theme Parks	166.4	164.2	158.0	172.0	170.4	162.9	10.8	16.3	6.3	11.3	10.1	9.2
Cruise Ships and Other	17.8	21.3	17.6	28.0	28.6	25.6	.1	.7	1.2	.7	.6	.6
Corporate	37.3	31.5	30.6	93.5	79.1	75.9	2.6	5.7	5.1	2.3	2.0	1.7
Total	$1,167.5	$977.7	$891.9	$1,454.9	$1,214.3	$1,080.4	$357.9	$239.1	$158.5	$66.4	$55.9	$50.6

*Net assets employed represent identifiable assets less identifiable current liabilities.

Acquisitions and Disposition

On January 6, 1982, the company entered into a merger agreement under which the company offered to purchase for $18 per share all of the outstanding common shares of Gino's Inc. Gino's is a fast food and restaurant company operating primarily in the mid-Atlantic region. As of March 9, 1982, the company had acquired 95% of Gino's outstanding common shares. Remaining shares of Gino's will be converted into the right to receive cash of $18 per share under the terms of the merger agreement.

The acquisition cost of the Gino's shares approximates $48,000,000 and was financed through the company's available revolving bank loan commitments. Following the merger, the company expects to convert approximately 200 Gino's restaurants into Roy Rogers restaurants which will be operated either by Marriott or its Roy Rogers franchisees, and to sell the remaining Gino's restaurants and operations. On February 2, 1982, the company signed an agreement in principle to sell some of the Gino's units to KFC Corporation.

On December 15, 1981, the company entered into an agreement and plan of merger with Host International, Inc. under which the company would acquire all of the Host common stock through a cash merger between Host and a subsidiary of the company. The transaction was completed on March 3, 1982. Host is a diversified food service, hospitality and retail merchandising company, operating in-flight kitchens, airport terminal food and beverage and merchandising facilities, and specialty-type restaurants. Host also manages four hotels adjoining airport terminal buildings. The acquisition cost of the Host shares approximates $148,000,000 and was financed through the company's available revolving bank loan commitments.

In connection with the acquisition, the company has agreed to honor option agreements granted by Host to DFS Group Limited (expiring in July 1982) to purchase certain of Host's duty-free operations for $20,000,000 plus approximately $10,000,000 for inventories.

Sales and earnings before interest and taxes (unaudited) of Host (excluding discontinued operations and the duty-free operations under option agreements with DFS) for the year ended December 31, 1981 were $294,134,000 and $18,770,000, respectively.

On March 9, 1982 the company sold its Farrell's Ice Cream Parlour Restaurants Division for $15,000,000. Farrell's 1981 sales and operating income were $50,531,000 and $3,646,000, respectively.

Consolidated Shareholders' Equity

Changes in consolidated shareholders' equity for the fiscal years ended January 1, 1982, January 2, 1981 and December 28, 1979, were as follows:

	Common Stock ($1.00 par value)	Capital Surplus	Deferred Stock Compensation and Other	Retained Earnings	Treasury Stock
			(in thousands)		
Balance, December 29, 1978	$36,891	$224,915	$6,350	$152,555	$ (2,055)
Net income	—	—	—	71,000	—
Common stock issued for employee stock purchase and stock option plans	—	(326)	—	—	2,616
Purchase of treasury stock	—	—	—	—	(74,187)
Cash dividends ($ .17 per share)	—	—	—	(5,776)	—
Deferred stock compensation	9	(82)	1,320	—	247
Other	—	26	—	—	—
Balance, December 28, 1979	36,900	224,533	7,670	217,779	(73,379)
Net income	—	—	—	72,030	—
Common stock issued for employee stock purchase and stock option plans	—	(2,407)	—	—	9,303
Purchase of treasury stock	—	—	—	—	(184,756)
Retirement of treasury stock	(7,475)	(109,431)	—	(60,607)	177,513
Cash dividends ($ .21 per share)	—	—	—	(5,252)	—
Deferred stock compensation	(1)	75	837	—	727
Other	—	4,817	—	—	2,629
Balance, January 2, 1981	29,424	117,587	8,507	223,950	(67,963)
Net income	—	—	—	86,136	—
Common stock issued—					
Employee stock purchase and stock option plans	—	73	—	—	4,127
Conversion of convertible subordinated debentures	—	12,356	—	—	12,664
Cash dividends ($ .255 per share)	—	—	—	(6,571)	—
Deferred stock compensation	—	348	1,601	—	428
Cumulative foreign currency translation adjustments	—	—	(1,900)	—	—
Other	—	1,185	—	—	(223)
Balance, January 1, 1982	$29,424	$131,549	$8,208	$303,515	$ (50,967)

Quarterly Financial Results (Unaudited)

The following is a summary of selected quarterly financial data for fiscal years 1981 and 1980 (in thousands except per share amounts):

1981	Sales	Income Before Income Taxes	Net Income	Fully Diluted Earnings Per Share
First	$ 412,536	$ 23,784	$14,367	$ .54
Second	463,624	36,497	21,823	.81
Third	503,431	45,365	28,210	1.05
Fourth	620,723	33,383	21,736	.81
Year	$2,000,314	$139,029	$86,136	$3.20
1980				
First	$ 350,441	$ 21,447	$12,655	$ .40
Second	389,196	28,796	17,202	.65
Third	436,480	42,515	25,263	.95
Fourth	542,608	27,330	16,910	.64
Year	$1,718,725	$120,088	$72,030	$2.60

Each of the first three quarters consists of 12 weeks, while the fourth quarter includes 16 weeks in 1981 and 17 weeks in 1980.

The sum of the earnings per share for the four quarters is different from the annual earnings per share as a result of computing the quarterly and annual amounts on the weighted average number of shares in the respective periods.

The effect of adopting SFAS No. 52, Foreign Currency Translation, has been recorded in the fourth quarter of 1981. The first three quarters of 1981 have not been restated as the effect is not material.

Constant Dollar and Current Cost Information (Unaudited)

The following tables are required by Statement of Financial Accounting Standards No. 33. They adjust historical cost financial information for changes in the general purchasing power of the dollar as measured by the Consumer Price Index and for changes in the specific prices of resources utilized in the company's operations. The information below demonstrates that during 1981 the company's specific prices for property and equipment increased at a slower rate than general price levels. However, this information distorts economic performance because historical cost depreciation is further increased for changes in general price levels; whereas the company's real estate-based assets require less annual capital reinvestment than is provided by historical cost depreciation. Accordingly, management believes that the Current Value information on page 28 is more meaningful in evaluating the company's performance and financial condition in an inflationary environment.

Statement of Consolidated Income Adjusted for Changing Prices
for the year ended January 1, 1982
(in thousands of average 1981 dollars)

Net income as reported	$ 86,136
Constant dollar adjustment for depreciation and amortization of property and equipment	(31,348)
Constant dollar net income	54,788
Current cost adjustment for depreciation and amortization of property and equipment	16,787
Current cost net income	71,575
Gain from decline in purchasing power of net amounts owed	65,298
Adjusted net income	$136,873
Increase in current cost of property and equipment held during the year	$ 65,428
Effect of increase in general price level	97,160
Decrease in current costs excluding increase in general price level	$ 31,732

At January 1, 1982, current cost of inventories was $65,224,000 and current cost of property and equipment (excluding construction in progress), net of accumulated depreciation was $1,264,149,000.

Current cost is based on the company's estimate of the cost of reproducing selected representative major facilities. Current cost of leasehold improvements is estimated using appropriately indexed historical costs. Current cost for the balance of the company's service potential, primarily furniture and equipment, is derived from vendor quotations, published price lists or indexed historical costs. The company's inventory turns over rapidly and thus its cost is current. Accordingly, cost of sales is already stated in average 1981 dollars.

In accordance with Statement of Financial Accounting Standards No. 33, no adjustment has been made to the provision for income taxes. Accordingly, the effective income tax rate increases from 38.0% as reported in the financial statements to 42.5% in the 1981 current cost calculations.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices
(in thousands of average 1981 dollars except per share amounts)

	For Fiscal Years				
	1981	1980	1979	1978	1977
Sales					
Adjusted for constant dollars	$2,000,314	$1,897,004	$1,891,961	$1,742,015	$1,636,371
Net income					
Adjusted for constant dollars	54,788	53,150	66,703		
Adjusted for current costs	71,575	68,555	78,664		
Fully diluted earnings per share					
Adjusted for constant dollars	2.03	1.93	1.84		
Adjusted for current costs	2.66	2.47	2.17		
Shareholders' equity at year end					
Adjusted for constant dollars	869,999	753,996	874,547		
Adjusted for current costs	722,588	615,309	778,954		
Decrease in current costs excluding increases in general price level	31,732	92,952	122,387		
Constant dollar gain from decline in purchasing power of net amounts owed	65,298	77,349	69,051		
Cash dividends declared per common share					
Adjusted for constant dollars	.25	.23	.21	.18	.04
Market price per common share at year end					
Adjusted for constant dollars	34.72	33.47	20.59	16.28	17.20
Average consumer price index	272.4	246.8	217.4	195.4	181.5

Fiscal years 1979 and 1980 restated from amounts previously reported.

Management's Report

Management is responsible for the integrity and objectivity of the consolidated financial statements and other financial information presented in this annual report. In meeting this responsibility, the company maintains a highly developed system of internal controls, policies and procedures, including an internal auditing function that continually evaluates the adequacy and effectiveness of its control system. Management believes this system provides reasonable assurance that transactions are properly authorized and recorded to adequately safeguard the company's assets and to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles.

The consolidated financial statements have been examined by Arthur Andersen & Co., independent public accountants. The auditors' report expresses an informed judgment as to whether management's consolidated financial statements, considered in their entirety, present fairly the company's financial position and operating results in conformity with generally accepted accounting principles.

The Board of Directors pursues its responsibility for the consolidated financial statements through its Audit Committee, composed of three directors not otherwise employed by the company, headed by the Vice Chairman. The committee meets a minimum of three times during the year with the independent public accountants, representatives of management and the internal auditors to review the scope and results of the internal and external audits, the accounting principles applied in financial reporting and financial and operational controls. The independent public accountants and internal auditors have full and free access to the Audit Committee with or without the presence of management.

MARRIOTT CORPORATION

Washington, D.C.
January 29, 1982

Auditors' Report

To the Shareholders of Marriott Corporation

We have examined the consolidated balance sheet of Marriott Corporation (a Delaware corporation) and Subsidiaries as of January 1, 1982 and January 2, 1981, and the related statements of consolidated income and changes in financial position for each of the three fiscal years in the period ended January 1, 1982. Our examinations 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.

In our opinion, the financial statements referred to above present fairly the financial position of Marriott Corporation and Subsidiaries as of January 1, 1982 and January 2, 1981, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 1, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Washington, D.C.
January 29, 1982
(the date with respect to the acquisitions and disposition discussed in the Notes to Consolidated Financial Statements is March 9, 1982).

Marriott
corporation
Marriott Drive
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