Marriott Corporation Annual Report 1975

Spectacular Lincolnshire— Complete new hotel-convention-resort complex north of Chicago

Marriott CORPORATION

'75 ANNUAL REPORT TO SHAREHOLDERS:

Long Record of Earnings Growth Interrupted, But Basic Businesses Strong; Better '76 Is Forecast

The combined impact of serious recession and inflation, and the loss of Sun Line cruise business due to the Greek-Turkish war on Cyprus, caused your company's earnings to decline by 12% in fiscal 1975—the first decline in 15 years.

In spite of these external problems, we are pleased to report that combined earnings from our three principal operating Groups—Hotels, Business and Professional Services, and Restaurants—were slightly ahead of last year. We can also report record sales and other important gains over the previous year:

Highlights	1975	1974	% Increase (Decrease)
Sales	$732,396,000	$640,439,000	14.4
Income before income taxes	38,407,000	42,120,000	(8.8)
Per sales dollar	5.2%	6.6%	
Net Income	21,818,000	24,745,000	(11.8)
Per sales dollar	3.0%	3.9%	
Per share	.68	.78	
Funds provided from operations*	70,320,000	63,592,000	10.6
Working capital	15,425,000	14,518,000	6.2
Shareholders' investment	254,365,000	227,739,000	11.7
Per share	7.82	7.13	
Shares outstanding	32,506,837	31,962,640	

Results are for the 52 Weeks Ended July 25, 1975 and July 26, 1974.
** See note C, page 35, for explanation.*

Recession coupled with a high inflation rate reduced discretionary personal income, thus cutting into dollars available for travel and for dining out.

In addition, higher costs—especially in the key areas of energy, food, labor, and advertising/sales promotion—continued to affect profits.

It was only through a truly outstanding performance on the part of our management and employees that we were able to improve the combined earnings of our three principal Groups.

SUN LINE: TROUBLES SUBSIDING

Sun Line, now organized as a fourth line of business, was our major problem during the year, losing $5.8 million. Much of this foreign loss is not deductible for income tax purposes, and with the increase in our effective tax rate, Sun Line's total impact on the company amounted to a negative 12¢ per share.

As a result of the Cypriot War, much of our Sun Line business was lost in the summer and fall of 1974—the peak of the season. In addition, we were struggling to offset a 300% increase in fuel prices. Caribbean cruises went reasonably well during the '74-'75 winter, but large additional sums were spent on marketing to fill the ships in a weak economy. When the ships returned to Greek waters in the spring, sales were weak due to continuing political turmoil in Greece, and the increased cost of air fares to Europe.

Many of Sun Line's problems are non-recurring and are now behind us. Travel to Greece began to improve in the summer of 1975, a new marketing organization has been formed, and the Sun Line loss should be cut by at least two-thirds in fiscal 1976.

LONG-TERM EXPANSION: SPECIAL COSTS

Profits in 1975 were further affected by short-term but heavy start-up expenses in the most active expansion program in your company's history. We added seven new hotels, the largest number in any year. We opened 52 new restaurants, acquired 12, converted 32 and closed 16. We also disposed of seven airline catering kitchens plus other operations in Italy, while at the same time increasing ownership of flight kitchens in seven other European markets.

In addition, we wrote off $500,000 in development expense for hotel projects which were discontinued because their

J. W. MARRIOTT, JR., President and Chief Executive Officer; J. WILLARD MARRIOTT, Founder and Board Chairman, at the exciting new Marriott Hotel in Newport Beach, Calif.

projected return failed to meet our criteria for profitability.

Expansion and change is a way of life in your company, but in 1975 the adverse effect of hotel start-up and restaurant conversions—plus the write-off losses and sale of units in Italy—was 2¢ a share greater than comparable '74 charges.

LOOKING AHEAD: BETTER YEAR COMING

We are optimistic about prospects for the year ahead. Our hotel business is strengthening. Committed group business is strong. We have high quality hotels which we feel will be in great demand. Twenty Marriott Hotels and Inns received Mobil Guide 4-Star awards in 1975, more than any other single hotel chain. With a heavy concentration of rooms in the Washington-Philadelphia-New York-Boston corridor we are well-poised to take advantage of heavy Bicentennial travel. The new hotels opened in 1975 are expected to contribute significantly to profits in 1976. Only one new owned hotel will be opened in 1976, thus limiting hotel start-up expenses this year.

In 1975, we merged our management food services organization (feeding for business and industry, hospitals, schools, and vending)—plus our highway division —with In-Flite and security operations, creating the Business and Professional

Services Group. The enlarged organization now allows us to market food services to businesses and institutions from airport kitchens in more than 50 major cities throughout the world.

The Business Group's In-Flite Services division faces continuing low levels of airline traffic. With a particularly strong first half last year to compare against, the division will have difficulty showing gains in the near-term. But traffic currently has been picking up, and In-Flite should be improving by the second half of the year.

SO FAR IN '76: A GOOD START

The Restaurant Operations Group is off to a strong start in '76. We believe we are uniquely positioned in this industry with a variety of concepts serving many fast-growing markets. Our Big Boy coffee shops have a premier position in the Southern California and Cleveland markets, and are growing in the East. There are now 175 Roy Rogers units and over 100 Farrell's old-fashioned ice cream parlours across the nation. The Restaurant Group has 12 outstanding dinner houses in operation.

BIG FEATURE COMING: "GREAT AMERICA"

Finally, this is our year to open two "Marriott's Great America" theme parks. After five years of careful development, this new dimension to Marriott Corporation will become reality in March of 1976 when the first park opens in Santa Clara, California. The second, north of Chicago, follows on Memorial Day weekend in May.

The parks will be a superlative blend of thrill rides, live and animated entertainment, shops, crafts, restaurants—all brought together in a beautifully landscaped, clean and colorful American-heritage setting. There is nothing like this exciting concept in family entertainment in either the populous San Francisco Bay area or the Chicago/Milwaukee area. We are enthusiastic over prospects for both parks. We are pleased that they will be ready for the nation's Bicentennial year.

Over the long term, we see theme parks as one of the great growth segments of the leisure time industry. Attendance nationally has jumped from 13 million in 1964 to 51 million in 1974. There is more growth coming in this business, and we mean to be a major factor in it.

MAJOR OBJECTIVE: A BETTER 'ROI'

In 1974 we began an intensive program of asset management to improve our return on investment. This is a long-term effort, and includes such projects as the sale of condominiums at Essex House in New York, a 150-room addition making productive use of vacant land at Barbados, a new lease/management agreement at the just-opened Lincolnshire (Ill.) resort which we originally financed ourselves, the sale of low-yield operations or conversions to more profitable units, and an active program to market our inventory of idle land. With our new theme parks shifting from an idle status into profitable operation in the second half of fiscal '76, our return on investment should start showing results from this program this fiscal year.

Needless to say, we are glad to have fiscal 1975 behind us. That we could do as well as we did is a tribute to the tremendous efforts of our dedicated employee organization and strong management team.

All of us with the company appreciate the patience and understanding of shareholders while we cope with the troubles of the times. And we invite you to share with us our optimism for a better fiscal 1976.

J. Willard Marriott
Chairman of the Board

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

September 29, 1975

This is Marriott, 1975

Marriott Corporation—a family of 46,200 chefs and dieticians, housekeepers and jet plane loaders, waiters and waitresses, security specialists and soufflé specialists, cruise ship officers and bell captains, hostesses and drivers, life guards and gardeners, butchers and bakers and fresh salad makers—and even Bugs Bunny (©1975 Warner Bros., Inc.). Thirty-six divisions of employees and managers . . . nationwide and almost worldwide . . . all anxious to please.

Marriott Restaurant Operations Group

Meeting the public's food service needs from fast food to fine dinner houses . . . food production and sales . . . and opening in 1976: Large family entertainment centers near San Francisco and Chicago.

	FISCAL '75	FISCAL '74
Sales:	$257 million	$208 million
Units:	407	359
Scope:	28 States, D.C., France	
Employees:	20,700	19,800
Franchises:	846	813

Marriott Business and Professional Services Group

Worldwide network of food service facilities catering to airlines . . . food service management capabilities for business, health-care facilities and educational institutions . . . management of restaurants at airline terminals and along major highway systems . . . security services and systems for business, home, institutional markets.

	FISCAL '75	FISCAL '74
Sales:	$253 million	$232 million
Flight Kitchens:	60 (51 airports)	64 (56 airports)
Management/ Contract Accounts:	178	159
Scope:	North and South America, Europe, Pacific, South Africa	
Employees:	12,100	11,300

Marriott Hotels Group

Leader in hotels and resorts in Western Hemisphere and expanding Marriott name to foreign business centers . . . resort and luxury hotel condominiums . . . world travel services.

	FISCAL '75	FISCAL '74
Sales:	$217 million	$190 million
Hotels:	31	24
Rooms:	13,393	10,187
Scope:	U.S., Mexico, Caribbean, Europe	
Employees:	12,400	11,400
Franchises:	12 Inns (2,841 rooms)	12 Inns (2,675 rooms)

407 COMPANY OPERATIONS	*Units*
Dinner Houses and Restaurants	
Dinner Houses and Specialty Restaurants (Eastern U.S.)	12
Hot Shoppes Service Restaurants (East Coast)	16
Ice Cream Parlour Restaurants	
Farrell's (across U.S.)	83
Cafeterias	
Hot Shoppes Cafeterias (East Coast and Midwest)	38
Marriott Cafeterias (Paris and Nantes, France)	2
Coffee Shops	
Bob's Big Boy (West Coast)	82
Bob's Big Boy (East Coast)	13
Manner's Big Boy (Ohio)	37
Fast Foods	
Roy Rogers Family Restaurants (Eastern U.S. and Texas)	97
Jr. Hot Shoppes (Washington, D.C./Baltimore)	13
Big Boy Jrs. (California)	14
Total Company Operations	407

846 FRANCHISED OPERATIONS	*Units*
Coffee Shops	
Big Boys (across U.S. and Canada)	746
Ice Cream Parlour Restaurants	
Farrell's (across U.S.)	22
Fast Foods	
Roy Rogers (across U.S.)	78
Total	846

Food Production

Fairfield Farm Kitchens, food research and production center in Washington, D.C., serving Marriott restaurants, hotels, flight kitchens in Eastern U.S.

Kitchens of Bob, food production center in Glendale, California, serving West Coast Big Boys

Food Sales

Fairfield Farm Kitchens manufactures entrees, soups, baked goods, for sale to the food service industry . . . markets retail products through grocery chains in Eastern U.S.

Bob's refrigerated dressings and sauces are marketed through food retail chains in California, Arizona, Oregon.

Marriott's
GREAT AMERICA

FAMILY ENTERTAINMENT CENTERS

Thrill rides, live entertainment, restaurants, shops, etc., in an American-heritage-themed park

- San Francisco—Park on 650-acre site opening in March, 1976 in South Bay city of Santa Clara. Market of 7 million people within 100-mile radius
- Chicago—Park on 600-acre site opening in May, 1976 in Gurnee, Illinois, midway to Milwaukee. Market of 12 million people within 100-mile radius

Flight Kitchens—North America
40 kitchens in U.S., Mexico, Caribbean

	Units		*Units*		*Units*
Acapulco	1	Houston	1	Oakland	1
Albuquerque	1	Kansas City	1	Phoenix	1
Antigua	1	Las Vegas	1	St. Croix	1
Baltimore	1	Los Angeles	1	Salt Lake City	1
Barbados	1	Mexico City	1	San Francisco	2
Boston	1	Miami	3	San Juan	1
Chicago	2	Minneapolis	1	Seattle	1
Dallas/Fort Worth	2	Newark	2	Tampa	1
Ft. Lauderdale	2	New Orleans	1	Washington, D.C.	2
Honolulu	1	New York	4		

Flight Kitchens—Overseas

12 Kitchens in Europe	*Units*	*6 Kitchens in South America*	*Units*
Athens	1	Buenos Aires	2
Barcelona	1	Caracas	1
Faro, Portugal	1	Lima	1
Frankfurt	1	Rio de Janiero	1
Gerona, Spain	1	Santiago	1
Lisbon	1		
London	2	*South Africa*	
Malaga	1	Johannesburg	1
Madrid	1		
Palma de Mallorca	1	*Pacific*	
Paris	1	Guam	1

Sun Line Cruises

Sun Line fleet in world's major cruise markets—Mediterranean in summer, Caribbean in winter

Stella Solaris	**650 passengers**
Stella Oceanis	**310 passengers**
Stella Maris	**180 passengers**

1975-76 Cruises

- Caribbean Winter Sailings—Solaris from Galveston, Texas and Tampa, Florida . . . Oceanis from San Juan
- Mediterranean Sailings, '76 Season—Solaris and Maris from Athens . . . Oceanis from Venice and Nice

Management Contracts
178 food management, highway and airport terminal accounts

	Accounts		*Accounts*
Business and Industry	75	Automatic Food Service	8
Health Care	47	Highway Restaurants	16
Schools and Colleges	15	Airport Terminals	10
Environmental Services	7		

Special Services

Food service to Auto-Train, passenger/car railservice, Washington, D.C. to Florida, and Louisville to Florida; Institutional catering from In-Flite kitchens; total of 19 special activities

Security Systems

Quality loss-prevention services for homes and businesses, including 12 alarm systems units, headquartered in Miami

Hotels and Resorts
27 properties in U.S., Mexico, Caribbean and Europe

	Fiscal Year Opened	*Rooms at 7/25/75*
Washington, D.C.		
Twin Bridges	'57	450
Key Bridge	'59	372
Dallas	'60	477
Philadelphia	'61	713
Atlanta	'66	771
Saddle Brook, N.J	'66	244
Scottsdale, Arizona		
Camelback Inn	'68	345
Chicago	'68	706
Houston	'69	339
New York City		
Essex House	'69	762
Acapulco Paraiso	'69	435
Boston	'70	433
Washington, D.C.		
Crystal City	'70	301
Dulles Airport	'70	215
Bloomington, Minnesota	'71	496
St. Louis	'72	426
Miami	'72	358
New Orleans	'72	924
Barbados	'73	61
Dallas Inn	'73	277
Los Angeles	'74	1,020
Kansas City	'75	266
Denver	'75	460
Amsterdam	'75	395
Lincolnshire, Ill.	'75	393
Newport Beach, Cal.	'75	377
Acapulco Ritz	'75	287
Total		12,303

Resort Hotels (Managed*)

Location	*Fiscal Year Opened*	*Rooms at 7/25/75*
Palmas del Mar, Puerto Rico	'74	110
Amelia Island, Florida	'74	296
Acapulco Auto Ritz	'74	103
Mullet Bay, St. Maarten, N.A.	'75	581
Total		1,090

** Sales and operating expenses at managed properties are not included in consolidated statements.*

Franchised Marriott Inns

Twelve Inns with 2,841 rooms opened since 1970 in the cities of Cincinnati, Columbus, Fort Wayne, Louisville, Cleveland, Berkeley, Ann Arbor, Pittsburgh, Blacksburg (Va.), Milwaukee, Indianapolis and Rochester

Resort/Hotel Condominiums

Units for sale through offering prospectus available at Corporate Headquarters or at properties:

- World-famous Camelback Inn, "Five Star" resort at Scottsdale, Arizona, near Phoenix
- Luxury Essex Towers on Central Park South in New York City

Full Service Travel Bureau

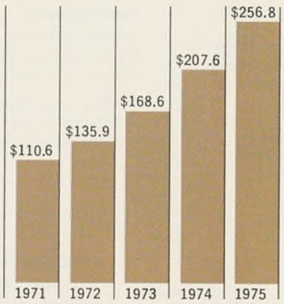
Marriott World Travel, meeting corporate, individual and group travel needs to unique world destinations

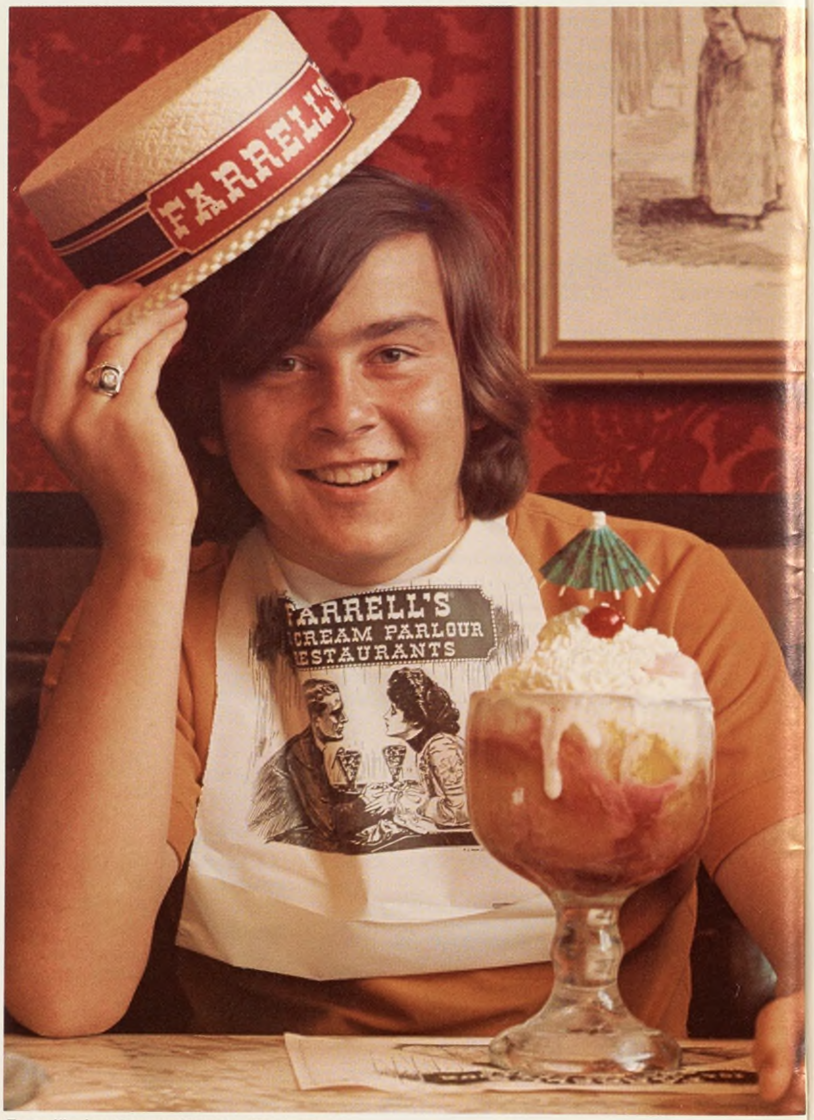
Marriott Restaurant Operations Group

G. MICHAEL HOSTAGE
President
Restaurant Operations Group

Sales increased 24% in fiscal 1975 despite the national squeeze on discretionary income. Much of the increase came from new units, as this was a major year for expansion into new markets and conversion of existing facilities into stronger operations. However, year-to-year sales for comparable units also were higher—a gratifying result in a recession year. Overall profits were up 10% despite particularly heavy costs for expansion and for utilities. Leading the way were the Big Boy, Hot Shoppes, Dinner House and Fairfield Farm Kitchens divisions.

SALES (in millions)
Restaurant Operations





Farrell's Ice Cream Parlour Restaurants

FARRELL'S ICE CREAM PARLOUR RESTAURANT division achieved its planned expansion for the year, insuring more prime market positioning for this unique fun and food concept. Sales growth far outpaced the rate of unit expansion, but profits declined as the division absorbed start-up costs for 23 new parlours, including 6 acquired units. Entering new geographic areas also required additional advertising and supervisory expense.

Traffic in the new year should pick up generally as a growing number of consumers visit shopping malls where most Farrell's parlours are located.

A dozen more Farrell's are planned in fiscal 1976. The additions will help keep the division growing long-term, but the reduction from last year's rate of expansion will cut opening costs sharply. Profits also should benefit in fiscal 1976 from the full effects of last year's new unit expansion and a number of improved operating controls recently adopted.

THE DINNER HOUSE DIVISION registered important sales and earnings gains in fiscal 1975. Three outstanding restaurants were opened—another Joshua Tree on Long Island, a Phineas Prime Rib in suburban Philadelphia, and the new Garibaldi's in Washington, D.C. Results for the 12 dinner houses, now including Hogate's and Port O'Georgetown in Washington (formerly operated by the Hotels Group), were affected by start-up costs and continued unsatisfactory returns from the St. Petersburg Pier operation. Extremely high prices for beef and lobster, entrees on which the dinner house concept is founded, also were felt during a large part of the year.

The division will realize gains from fiscal '75 expansion during the coming year. The sixth metropolitan-Washington dinner house, opened early in fiscal '76, also will contribute to the new year, and two other units are planned to open in fiscal '76.

BOB'S BIG BOY COFFEE SHOPS had an excellent profit gain, including good increases in the small but expanding Eastern division. Of the 17 new Big Boy units opened in '75, five were acquired in New Jersey and one began operation in Hawaii—first in the Islands. The Manner's Big Boy (Ohio) acquisition completed its first full year exceeding anticipated performance.

The Big Boy franchise division also showed gains despite the national economy, and Bob's retail division had its best year

Garibaldi's Ristorante, Tysons Corner, Virginia

Bob's Big Boy Family Restaurants

yet. Eight million jars of sauces and dressings were sold in supermarkets, and profits rose sharply.

Expansion of Bob's popular, high-quality coffee shops will continue on both coasts during fiscal 1976.

HOT SHOPPES SERVICE RESTAURANTS earned a small profit for the year against significant losses in fiscal '74. Three units were closed and sold, and three more at good locations were converted to other Marriott operations. Customer counts have increased. Ten units, all in strong locations, are forecast to improve further on profits in '76.

HOT SHOPPES CAFETERIAS experienced lower traffic counts in fiscal 1975. National retail sales slid in the recession, and the cafeterias—mostly in shopping malls—slid with them.

Management moved swiftly to improve operations, three unprofitable locations were closed, and traffic declines were stemmed in the fourth quarter. A strong rebound is indicated for '76.

In fiscal 1975 Marriott took its cafeteria concept overseas for the first time, in a test of foreign markets. Two units were opened, near Paris and in Nantes, France. Start-up costs were high but customer acceptance has been encouraging. Further expansion is awaiting evaluation of current operating experience.

ROY ROGERS FAMILY RESTAURANTS increased sales with extensive expansion and conversions. Profits were up only moderately due mostly to the short-term costs of opening new units in the highly competitive fast foods field. Rising beef and utility costs also limited profit improvement.

The division expanded by 50%, ending the year with 97 company-owned units. In the Washington, D.C. area, 27 units were converted from Jr. Hot Shoppes in response to the public's enthusiasm for the Roy Rogers menu concept of roast beef sandwiches, chicken, and hamburgers. There are now 13 Jr. Hot Shoppes remaining in the Washington-Baltimore area.

Twelve units were opened in new markets for Roy Rogers, primarily in the New Jersey-Long Island, N.Y. region where expansion will continue next year.

FAIRFIELD FARM KITCHENS had an excellent year. Aided by new operating efficiencies and continually increasing volume from Marriott operations in the Eastern half of the United States, "FFK" recorded excellent gains in both sales and profits.

The fledgling venture to market Marriott products to the retail and food service industries also made considerable developmental strides in fiscal 1975, and this should have a favorable effect on profitability in '76.

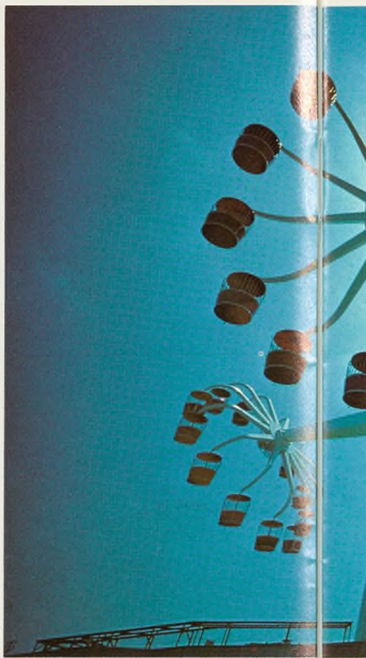
In the Washington, D.C. area Marriott-brand refrigerated salad dressings, FFK's "Home-Style Turkey with Fixin's" (picture opposite) and a Marriott birthday cake are available at many supermarkets and department stores. Some of these products also are moving into Midwest, New York and Florida markets.

Roy Rogers Family Restaurants

FFK's "Home-Style Turkey with Fixin's" now available at many grocery and department stores

"MARRIOTT'S GREAT AMERICA" will be introduced during fiscal 1976—when the nation's Bicentennial celebration begins. After five years of planning, design and construction, two GREAT AMERICA theme parks open in the spring. One is in Santa Clara, California, 40 miles south of San Francisco in the thriving Lower Bay region. The other is in Gurnee, Illinois, mid-way between Chicago and Milwaukee.

The parks feature a variety of rides, live entertainment, animated shows, shops, crafts and restaurants—themed in an



American-heritage motif and set amid extensive landscaping, water, and open spaces.

Five separate eras of American life long passed will be the distinctive elements of both parks:

- Yankee Harbor
- Yukon Territory
- The Great Midwest Livestock Exposition and County Fair
- Hometown Square
- Orleans Place

The park in California opens on weekends starting March 20, 1976, daily starting the end of May, and again on weekends in the fall—for an operating season of 142 days.

The Illinois park opens full-time May 29, and on fall weekends in '76. Its regular season in '77, when it also opens for spring weekends, will be 119 days.

A single admission price will be charged at the gate. All rides and shows inside will be free. There will, of course, be charges at restaurants and shops.

Regional in nature, these parks will draw primarily from a radius of 100 miles—close enough for families to get to the park, spend the day, and return home at night. This radius at Santa Clara takes in 7 million people . . . at Gurnee, 12 million.

During fiscal 1975, construction moved ahead full-speed on both parks. At year end, guided by critical path time-tables, development was on schedule.

Substantial completion of management staffing at Washington headquarters and at both park sites also was accomplished in '75. All senior positions in operations, marketing, merchandising and other functions are filled, mostly by experienced personnel from the industry. Key

positions in food service, accounting and personnel are filled by seasoned Marriott executives.

The company's entry into this business is a timely response to today's recognized consumer demand for good family fun. Also, the parks meet today's interest in things nostalgic. They come at a time when people are seeking to conserve on gasoline and save on expenses with leisure activities closer to home. And, there is nothing else like them in the greater San Francisco and Chicago markets.

The theme park industry today is big. It is now almost a half-billion dollar business. By the end of the 1976 season, Marriott will be a major factor in this growth industry.

Marriott's GREAT AMERICA—almost ready to open (above) near San Francisco and near Chicago

Marriott Business and Professional Services Group

J. O. JARRARD
President
Business and Professional Services

Fiscal 1975 was a mixed year for the new Business and Professional Services Group, now combining airline catering with all Marriott contract food services. Sales increased 9%—profits 7%.

The global decline in air travel affected In-Flite Services, the mainstay of the Group with 60 airline catering kitchens worldwide. In Europe, In-Flite disposed of 7 kitchens but assumed full ownership of 6 other foreign kitchens.

Gains for the year were produced by other divisions of the Group: terminal and highway restaurants, and Marriott Security Systems.

SALES (in millions)
Business and Professional Services

AER LINGUS—IRISH
AEROFLOT, SOVIET AIRLINES
AEROLINEAS ARGENTINAS
AEROMEXICO
AIR CANADA
AIR FRANCE
Alitalia
ALITALIA ITALY'S WORLD AIRLINE
ALLEGHENY AIRLINES
ALLEGHENY AIRLINES
AMERICAN AIRLINES
AUSTRIAN AIRLINES
AVENSA
AVENSA, AEROVIAS VENEZOLANAS
AVIANCA, AEROVIAS NACIONALES DE COLOMBIA
AVIATECA, AEROLINEAS DE GUATEMALA
BALAIR
BALAIR
BRANIFF INTERNATIONAL
BRITISH AIRWAYS
BRITISH CALEDONIAN AIRWAYS
BMA
BRITISH MIDLAND AIRWAYS
CAPITOL
CAPITOL INTERNATIONAL AIRWAYS
CONTINENTAL AIRLINES
C P AIR, CANADIAN PACIFIC
DAN-AIR LINES
DELTA AIR LINES
DOMINICANA DE AVIACION
EASTERN AIR LINES
ECUATORIANA
EL AL ISRAEL AIRLINES
FINNAIR
THE FLYING TIGER LINE

Marriott In-Flite Services—catering the airlines of America and the world

NORTH AMERICAN IN-FLITE produced good gains early in fiscal '75, largely on the strength of austerity and efficiency measures. But persistent declines in air traffic in this recessionary period and run-away fuel costs stung the airline industry all year. Marriott In-Flite, whose business philosophy is to operate as an arm of the airlines, suffered right along with its clients. And by year-end the division's profit gains over fiscal '74 were almost wiped out.

Loss of volume from three key developments was costly: Domestic airline passenger enplanements declined for the first time in several years during Marriott's fiscal 1975; in addition, Marriott and the airlines

FRONTIER AIRLINES

GULF AVIATION COMPANY

HUGHES AIRWEST

IBERIA, LINEAS AEREAS DE ESPAÑA

IRAN NATIONAL AIRLINES

KLM ROYAL DUTCH AIRLINES

KOREAN AIR LINES

L A C S A, LINEAS AEREAS COSTARRICENSES

LAKER AIRWAYS

LAN-CHILE AIRLINES

ICELANDIC AIRLINES

LOT—POLISH AIRLINES

LUFTHANSA GERMAN AIRLINES

MARTINAIR HOLLAND

McCULLOCH INTERNATIONAL AIRLINES

MEXICANA

MONARCH AIRLINES

NATIONAL AIRLINES

NORDAIR

NORTH CENTRAL AIRLINES

NORTHWEST AIRLINES

OVERSEAS NATIONAL AIRWAYS

OZARK AIR LINES

PAN AMERICAN WORLD AIRWAYS

PIEDMONT AIRLINES

QANTAS AIRWAYS

QUEBECAIR

ROYAL AIR MAROC

SATURN AIRWAYS

SCANDINAVIAN AIRLINES SYSTEM

SEABOARD WORLD AIRLINES

SOUTH AFRICAN AIRWAYS

SPANTAX TRANSPORTES AEREOS

SWISSAIR

TAN AIRLINES, TRANSPORTES AEREOS NACIONALES

TAP-TRANSPORTES AEREOS PORTUGUESES

TEXAS INTERNATIONAL AIRLINES

TRANS INTERNATIONAL AIRLINES

TRANS WORLD AIRLINES

UNITED AIRLINES

VARIG

VIASA, VENEZUELAN INTERNATIONAL AIRWAYS

WARDAIR CANADA

WESTERN AIRLINES

WORLD AIRWAYS

worked together to streamline meals and reduce costs, cutting normal In-Flite volume even further.

A third factor had even more impact on Marriott. In-Flite absorbed many new increases in costs for food, wages, and other items. The division was unable to pass on these added costs to a depressed airline industry.

In spite of these difficulties, however, division sales closed the year up 8% as a result of adding new business accounts throughout the year.

Those new accounts will help in fiscal '76 as will an expanded kitchen opened at Kennedy Airport in New York, a new kitchen in Phoenix, and kitchens at two new locations opening early in the new year—at Palm Beach, Florida and Denver. Farther along in fiscal '76, four more kitchens are opening, including one in Atlanta—the world's second busiest airport.

Against a strong first six months in '75, this year's first half will not look good. But if current positive trends in airline passengers continue, the division should start showing gains by the second half.

IN-FLITE INTERNATIONAL results lagged behind last year.

Seven kitchens plus other units in Italy were disposed of at mid-year. They had annual sales of about $15 million. However, in the transaction, Marriott acquired the remaining minority interests in kitchens at Madrid and Malaga, Spain; Lisbon and Faro, Portugal; Athens (except for 10%), Frankfurt and Johannesburg.

Foreign totals will continue to reflect unfavorable year-to-year comparisons into fiscal 1976 because of this change, but over the long term the transaction will improve earnings.

In-Flite profits from European operations also were affected by a decline in international airline traffic caused by a sharply higher cost of trans-Atlantic travel and instability in Greece and Portugal.

However, continued marketing efforts yielded several new accounts by year-end. Also, during the summer, traffic improved at London's Heathrow Airport, and business at In-Flite kitchens in Spain was strong.

Results in South America were good in 1975 although inflation and devaluation losses are running at all-time highs in some countries.

AIRLINE TERMINAL RESTAURANTS did very well in fiscal '75—for the second consecutive year. Sales increases were moderate, but continued improvement in operating efficiencies produced a good profit gain. Results also were bolstered by the Dulles International Airport restaurant complex— enjoying its first full year under Marriott operation.

Currently Marriott operates seven terminal food service facilities in the U.S. and three in South America.

Experienced-Dedicated-Friendly—Hallmarks of Marriott service to the airline industry.

FOOD SERVICE MANAGEMENT divisions merged into the In-Flite Group during the year, forming the new Business and Professional Services Group. All contract food services are now combined in three general categories: Business food services, institutional food services, and highway restaurants. Profits were flat in the first two sectors but up in highway units.

THE HIGHWAY DIVISION rebounded strongly from the impact of fuel shortages which had struck in fiscal 1974.

With traffic almost back to normal on the New Jersey and Delaware Turnpikes and New York Thruway, the 16 tollroad operations regained most of their former level of volume. Profits rose almost to their pre-energy crisis levels.

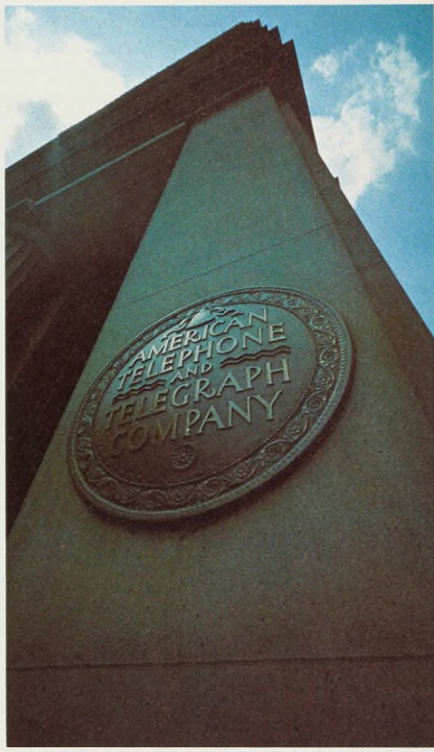
Early in fiscal 1976, the contract to operate 8 restaurants on the New York Thruway was not renewed. New accounts in other food service management divisions in the new year are expected to more than offset the effects from this reduction in highway units.

BUSINESS FOOD SERVICE sales increased in executive dining rooms, company cafeterias, clubs and other food facilities including selected commercial operations in large office complexes.

Many new names joined the client list, especially in the growing Southwest market where Marriott is now serving corporations such as Tenneco, Fluor, Texaco, Aramco and Monsanto.

The division moved into the Midwest with service at a Baxter Laboratories division near Chicago, and added Stone & Webster of Boston to its growing New England business.

INSTITUTIONS FOOD SERVICE sales were up 20%, primarily in hospitals. With 12 more clients



Expert food service management, by Marriott, across the nation: The new Milam Building in Houston (above left) . . . AT&T Headquarters in New York . . . The International Monetary Fund in Washington, D.C.

added during the year and a major new marketing campaign under way, the division is geared up for greater penetration of the health care field in 1976.

Competition in the school and college market has increased, yet several clients were added including St. John's College in Annapolis.

Vending services in both business and institutional markets were good profit contributors, as was a new consulting operation offering design and management services.

SPECIAL SERVICES stepped up its program of offering In-Flite's professional management and kitchen capacity for non-airline food service needs in many U.S. markets.

In-Flite kitchens now serve more than one and a half million patient meals annually to hospitals within a radius of 75 miles from the kitchens.

In fiscal 1975 the Newark Airport operation began contract food service for Greater Paterson General Hospital in New Jersey.

Strong sales to Auto-Train at its Washington and Florida terminals were augmented by a third kitchen at Louisville, Kentucky in 1975.

MARRIOTT SECURITY SYSTEMS acquired four alarm companies during the year and tripled its profit contribution. The new division has grown sharply with its loss prevention services: security surveys and consulting, systems design and investigative services.

New alarm contracts averaged 500 per quarter during the year, a positive indicator of the division's long-range potential. Headquartered in Miami, Marriott Security Systems currently operates from 6 locations and plans to add 5 more operations in fiscal 1976.

Marriott, leader in dietary management for the health care industry, serving Victoria Hospital, Miami . . . St. Vincent Hospital, Indianapolis

Food service for Auto-Train: First between Washington, D.C. and Florida . . . now between Louisville and Florida, too

Marriott Hotels Group

JAMES E. DURBIN
President
Hotels Group

Fiscal '75 was a difficult year for the entire lodging industry as recession and inflation cut into travel. Marriott's established hotels, however, topped prior-year profits.

Sales for the Group as a whole increased 14%, but Group profits were off 5% due primarily to start-up costs for seven new hotels and a one-time charge for six canceled development projects. Total rooms increased a record 3,206 to 13,393, up 31%.

World Travel's first profits and strong gains in condominiums and Inn franchising were major highlights of fiscal '75.

SALES (in millions)
Hotels Group

The outstanding Newport Beach Marriott Hotel, its interior court open to the sky

MARRIOTT'S U.S. HOTELS held up well last year, especially in view of the economy.

Excluding new properties, profits improved over the year before. And in this business climate—when the hotel industry in general was damaged so badly—increasing profits was a remarkable accomplishment.

It was achieved in many ways: aggressive marketing, strict new operating controls, careful balancing of room rates with rising costs and unstable demand, and better manpower planning.

The occupancy rate for comparable U.S. hotels slipped some, but closed at a still-strong 80%.

A softening of travel and meeting activities overall posed a real marketing challenge. As the re-

The new Marriott Hotel in suburban Denver

cession deepened beginning early in the fiscal year, group business dropped off. Shrinkage in some markets reached 20 to 25%. It was the worst fall-off in the company's 18-year hotel history.

The start-up costs of four new domestic properties in the year also adversely affected the U.S. division's results. However, the addition of 1709 rooms, an 18% increase, will be important to the division's future.

All of the four new quality hotels are quickly establishing strong identities. They are in suburban Denver, at the new Kansas City International Airport, in the business/resort area of Newport Beach, California, and at Lincolnshire, 20 minutes north of Chicago's O'Hare Field, where the spectacular metropolitan-area resort/convention complex is running a good level of advance bookings.

Occupancy declines stabilized at year-end after bottoming out in the third quarter. The worst of the recession seems to be over as fiscal 1976 begins. Also, with only one new company-owned hotel scheduled this year, in North Atlanta, start-up costs will be minimal compared to 1975.

Added to these two factors will be the impetus from the four properties new last year, and an anticipated spurt in the Boston, New York, Philadelphia and Washington, D.C. markets from the Bicentennial. Fiscal '76 should be a very good year for Marriott's U.S. hotels.


The Kansas City Marriott Hotel at the new KC International Airport

INTERNATIONAL HOTELS is the fastest-growing segment of Marriott's lodging business. The division added three properties in 1975, and is now comprised of 4 leased operations and 4 managed properties.

Total number of rooms tripled, to 2268. This is now 17% of the Marriott system.

Added were the company's first European hotel, the Amsterdam Marriott; the Acapulco Ritz, third Marriott property in

Famous Mullet Bay Beach Resort, St. Maarten in the Caribbean . . . now under management by Marriott

this ever-popular resort center; and the well-known Mullet Bay Beach Resort Hotel on the Caribbean island of St. Maarten —a management contract. Marriott also added to its management responsibilities at the beautiful new resort of Palmas del Mar in Puerto Rico.

Start-up costs for new properties and a slackening in travel to the Caribbean and Mexico are reflected in lower profits for the division. Also, five of the six canceled hotel development projects were in foreign countries. These projects had become less attractive due to international turmoil and changes in the world economy.

Development of two managed hotels in the busy world commercial centers of Cairo and Tehran is progressing well.

MARRIOTT WORLD TRAVEL reached the break-even point in fiscal 1975 for the first time, although its sales volume declined.

When first the energy crisis and then the recession adversely affected group travel markets, Marriott expanded into corporate and individual travel accounts. This strategy, and swift internal austerity measures, put the division in the black.

MARRIOTT INN FRANCHISING profits advanced again in '75.

Overall occupancy at the 12 franchised Inns improved slightly, emphasizing the demand for "Marriott-quality" accommodations in a variety of American cities.

The 13th Inn, with 244 rooms, opens in Providence, Rhode Island in November, 1975.

MARRIOTT CONDOMINIUM sales improved despite unfavorable national real estate investment trends. Earnings rose with most of the increase coming from initial results at The Essex Towers in New York.

CAMELBACK INN at Scottsdale, Arizona near Phoenix, offering resort condominiums, sold 100 units last year. Marriott manages these luxurious accommodations when not in use by owners, maintaining the famous Inn for vacation guests and group meetings. Total units sold to date is 306.

When all 407 units have been purchased, the Camelback Inn condominium program will have sold real estate valued at more than $22 million.

ESSEX TOWERS, the condominium segment of New York City's prestigious Essex House Hotel, sold 8 suites—24 individual rooms—in the program's first year. Introduction of this concept came just as the recession and tight money market became critical problems, thereby affecting sales demand.

However, these are high-quality, centrally-located accommodations at Central Park, and interest from both corporations and individuals is picking up as the economy strengthens.

Marriott Hotel growth: The Ritz (above), third hotel in Acapulco . . . added management responsibilities at Palmas del Mar, exquisite new resort in Puerto Rico

Sun Line Cruises

FREDERIC V. MALEK
Senior Vice President

A combination of difficulties plunged Sun Line into deeper trouble in fiscal '75. Cruise ship losses totaled $5.8 million. New itineraries, reorganization of staff and sales programs, and strengthened internal controls are in place as fiscal '76 begins. Political stability in Sun Line's major market of the Eastern Mediterranean has been returning. And bookings are better. A major improvement is seen for fiscal '76.

Stella Solaris, cruising in the Greek Islands from spring to fall . . . in the Caribbean during winter

SUN LINE, plagued with problems since the energy crisis erupted in mid-1974, had a poor fiscal '75. However, as fiscal '76 begins, the division's major problems show signs of abating.

In fiscal '75, the cruise market dropped off sharply. Inflation caused some people to re-think their cruise plans. Others decided to cancel or defer a Mediterranean cruise with the Greece-Turkey flare-up in the summer of 1974.

Aggravating the situation was a joint venture with an East Coast wholesale travel firm. This did not produce the desired bookings and anticipated results.

Sun Line has now:

- Repositioned its ships in the Caribbean winter market with appealing new itineraries, while solidifying its positioning in the Aegean and Mediterranean, spring through autumn.
- Completely revamped its North American marketing organization, adding strong industry professionals.
- Implemented several programs to develop support among travel agents.
- Upgraded sales representation in key European countries.
- Installed improved financial and sales controls to better enable management to foresee and act upon new developments.

The steps already taken, along with an improving economy and prospects for peace in the Mediterranean, augur well for the future. Sun Line still holds its premier ranking in the industry, and bookings early in fiscal '76 are improved.

The losses incurred in fiscal '75 should be reduced by at least two-thirds this year.

Financial Review—Fiscal 1975

ROBERT E. KOEHLER
Senior Vice President, Finance

Marriott Corporation significantly expanded its asset base in fiscal 1975 with a 19.6% increase in working capital and fixed assets, including construction in progress (see table this page). The expansion program in 1975 produced a net gain of 86 profit centers. This will provide a strong platform for future growth and broad-based profitability. Operating units totaled 774 at year-end, a net gain of 13%. Financing commitments have been secured for needs through fiscal 1977. With increasing cash flow and declining capital expenditures, coverage of capital programs entirely from internal funds will occur in 1977. Cash requirements for intermediate-term debt amortization are minimal as a result of an improved debt maturity schedule. Aggressive programs are being implemented to improve return on investment.

FINANCIAL COMMITMENTS NEGOTIATED

Marriott financed its $159 million 1975 capital expenditure program through $70 million in cash flow from operations, $65 million in long- and intermediate-term debt, principally mortgage financing, and the $24 million sale and lease/management agreement for the Lincolnshire (Ill.) Hotel completed after year-end.

The capital expenditure program budgeted for 1976 is $140 million. Financing will derive principally from the projected '76 operating cash flow of $90 million, supplemented by recently committed long-term mortgages and intermediate-term bank commitments.

Non-theme park capital expenditures plateaued in 1974 and 1975, and in 1976 will decline to a projected $85 million —less than the expected cash flow from 1976 operations. In 1977, with completion of the two theme parks, total capital expenditures under current plans will decline to a level financeable through internally generated funds.

To provide maximum flexibility in the face of uncertain capital markets, Marriott has secured sufficient financial commitments to meet all of its external financing requirements through fiscal 1977.

Although Marriott's debt ratios increased as expected in 1975 due to the major hotel and theme park expenditures, the company significantly improved its debt maturity schedule with heavy emphasis on 20- to 30-year long-term mortgage financing:

Five-Year
Debt Maturity Schedule

(In Thousands)

Year	1975	1974
1	$11,424	$ 12,842
2	14,727	18,712
3	14,052	14,747
4	20,280	27,697
5	23,922	27,190
	$84,405	$101,188

Cash requirements for debt amortization in the intermediate term are minimal; and for the entire five-year period ending in fiscal 1980, cash requirements are less than the cash flow from operations projected for fiscal 1976 alone. This demonstrates Marriott's strength as a "cash flow" company.

While the debt-to-total capitalization ratio is expected to remain at its present level through fiscal 1976 to provide for completion of the California and Illinois theme parks, debt

WORKING CAPITAL AND FIXED ASSETS

	1975	1974	Increase	% Increase
Working capital	$ 15,425,000	$ 14,518,000	$ 907,000	6.2
Fixed assets—				
Used in operations	447,373,000	383,777,000	63,596,000	16.6
Purchased for future operations or resale	33,262,000	26,900,000	6,362,000	23.7
Construction in progress	98,044,000	71,810,000	26,234,000	36.5
Other assets	57,905,000	47,979,000	9,926,000	20.7
Total	$652,009,000	$544,984,000	$107,025,000	19.6%

SALES & OPERATING PROFITS BREAKDOWN

Relative Contributions by Principal Lines of Business

Fiscal Years Ended In July

	1975		1974		1973		1972		1971	
	Sales	Operating Profit	Sales	Operating Profit	Sales	Operating Profit	Sales	Operating Profit	Sales	Operating Profit
Restaurant Operations	35%	41%	33%	35%	32%	30%	32%	29%	32%	28%
Business and Professional Services	34%	38%	36%	33%	37%	33%	39%	35%	39%	31%
Hotels	30%	37%	30%	36%	30%	36%	28%	34%	29%	41%
Cruise Ships	1%	(16%)	1%	(4%)	1%	1%	1%	2%	—	—

( ) indicates loss

The above table shows the relative contributions to the company's consolidated sales and operating profit by each of its principal lines of business for the five fiscal years which ended in July. Operating profit is net income before income taxes and after allocating administrative, advertising and other overhead costs, including an imputed rent charged on owned real estate and ships, but not including financial and non-operating items such as imputed and actual rent profit on owned real estate, interest expense less interest income, and franchise taxes, donations and other miscellaneous items.

The table reflects a restatement for all periods for the transfer of Food Service Management and Highway division operations from Restaurant Operations to Business and Professional Services and the transfer of two specialty restaurants from Hotels to Restaurant Operations in fiscal 1975. Cruise ship operations have been segregated from the Hotels Group because of the significant operating loss which has occurred in fiscal years 1974 and 1975.

NOTE: The contributions to operating profit are charged with the cost of expansion, including pre-opening and development expenses, except that the losses of Fairfield Farm Kitchens during the first three operating years (prior to 1972) have been excluded from Restaurant Operations to avoid distortion of comparisons among the Groups.

The above figures include sales by operating units outside U.S.

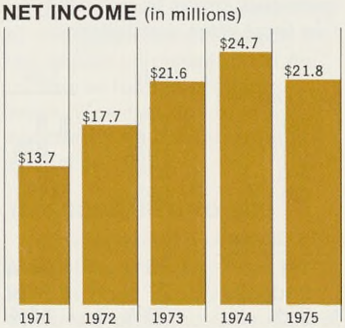
ratios are expected to improve beginning in fiscal 1977.

CASH FLOW CONTINUES GROWTH

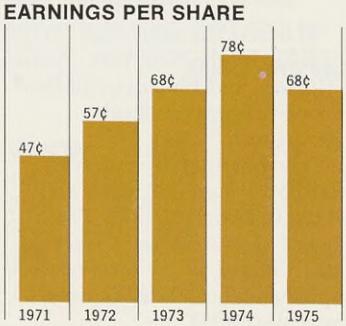
Cash flow from operations increased $6.7 million in 1975 in spite of the 11.8% reduction in net income. Marriott's cash flow is highly predictable over the intermediate term as net income constitutes only one-third of cash flow. The preponderance of depreciation, deferred income taxes and other noncash charges provide Marriott a growing base of operating cash flow.

Less than $20 million was required to refurbish Marriott's existing assets in 1975 and most of these expenditures were discretionary as are capital expenditures for expansion. Predictable cash flows, plus an asset profile permitting highly discretionary capital expenditures, and con-

NET INCOME (in millions)



EARNINGS PER SHARE

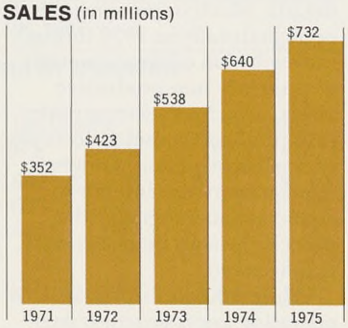


Contribution to Corporate Totals from Foreign Operations

FY	Sales	Operating Profit (Loss)
1975	10%	(10%)
1974	11%	8%
1973	10%	13%
1972	9%	13%
1971	8%	10%

U.S. overhead deducted

SALES (in millions)



servative debt maturities provide Marriott maximum flexibility in its financial planning.

INVESTMENT TAX CREDITS INCREASE

Investment credits were substantial in 1975 as a result of the completion of four new hotels in the U.S. Further investment tax credit increases are expected in fiscal 1976 with completion of the two Great America theme parks. The tax credits arising from the two theme parks in 1976 should exceed the total of development and start-up costs associated with these ventures.

NON-OPERATING INCOME DOWN 2¢ PER SHARE

Over one-fourth of the pre-tax profit decline resulted from lower non-operating income, primarily capital items. This reduced after-tax profits by almost 2¢ per share. Capital items are not predictable. In 1975 we took a $400,000 loss on the disposition of our controlling interest in the Italian In-Flite operations, whereas in 1974 we had realized a gain of $800,000 on the disposal of excess land in Toronto.

IMPROVING RETURN ON INVESTMENT PROJECTED

Reduced earnings in 1975 lowered the return on shareholders' investment to 9.6%. Management has identified the improvement of this ratio as a major corporate financial objective for the remainder of this decade. Much improvement will occur naturally in 1976 through the evolution of large amounts of presently non-productive assets, principally theme parks, into productive assets at completion of construction. However, management also intends to accelerate and augment the process through intensive asset management.

While Marriott's principal operating assets generate satisfactory returns, programs to solve problems in special operating areas such as Sun Line are being implemented in fiscal 1976. A vigorous program of asset analysis and, where appropriate, asset redeployment has been initiated.

Also, Marriott will continue to target its hotel expansion toward management under contract rather than ownership. This will materially improve investment returns. The sale and lease/management agreement of the Lincolnshire resort to a major life insurance company was an important step in the implementation of this plan. It is noteworthy that only one company-owned hotel will be opened in fiscal 1976.

These programs and the natural evolution of non-productive assets to operating assets should improve return on investment in 1976 and future years.

STOCK INFORMATION

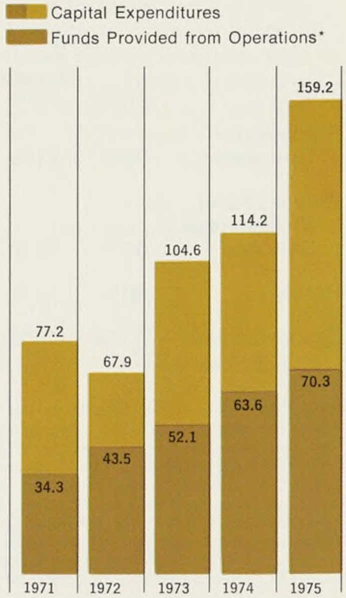
The range of Marriott common stock prices by quarter for two fiscal years is as follows:

1975 Quarters	High	Low
1st	$ 17⅞	$ 8
2nd	10⅜	6⅛
3rd	16⅝	9¼
4th	16⅞	11¼
1974 Quarters		
1st	$ 30¼	$ 24¾
2nd	27	14¼
3rd	20⅞	14¼
4th	21⅝	15⅞

Marriott common stock (MHS) is listed on the New York, Pacific, Midwest and Philadelphia-Baltimore-Washington Stock Exchanges.

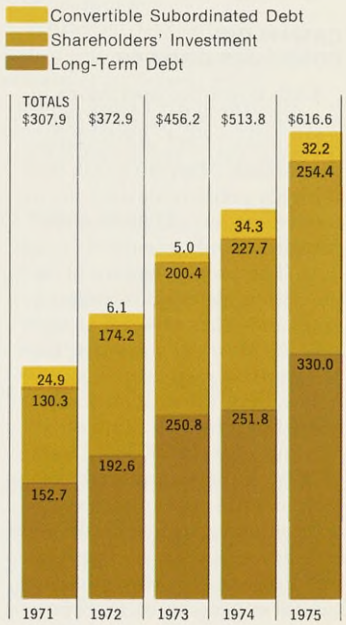
The board of directors declared a 2.5 percent stock dividend in March of 1975. The board has authorized a stock distribution, in the form of stock splits and/or dividends, every year since 1957.

CAPITAL EXPENDITURES AND FUNDS FROM OPERATIONS
(in $ millions)



*Note: Funds provided from operations consist of net income plus depreciation, deferred taxes and other expenses not requiring current outlay of working capital.

INVESTED CAPITAL (in $ millions)



5-YEAR SUMMARY OF OPERATIONS

Fiscal Years Ended in July
(In Thousands)

	1975	1974	1973	1972	1971
Sales	$732,396	$640,439	$538,193	$422,928	$351,929
Cost of sales and operating expenses	676,014	582,227	488,654	382,208	316,191
Interest expense, net	17,975	16,092	13,261	10,085	10,266
Income before income taxes	38,407	42,120	36,278	30,635	25,472
U.S. and foreign income taxes	19,564	19,425	16,353	14,251	11,730
Investment tax credit	(2,975)	(2,050)	(1,715)	(1,350)	(35)
Net tax expense	16,589	17,375	14,638	12,901	11,695
Net Income	$ 21,818	$ 24,745	$ 21,640	$ 17,734	$ 13,777
Earnings per share of common stock	$ .68	$ .78	$ .68	$ .57	$ .47

See Notes to Consolidated Financial Statements for summary of significant accounting policies and additional information.

1975 COMPARED TO 1974

The many factors which affected fiscal 1975 results in comparison to the prior year are discussed in preceding pages of this Annual Report.

In summary, the 14% increase in sales can be attributed to the opening of new facilities, higher prices, and higher customer counts in many operations. Earnings declined, however, by 12%—primarily because:

1—Sun Line Cruises lost $5.8 million, reducing earnings by 12¢ a share or 9¢ per share more than fiscal 1974.

2—General costs of doing business in the company's three principal operating areas were up significantly, particularly in energy, food, labor, advertising/sales promotion and pre-opening/development. Advertising/sales promotion alone was up 46%, due to aggressive marketing of existing and new units by the Hotels and Restaurant Groups. Pre-opening and development expense rose 36% with new unit openings and the write-off of $500,000 in development expenses for certain canceled hotel projects.

Net interest expense increased 12%. Total interest cost, including interest capitalized, increased 33% in 1975 due to the $93 million increase in debt, added primarily to finance theme park construction. This construction also accounts for most of the increase in interest capitalized, up from $5,144,000 in 1974 to $10,353,000 in 1975.

The company's effective gross income tax rate rose from 46.2% to 50.9% in 1975 due largely to the impact on consolidated net income of foreign operating losses. However, investment tax credits were substantially greater in 1975.

1974 COMPARED TO 1973

Sales increased by 19% in fiscal 1974, primarily from a 21% increase in operating units and price increases. Cost of sales and operating expenses, and income taxes, were each up 19% and net interest expense increased 21%, resulting in a 14% increase in net income. Expenses that increased at a significantly faster rate than sales were rent (up 26%), primarily because of the increase in leased units, and taxes (payroll, real estate and other—up 28%), because of increases in the wage and property bases and in the applicable tax rates. Interest expense increased as a result of new debt added and higher interest rates.

Cruise ship results declined from a 2¢ per share profit in fiscal 1973 to a 3¢ per share loss in fiscal 1974. The decrease is attributed to tripled fuel costs, sharp increases in other operating costs, and reduced passenger bookings because of the energy crisis, unrest in certain countries and large trans-Atlantic air fare increases during the year.

SALES AND EARNINGS BY QUARTER

(In Thousands)

	Sales		Net Income		Per Share	
Quarter	1975	1974	1975	1974	1975	1974
1st	$165,577	$142,895	$6,597	$5,978	$ .21	$ .19
2nd	209,123	182,867	4,603	5,463	.14	.17
3rd	174,668	154,247	5,448	7,084	.17	.22
4th	183,028	160,430	5,170	6,220	.16	.20
Totals	$732,396	$640,439	$21,818	$24,745	$ .68	$ .78

Consolidated Balance Sheet

Marriott Corporation and Subsidiaries July 25, 1975 and July 26, 1974

	1975	1974
ASSETS		
CURRENT ASSETS		
Cash and certificates of deposit (Note 5)	**$ 18,318,000**	$ 14,592,000
Marketable securities, at cost (approximates market)	**6,490,000**	9,189,000
Accounts receivable	**43,588,000**	46,690,000
Inventories, at lower of average cost or market	**27,667,000**	27,298,000
Prepaid expenses	**4,492,000**	3,266,000
Total current assets	**100,555,000**	101,035,000
LINCOLNSHIRE HOTEL assets under sale/leaseback agreement, net of $17,000,000 mortgage to be assumed by purchaser (Note 6)	**7,282,000**	—
PROPERTY AND EQUIPMENT, at cost (Notes 1, 5, and 6)		
Land	**58,932,000**	55,482,000
Buildings and improvements	**174,682,000**	167,195,000
Leasehold improvements	**165,742,000**	117,027,000
Furniture and equipment	**164,967,000**	138,824,000
Cruise ships	**11,219,000**	11,000,000
Land and ship purchased for future operations or resale	**33,262,000**	26,900,000
Construction in progress—Theme Parks	**72,751,000**	12,067,000
—Other projects	**25,293,000**	59,743,000
	706,848,000	588,238,000
Depreciation and amortization	**(128,169,000)**	(105,751,000)
	578,679,000	482,487,000
OTHER ASSETS (Note 1)		
Cost in excess of net assets of businesses acquired (Note 2)	**18,960,000**	16,667,000
Investments in and advances to affiliates (Note 3)	**11,557,000**	10,848,000
Deferred pre-opening costs—Theme Parks	**1,792,000**	175,000
—Other projects	**3,844,000**	4,088,000
Other	**14,470,000**	16,201,000
	50,623,000	47,979,000
	$737,139,000	$631,501,000

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

	1975	1974
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Short term loans (Note 5)	**$ 2,752,000**	$ 3,763,000
Accounts payable	**33,111,000**	34,249,000
Accrued liabilities	**37,843,000**	35,663,000
Current portion of debt (Note 5)	**11,424,000**	12,842,000
Total current liabilities	**85,130,000**	86,517,000
DEBT, excluding convertible subordinated debt (Notes 5 and 6)		
Interim construction financing	**4,948,000**	25,360,000
Mortgage notes payable	**207,135,000**	136,323,000
Unsecured notes payable	**117,941,000**	90,100,000
	330,024,000	251,783,000
DEFERRED INCOME TAXES (Note 1)	**34,514,000**	28,392,000
MINORITY INTEREST AND OTHER LIABILITIES (Note 2)	**866,000**	2,770,000
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 3 and 6)		
CONVERTIBLE SUBORDINATED DEBT (Note 5)	**32,240,000**	34,300,000
SHAREHOLDERS' INVESTMENT (Notes 5 and 7)		
Common stock	**32,507,000**	31,183,000
Capital surplus	**169,974,000**	155,113,000
Net deferred compensation payable in common stock	**3,256,000**	2,891,000
Retained earnings	**48,628,000**	38,552,000
Total shareholders' investment	**254,365,000**	227,739,000
	$737,139,000	$631,501,000

Consolidated Income

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 25, 1975 and July 26, 1974

	1975	1974
SALES BY OPERATING GROUPS (Note 1)		
Restaurant operations	$256,853,000	$207,664,000
Business and professional services	252,664,000	232,266,000
Hotels and related operations including Sun Line	222,879,000	200,509,000
Total sales	732,396,000	640,439,000
DEDUCTIONS (Note 1)		
Cost of sales and operating expenses	526,651,000	456,049,000
Administrative and general expenses	31,469,000	27,095,000
Rent (Note 6)	36,998,000	32,168,000
Depreciation and amortization of property and equipment	30,637,000	26,040,000
Taxes—payroll, real estate and other	28,455,000	24,590,000
Interest cost, net of interest income	28,328,000	21,236,000
Less interest capitalized	(10,353,000)	(5,144,000)
Advertising and sales promotion expenses	12,289,000	8,404,000
Pre-opening and development expenses	5,911,000	4,346,000
Profit sharing retirement contributions	3,604,000	3,535,000
	693,989,000	598,319,000
INCOME BEFORE INCOME TAXES	38,407,000	42,120,000
UNITED STATES AND FOREIGN INCOME TAXES (Notes 1 and 4)		
Current—U.S.	7,961,000	11,112,000
—Foreign	1,889,000	1,571,000
Deferred	9,714,000	6,742,000
Investment tax credit	(2,975,000)	(2,050,000)
	16,589,000	17,375,000
NET INCOME	$ 21,818,000	$ 24,745,000
EARNINGS PER SHARE OF COMMON STOCK (Note 1)	$ .68	$ .78

The accompanying notes are an integral part of this statement.

Consolidated Changes in Financial Position

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 25, 1975 and July 26, 1974

	1975	1974
SOURCE OF FUNDS		
Net income	$ 21,818,000	$ 24,745,000
Add expenses not requiring current outlay of working capital—		
Depreciation and amortization of property and equipment	30,637,000	26,040,000
Deferred income taxes	9,714,000	6,742,000
Cost of condominium units sold	4,260,000	2,946,000
Other	3,891,000	3,119,000
From operations	70,320,000	63,592,000
New financing—		
Mortgages and notes	122,892,000	97,879,000
Convertible subordinated notes	—	30,000,000
Interim construction financing, net change	(20,412,000)	(9,023,000)
Maturities and prepayments of mortgages and notes (deduct)	(26,299,000)	(88,565,000)
	76,181,000	30,291,000
Lincolnshire Hotel mortgage, to be assumed by purchaser (Note 6)	17,000,000	—
From financing	93,181,000	30,291,000
Common stock issued	4,523,000	2,150,000
Sale/leaseback of Los Angeles Hotel	—	32,000,000
Disposals of property and equipment	6,824,000	4,023,000
Total sources	174,848,000	132,056,000
APPLICATION OF FUNDS		
Additions—Theme park property and equipment	60,684,000	21,056,000
—Other property and equipment	98,494,000	93,097,000
Acquisitions of businesses	2,850,000	5,743,000
Investments in and advances to affiliates	838,000	1,553,000
Other	11,075,000	5,860,000
Total applications	173,941,000	127,309,000
INCREASE IN WORKING CAPITAL	$ 907,000	$ 4,747,000
SUMMARY OF CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets		
Cash and marketable securities	$ 1,027,000	$ 858,000
Accounts receivable	(3,102,000)	10,666,000
Inventories	369,000	6,082,000
Prepaid expenses	1,226,000	(46,000)
(Increase) decrease in current liabilities		
Short term loans	1,011,000	45,000
Accounts payable and accrued liabilities	(1,042,000)	(9,886,000)
Current portion of debt	1,418,000	(2,972,000)
Increase in Working Capital	$ 907,000	$ 4,747,000

The accompanying notes are an integral part of this statement.

Consolidated Shareholders' Investment

Marriott Corporation and Subsidiaries for the 52 Weeks Ended July 25, 1975 and July 26, 1974

	Common Stock ($1.00 par value)	*Capital Surplus*	*Net Deferred Stock Compensation*	*Retained Earnings*
BALANCE, JULY 27, 1973	**$30,273,000**	**$139,407,000**	**$2,455,000**	**$28,225,000**
Acquisition of companies	50,000	646,000	—	23,000
Net income	—	—	—	24,745,000
Common stock issued—				
2½% Stock dividend at market	759,000	13,682,000	—	(14,441,000)
Employee stock purchase plan	76,000	1,355,000	—	—
Deferred stock compensation plans and stock issuance expenses	25,000	23,000	436,000	—
BALANCE, JULY 26, 1974	**31,183,000**	**155,113,000**	**2,891,000**	**38,552,000**
Acquisition of companies (Note 2)	179,000	(10,000)	—	112,000
Net income	—	—	—	21,818,000
Common stock issued—				
2½% Stock dividend at market	790,000	11,064,000	—	(11,854,000)
Employee stock purchase plan	138,000	1,137,000	—	—
Contribution to profit sharing plan	200,000	2,767,000	—	—
Deferred stock compensation plans and stock issuance expenses	17,000	(97,000)	365,000	—
BALANCE, JULY 25, 1975	**$32,507,000**	**$169,974,000**	**$3,256,000**	**$48,628,000**

The accompanying notes are an integral part of this statement.

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 July 25, 1975, and July 26, 1974, and the related statements of consolidated income, shareholders' investment and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Marriott Corporation and Subsidiaries as of July 25, 1975, and July 26, 1974, and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Washington, D.C.,
September 5, 1975.

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include accounts of the Company and all subsidiaries. Investments in companies representing 20% to 50% interests are accounted for under the equity method. All material intercompany transactions and balances have been eliminated.

The 1974 financial statements have been reclassified to be consistent with the captions used in 1975, including amounts previously shown for condominium units held for sale and theme park pre-opening. Operating Groups' sales have been regrouped to report on a comparable basis the transfer in fiscal 1975 of Food Service Management and Highway divisions from Restaurant Operations to Business and Professional Services (formerly In-Flite Services), and the transfer of two specialty restaurants from Hotels to Restaurant Operations.

Foreign Operations:

The consolidated financial statements include net assets of foreign subsidiaries of $14,954,000 at July 25, 1975 and $16,680,000 at July 26, 1974. Foreign sales and net income (loss) after interest, intercompany charges and foreign tax, as a percent of consolidated sales and net income were 10% and (1)% in 1975 and were 11% and 3% in 1974, respectively.

Financial statements of foreign subsidiaries have been translated into U.S. dollars as follows: current assets, long-term receivables and all liabilities at year end rates of exchange; property, equipment and depreciation reserves and expense at the rates in effect when the respective assets were acquired; and sales and expenses (except depreciation) at the average rates during the year. Exchange adjustments are charged or credited to income and are not significant.

Condominium Sales:

Sales of condominium units are recorded when both parties are bound by sales contracts and all conditions precedent to closing have been performed, including receipt of appropriate down payments. The Company had condominium sales of $7,379,000 in 1975 and $5,469,000 in 1974.

Land and Ship Purchased for Future Operations or Resale:

In connection with the development of properties, the Company has acquired land to be used for future operations and/or for eventual resale. Carrying costs are capitalized to the extent that estimated realizable value exceeds land and accumulated carrying costs. In fiscal 1975, the Company decided not to refurbish a ship which was included in construction in progress at July 26, 1974 and is currently considering alternatives for use of the ship.

Construction Financing and Interest Capitalized:

Interest cost is capitalized as part of construction costs or carrying costs of land purchased for future operations or resale to properly reflect the total costs of property. Interest is capitalized by applying the effective interest rate on the related borrowings to the balance of costs incurred. If all interest had been expensed when incurred, net income as reported would have been reduced by $4,785,000 in 1975 and $2,458,000 in 1974. See Note 5 for description of accounting for construction financing.

Income Taxes:

United States and foreign income taxes are based on reported income. Deferred income taxes are provided for timing differences between book and taxable income, principally depreciation, interest, stock compensation and lease costs. See Note 4 for analysis of income taxes.

Investment tax credits are accounted for using the "flow-through" method.

Provision for United States taxes has not been made on unremitted earnings of foreign subsidiaries because management considers these earnings to be permanently invested.

Deferred Management Stock Compensation:

Compensation for deferred stock bonus awards is recorded in the year in which the bonus is earned, adjusted for anticipated forfeitures, and is based on quoted market price at the date awarded.

Computations of Earnings Per Share:

Earnings per share of common stock are based on the weighted average number of shares outstanding during each year, which was 32,277,204 for 1975 and 31,868,019 for 1974 (adjusted for 1975 2½% stock dividend). Conversion of subordinated debt and distribution of shares reserved would not have a material effect on earnings per share.

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 $6,024,000 is being amortized over periods up to 40 years.

Deferred Costs:

Costs incurred prior to opening are deferred and amortized over three years for hotels and one year for other major operations. Management is currently planning to amortize such costs for theme parks over five years. Similar costs for all other operations are expensed as incurred.

Issuance costs on long-term debt are deferred and amortized over the repayment term. Costs of developing data processing systems and research and development costs are expensed as incurred.

Property and Equipment:

Depreciation and amortization are calculated on the straight-line method for financial statement purposes based on the following lives:

Buildings and improvements	25 to 45 years
Leasehold improvements	Shorter of life of lease or asset
Furniture and equipment	2 to 15 years
Cruise ships	20 years
Alarm systems	10 years

Maintenance and repairs are expensed. New unit costs include interest, rent charges and real estate taxes incurred during construction. Replacements and improvements, including most costs of converting units, are capitalized. Costs of replaced property less accumulated depreciation and salvage are charged or credited to income.

Royalty and Franchise Fees:

Royalty fees are accrued on a monthly basis. Initial franchise fees are not significant.

2. ACQUISITIONS AND DISPOSITIONS:

During fiscal 1975, the Company disposed of its controlling interests in Marriott de Montis In-Flite Services in Rome and Milan, Italy and in exchange acquired all of the outstanding minority interests in Marriott de Montis operations in Madrid and Malaga, Spain; Lisbon and Faro, Portugal; Athens, Greece (except for 10%); Frankfurt, Germany and Johannesburg, South Africa. In addition, the Company acquired six companies in the United States. In connection with these acquisitions and exchange the Company issued 179,000 shares of common stock and paid $5,733,000. Four of these acquisitions were accounted for as poolings of interests and the remaining were accounted for as purchases. The purchase price of the acquisitions accounted for as purchases was $3,065,000 in excess of net assets acquired. The net effect of these transactions on sales and earnings in the accompanying financial statements is not significant.

3. INVESTMENTS:

The Company has a 49% equity interest (with 50% voting rights) in Duman Investments, Inc., the landlord of the New Orleans Marriott Hotel, which is leased to the Company for 55 years including renewal options, with rentals based on profits. At July 25, 1975, Duman had total assets of $31,468,000 and total liabilities of $27,536,000, of which $776,000 are current liabilities. The Company has guaranteed a $5,000,000 bank loan due in 1977.

The Company has a 45% equity interest in Sun Line Greece Special Shipping Company, Inc., the owner of the M.S. Stella Solaris. At its fiscal year end (March 31, 1975), Sun Line Greece had total assets of $21,411,000 and total liabilities of $17,966,000, including $11,334,000 of debt, and $4,000,000 advanced by the stockholders, of which $1,800,000 was the Company's share. The Company has guaranteed 45% of the debt. The Company's total investment in and advances to Sun Line Greece is $7,705,000 at July 25, 1975.

The excess of the Company's investment over the underlying net assets of minority-owned affiliates is $3,265,000 and is being amortized over periods up to 40 years.

4. INCOME TAXES:

Reconciliation of the United States statutory tax rate of 48% and the Company's consolidated income tax rate follows:

	1975	*1974*
United States income tax rate	48.0%	48.0%
State income taxes on U.S. pre-tax income, net of U.S. tax benefit	3.4	3.3
Foreign earnings and losses subject to aggregate tax rate less than 48%	0.7	(1.7)
Other items, net	(1.2)	(3.4)
Effective gross income tax rate	50.9	46.2
Investment tax credit	(7.7)	(4.9)
Effective net income tax rate	43.2%	41.3%

Deferred income tax provisions are attributable to:

Excess of tax over book deduction—	*1975*	*1974*
Depreciation	$3,353,000	$2,838,000
Interest	4,859,000	2,458,000
Other items, net	1,502,000	1,446,000
	$9,714,000	$6,742,000

5. DEBT:

Maturities of Debt at July 25, 1975:

Fiscal Year	*Mortgage Notes And Interim Construction Financing*	*Unsecured Notes And Convertible Subordinated Debt*	*Total*
Interest rates	5.2%-10.25%	4.25%-10.0%	
1977	$ 8,925,000	$ 5,802,000	$ 14,727,000
1978	8,906,000	5,146,000	14,052,000
1979	7,818,000	12,462,000	20,280,000
1980	7,717,000	16,205,000	23,922,000
to 1997	178,717,000	110,566,000	289,283,000
	$212,083,000	$150,181,000	$362,264,000

The Company has debt of $120,075,000 as of July 25, 1975 at interest rates which vary based on the prime lending rate or London Euro-dollar interbank rate.

Summary of Pledging of Assets:

As of July 25, 1975, property and equipment, at cost excluding land and ship purchased for future operations or resale and construction in progress, totals $575,542,000, of which $312,434,000 is pledged.

Construction Financing and Revolving Loan Agreements:

The Company uses revolving loan commitments, short term loans and commercial paper for interim financing, primarily for construction. Such financing is classified in the consolidated balance sheet as noncurrent indebtedness to the extent that the loans and commercial paper mature beyond the permanent loan take-out or to the extent that the Company has funds available under its revolving loan agreements maturing beyond one year. The above maturity table reflects the maturities of such financing on the basis of the permanent loan payment schedule or the maturity schedule of the revolving/term loan agreements discussed below.

As of July 25, 1975, the Company has spent $83,000,000 on major construction projects which will be completed over the next two years at an estimated total cost of $147,000,000 ($120,000,000 relates to theme parks). To finance the additional expenditures on these projects, the Company has obtained permanent mortgage loan commitments of $16,000,000; has $86,000,000 remaining funds available under its aggregate of $181,000,000 revolving loan commitments discussed below; and has obtained additional permanent mortgage loan commitments of $13,000,000 on existing operating properties. In addition, the Company has unused bank credit lines aggregating $32,000,000.

Interim construction financing in the consolidated balance sheet includes amounts borrowed on projects where the Company has obtained permanent mortgage loan commitments. Interim construction financing averaged $26,000,000 during 1975 and $19,700,000 during 1974 (weighted average interest rates of 11% and 9%, respectively) with a maximum loan balance of $38,800,000 in 1975 and $39,400,000 in 1974.

As of July 25, 1975, the Company has unsecured revolving loan agreements of $31,000,000 which mature on December 31, 1977, and bear interest based on the prime rate. An aggregate of $11,900,000 in the form of draw-downs and short term debt has been borrowed against these loan agreements and is included in interim construction financing and mortgage notes payable at July 25, 1975.

The Company also has commitments of $150,000,000 under revolving/term loan agreements which primarily revolve through June 30, 1978, at which time they convert to term loans. These agreements bear interest based on the prime rate or the London Euro-dollar interbank rate. At July 25, 1975, an aggregate of $83,000,000 in the form of draw-downs, certain construction accruals and other short term debt had been borrowed against these revolving/term loan agreements and is included in unsecured notes payable.

Borrowings against all revolving loan agreements averaged $80,300,000 during 1975 and $3,500,000 during 1974 (weighted average interest rates of 10% and 12%, respectively) with a maximum balance of $118,300,000 in 1975 and $46,000,000 in 1974.

The revolving loan agreements require the Company to meet certain requirements including, among other things, the maintaining of minimum working capital, net worth, and a debt-to-equity ratio (as defined). A commitment fee of up to a maximum of 1/2 of 1% per year is payable on the unused portion.

Short Term Loans:

The short term loans of $2,752,000 at July 25, 1975 and $3,763,000 at July 26, 1974 are foreign overdraft accounts. Short term bank loans, including U.S. borrowings for working capital purposes, averaged $3,400,000 during 1975 and $13,100,000 during 1974, at weighted average interest rates of 9.5% and 10%, respectively. The maximum outstanding balance was $12,800,000 in 1975 and $29,700,000 during 1974.

Compensating Balances:

All compensating balance agreements are informal and do not legally restrict withdrawal of funds. Under certain bank agreements in effect at July 25, 1975, the Company maintains average compensating balances of $13,225,000 after adjustment for estimated average bank float. The balances maintained are equal to a percentage (10% to 20%) of the amounts available or borrowed.

Convertible Subordinated Debt:

4¼%	Convertible Subordinated Notes due 1992, convertible at $41.35 per share	$ 4,995,000
5½%	Convertible Subordinated Note due 1988, convertible at $31.31 per share	15,000,000
5%	Convertible Subordinated Debentures due 1988, convertible at $31.31 per share	12,245,000
		$32,240,000

Conversion prices are subject to anti-dilution provisions. The agreements have cash dividend restrictions, but at July 25, 1975, all retained earnings are unrestricted.

6. LEASES:

The Company has 495 non-cancelable leases (primarily real estate and shopping center space) which have not been capitalized. Minimum future rentals under non-cancelable leases are as follows:

Fiscal Year	*Financing Leases (as defined by the SEC)*	*Other Leases*
1976	$ 9,566,000	$ 8,610,000
1977	9,605,000	9,037,000
1978	9,580,000	8,388,000
1979	9,568,000	7,462,000
1980	9,496,000	7,196,000
1981-1985	46,615,000	31,830,000
1986-1990	42,319,000	13,291,000
1991-1995	28,810,000	8,512,000
Thereafter	28,148,000	9,769,000
	$193,707,000	$104,095,000

Minimum annual rentals on non-capitalized financing leases were $8,730,000 in 1975 and $6,369,000 in 1974. Certain leases require additional rentals based on sales or profits (as defined). Additional rentals based on sales were $12,587,000 in 1975 and $11,492,000 in 1974, and based on profits (as defined) were $5,822,000 in 1975 and $5,231,000 in 1974, including $1,268,000 in 1975 and $1,235,000 in 1974 on non-capitalized financing leases. Most leases contain one or more renewal options, generally for five or ten year periods.

If non-capitalized financing leases were capitalized, the present values of the minimum lease commitments would be $91,872,000 at July 25, 1975 and $78,319,000 at July 26, 1974. Present values are computed by discounting net lease payments at the interest rate implicit at the time of entering into the lease. These rates ranged from 4.4% to 9.9% with a weighted average rate of 8.3%.

If non-capitalized financing leases were capitalized and related property was amortized on a straight-line basis and interest was accrued on the basis of the outstanding lease liability, net income would have been reduced $1,104,000 in 1975 and $905,000 in 1974.

On September 5, 1975, the Company sold and leased back the Lincolnshire Hotel with no gain or loss recognized. Net proceeds are $7,282,000 and the purchaser assumed the Company's mortgage of $17,000,000. The initial lease is for ten years with renewal options for an additional sixty years. Under certain conditions the lease may be canceled and converted to a management agreement. The mortgage has been excluded from debt in the accompanying financial statements and the future rentals included in the above lease commitments.

7. CAPITAL STOCK:

1,000,000 shares of preferred stock, without par value, are authorized. As of July 25, 1975, no preferred shares have been issued.

45,000,000 shares of common stock, with a par value of $1 per share, are authorized, of which 32,506,837 and 31,183,063 were issued and outstanding at July 25, 1975 and July 26, 1974, respectively.

Total common stock shares reserved at July 25, 1975:

Conversions of convertible subordinated debt	990,967
Employee stock option plan	922,500
Deferred stock compensation programs	711,402
Employee qualified stock purchase plan	297,144
Exercise of warrant, at $23.22 per share	12,922
Total shares reserved	2,934,935

In September 1974, the Company adopted an employee stock option plan under which options to purchase a maximum of 922,500 shares of the Company's common stock may be granted to key employees at not less than 100% of the fair market value on the date of grant. Such options are exercisable over ten years after a one-year waiting period. Options for 612,248 shares were granted in fiscal 1975, adjusted for cancellations, at an average exercise price of $11.29 per share, adjusted for the 1975 stock dividend. All such options were outstanding at July 25, 1975, and none were exercisable.

The purchase price for the shares reserved under the employee qualified stock purchase plan is the market value at January 2, 1975 ($6.59 per share, adjusted for the 1975 stock dividend) or 100% of the market value at the purchase date (January 31, 1976), whichever is less.

The Company has a number of deferred stock compensation programs. Contracts for 711,402 shares of common stock have been awarded of which 337,111 shares are fully vested at July 25, 1975. Under some programs, shares are issued after the period earned; under other programs, restricted shares are issued prior to the period earned. As of July 25, 1975, the amounts payable in the future in stock and the unamortized compensation for restricted shares already issued are:

Stock payable in future	$3,767,000
Unamortized compensation	(511,000)
Net	$3,256,000

10 Year Financial History

(Dollars in Thousands)

OPERATIONS
Sales
Percent increase for the year
Income before income taxes
Per sales dollar
United States and foreign income taxes
Percent to income before income taxes
Investment tax credit
Net Income
Percent increase (decrease) for the year
Per sales dollar
Return on beginning shareholders' investment
Funds provided from operations (Note C)
Capital expenditures
ASSETS EMPLOYED
Net working capital
Fixed assets
Other assets
DEBT AND EQUITY
Mortgages and notes
Construction financing
Deferred income taxes
Convertible subordinated debt
Shareholders' investment
PER SHARE DATA (Note A)
Net income
Stock dividends
Percent
Cash equivalent
Shareholders' investment
Quoted market price at year end
OTHER DATA (Note A)
Weighted average shares outstanding
Shares outstanding
Number of shareholders
Number of employees
Number of operating units
Hotel rooms
Owned and leased
Managed (sales not consolidated)

NOTES:
(A) Per share data is based on weighted average shares outstanding during the year (except for shareholders' investment which is based on total shares outstanding), adjusted for stock dividends and for 2-for-1 splits in March 1968 and March 1972.

(B)

1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	10 Year Compound Growth
					(53 Weeks)				(53 Weeks)	
732,396	640,439	538,193	422,928	351,929	318,324	258,741	197,498	146,349	123,933	**22.2%**
14.4%	19.0%	27.3%	20.2%	10.6%	23.0%	31.0%	35.0%	18.1%	25.4%	
38,407	42,120	36,278	30,635	25,472	19,534	16,015	13,362	10,820	9,121	**17.9%**
5.2%	6.6%	6.7%	7.2%	7.2%	6.1%	6.2%	6.8%	7.4%	7.4%	
19,564	19,425	16,353	14,251	11,730	9,230	8,040	6,770	5,233	4,391	
50.9%	46.2%	45.1%	46.5%	46.1%	47.3%	50.2%	50.7%	48.4%	48.1%	
2,975	2,050	1,715	1,350	35	795	988	827	462	380	
21,818	24,745	21,640	17,734	13,777	11,099	8,963(B)	7,419	6,049	5,110	**18.0%**
(11.8%)	14.3%	22.0%	28.7%	24.1%	23.8%	20.8%	22.6%	18.4%	22.4%	
3.0%	3.9%	4.0%	4.2%	3.9%	3.5%	3.5%	3.8%	4.1%	4.1%	
9.6%	12.4%	12.4%	13.6%	14.9%	13.9%	15.3%	16.3%	19.6%	19.5%	
70,320	63,592	52,079	43,531	34,294	26,224	20,548	16,302	12,920	10,759	**25.0%**
159,178	114,153	104,566	67,952	77,204	56,042	57,912	41,882	26,024	24,815	
15,425	14,518	9,771	9,592	8,585	12,008	7,376	7,579	4,559	6,872	
578,679	482,487	428,201	349,398	286,348	218,473	174,374	124,510	86,717	59,728	
57,905	47,979	42,834	38,789	30,236	28,173	21,976	12,159	6,810	1,066	
325,076	226,423	216,409	174,054	145,056	104,702	75,628	65,976	44,965	31,090	
4,948	25,360	34,383	18,569	7,680	19,850	9,720	2,500	—	—	
34,514	28,392	21,132	22,898	17,297	13,978	10,454	7,215	7,667	5,697	
32,240	34,300	5,000	6,066	24,879	27,840	28,000	10,000	—	—	
254,365	227,739	200,360	174,230	130,257	92,284	79,924	58,557	45,454	30,879	**25.5%**
.68	.78	.68	.57	.47	.40	.33(B)	.28	.25	.21	**14.9%**
2.5%	2.5%	2.5%	—	2.5%	2.5%	2.5%	3.0%	4.0%	4.0%	
.38	.47	.78	—	.42	.36	.36	.26	.21	.27	
7.82	7.13	6.30	5.52	4.35	3.32	2.89	2.22	1.76	1.28	**21.8%**
13.13	16.96	28.44	32.73	20.37	10.99	13.77	12.72	6.97	5.34	**10.7%**
32,277,204	31,868,019	31,690,574	30,860,018	29,244,322	27,691,491	26,770,025	26,157,456	24,165,327	24,086,782	
32,506,837	31,962,640	31,805,461	31,539,698	29,959,207	27,763,536	27,643,018	26,364,893	25,804,850	24,055,410	
43,200	38,900	37,000	32,400	27,900	26,500	24,000	20,700	15,767	13,150	**16.1%**
46,200	43,400	38,700	34,100	27,300	26,000	24,300	19,700	15,600	12,500	**16.5%**
774	688	570	508	419	382	324	256	206	150	**19.8%**
12,303	9,912	8,772	8,403	6,713	5,790	4,770	2,957	2,323	2,397	**22.2%**
1,090	275	—	—	—	—	—	—	—	—	

(B) Net income in 1969 excludes extraordinary gains on sales of properties ($1,274,000 net of $483,000 tax or $.05 per share).

(C) Funds provided from operations consist of net income plus depreciation, deferred taxes and other expenses not requiring current outlay of working capital.

Board of Directors

J. Willard Marriott *
Chairman of the Board

Don G. Mitchell *†
Vice Chairman of the Board and Director, Several Other Corporations

* Executive Committee of the Board
† Audit Committee

Jorge Bird
Legislator and Advisor on Tourist Development, Puerto Rico

Alice S. Marriott
Vice President

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

Woodrow D. Marriott
Senior Vice President

Harry L. Vincent, Jr.*†
Vice Chairman of Booz, Allen & Hamilton, Inc.

C. Robert Yeager †
Retired Chairman of the Board of L. G. Balfour Company

Officers of the Corporation

CHAIRMAN OF THE BOARD

J. Willard Marriott

PRESIDENT AND CHIEF EXECUTIVE OFFICER

J. W. Marriott, Jr. *†

GROUP PRESIDENTS

James E. Durbin *†
President, Marriott Hotels

G. Michael Hostage *†
President, Marriott Restaurant Operations

Jerald O. Jarrard *†
President, Marriott Business and Professional Services

CORPORATE OFFICERS

Alice S. Marriott
Vice President

Sterling D. Colton †
Senior Vice President, General Counsel

Robert E. Koehler *†
Senior Vice President, Finance

Frederic V. Malek *†
Senior Vice President

Woodrow D. Marriott
Senior Vice President

* Operating Committee
† Strategic Planning Committee

Robert Barrie
Executive Vice President
Domestic Hotel Operations
Marriott Hotels

Fred Boulineau
Vice President, Business Development
President, Marriott Condominium Development Corporation

David L. Brown III
Group Vice President, Theme Parks
Restaurant Operations

Thomas E. Burke †
Vice President, Corporate Affairs

Francis W. Cash
Vice President, Corporate Controller

Angus Cotton
Executive Vice President
International Hotel Operations
Marriott Hotels

John F. Davis
Executive Vice President, Farrell's Division
Restaurant Operations

J. Robert Droege
Vice President, Corporate Real Estate

Robert E. Farrell
President, Farrell's Division
Restaurant Operations

Elmo Geoghegan
Executive Vice President
Big Boy Restaurants of America
Restaurant Operations

W. W. Grice
Senior Vice President
Marriott Hotels

Richard W. Kernan
Group Vice President, Restaurant Group
Restaurant Operations

Foster M. Kunz *
Vice President, Industrial Relations

Leonard W. Lefeve
Vice President, Highway Division
Business and Professional Services

Frank R. Lyons, Jr.
Vice President, Food Service Management
Business and Professional Services

Richard E. Marriott
Vice President, Property Development
Marriott Hotels

Fred J. Martin
Vice President, In-Flite Services
Business and Professional Services

Robert B. Morris
Corporate Secretary

John R. O'Bryan
Vice President and Controller
Business and Professional Services

James H. Pflaging
Vice President, In-Flite Services
Business and Professional Services

Peter H. Plamondon
Group Vice President, Fast Foods
Restaurant Operations

M. O. Ryan, Jr.
Vice President
Marriott Hotels

Robert A. Seubert
Vice President and Controller
Marriott Hotels

George A. Stewart
Executive Vice President
Fairfield Farm Kitchens
Restaurant Operations

Gary L. Wilson
Vice President, Corporate Treasurer

Shareholder Information

INTERNATIONAL HEADQUARTERS

Marriott Corporation
5161 River Road
Washington, D.C. 20016
Area Code 301—986-5000
Telex: 892767—MARCORP BHDA

REGISTRAR AND TRANSFER AGENT

The Riggs National Bank of Washington, D.C.
1510 "H" Street, N.W.
Washington, D.C. 20013
Area Code 202—624-2628

AUDITORS

Arthur Andersen & Co.
1666 K Street, N.W.
Washington, D.C. 20006

1975 ANNUAL MEETING

The 1975 Annual Meeting of Shareholders will take place at 10 a.m., Tuesday, November 18 at Shady Grove Music Fair in Gaithersburg, Maryland. The theatre is located at the Shady Grove Road Exit off Interstate Highway 270 (formerly 70-S).

SHAREHOLDER CORRESPONDENCE

Shareholder Records are now at Riggs Bank. For prompt assistance on address changes, consolidation of multiple holdings, etc., please contact:
Corporate Trust Department
The Riggs National Bank

MAILINGS TO SHAREHOLDERS

Shareholders' Reports are mailed six times each year. Beneficial owners not receiving all reports they are entitled to may write:
Office of Corporate Affairs

Marriott
CORPORATION

5161 River Road
Washington, D. C. 20016

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