

MARRIOTT CORPORATION ANNUAL REPORT/1968



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EXTERIORS

Casina Valadier, the oldest restaurant
in Rome, is a recent Marriott acquisition.
Atop the Pincian Hill overlooking the city and
adjacent to the Villa Borghese, it is the
epitome of neo-classic grandeur.

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MARRIOTT CORPORATION ANNUAL REPORT/1968

For the 52 weeks ended July 28, 1968 and July 30, 1967

Financial Highlights

	1968	1967	Increase
Sales	\$197,497,799	\$146,348,822	35.0%
Earnings before income tax	13,361,653	10,819,537	23.5%
Per sales dollar	6.8%	7.4%	
Net income	7,418,653	6,048,537	22.6%
Per sales dollar	3.8%	4.1%	
Per share	.66	.58	13.8%
Cash flow	16,301,913	12,920,314	26.2%
Per share	1.45	1.24	16.9%
Stock dividends:			
Per cent.	3%	4%	
Cash equivalent	7,259,399	5,384,300	
Per share	.64	.51	
Shareholders' investment	56,774,717	45,454,282	
Per share	4.99	4.09	
Working capital	7,579,413	4,558,717	
Per share	.67	.41	
Weighted average shares outstanding	11,277,747	10,418,843	
Shares outstanding	11,367,182	11,125,720	
Shareholders	20,700	15,767	
Employees	19,700	15,600	
Operating units	256	206	

Notes

- (1) Amounts per share for 1968 and 1967 are based on the weighted average number of shares outstanding during the year (except for shareholders' investment and working capital which are based on the total shares outstanding at the end of the year). Weighted average shares for 1967 have been adjusted for the 2-for-1 stock split and 3% stock dividend in 1968.
- (2) Cash flow from operations consists of net income plus depreciation, deferred taxes and other non-cash expense provisions.
- (3) The effect of the additional surtax provision was to reduce 1968 earnings by \$329,000 or \$.03 per share.

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Annual Meeting

The Annual Meeting of shareholders will take place at 10:00 A.M., Tuesday, November 19, 1968 at Indian Spring Country Club, Layhill Road, Silver Spring, Maryland.

ON THE COVER—
The Marriott Camelback Inn, Scottsdale, Arizona.

President's Message to Shareholders

Fiscal 1968 was a year of historic sales and profits as well as significant growth, a pattern that has continued since we became a public company in 1953.

1968 sales, including Europe and Latin America, reached \$197 million. The increase of \$51 million or 35 per cent over last year's \$146 million is the greatest one-year sales rise in the company's history.

1968 net income was \$7.4 million, a 23 per cent gain over fiscal 1967. This is equivalent to 66 cents per share on the weighted average number of shares outstanding during the year, compared to 58 cents per share in 1967 (adjusted for the 2-for-1 stock split and 3 per cent stock dividend distributed in April 1968).

These excellent results were achieved in spite of considerable burdens during the year which held down the growth in net income. The civil unrest in Washington last April and the resultant decline in tourists took a heavy toll in sales from our operations in this area. Estimated losses in sales for the third and fourth quarters total \$1.4 million and profit before tax was off an estimated \$460,000. We also were faced in fiscal 1968 with rising interest costs, higher state and local taxes, the new Federal surtax (which reduced profits by \$329,000 or 3 cents per share) and the increased start-up costs of our expanded central commissary (the new Fairfield Farm Kitchens).

While many of these problems will remain with us in 1969, we expect their impact to be significantly less. For example, concerning the impact of civil unrest in Washington on conventions and tourism, the Washington Board of Trade expects 1969 to be "the greatest year ever in so far as the Convention and Visitors Bureau is concerned." If true, this will be very helpful to us.

Important changes have occurred in the company's consolidated balance sheet, as total assets at year end reached \$174 million, including net working capital of \$7.6 million. A new issue of \$10 million 5 per cent subordinated notes was sold during the year, convertible into 374,532 shares of common stock at \$26.70 per share, to provide working capital for the company's expansion program.

At year end, 256 company operated units were in operation, an increase of 50 over last year's 206 units. During the year, we opened 30 new units and two relocated units. Four units were closed. In Europe, the company acquired 22 existing units, principally at airport operations which will provide a significant base for future expansion in Europe and the Middle East.

Our expansion into overseas airline catering markets has continued since the end of fiscal 1968 with additional acquisitions in Argentina, Brazil, Chile, Peru and Mexico. Other new areas will be announced in fiscal 1969 as prospects now under consideration are finalized. Previously, we made acquisitions in Venezuela, Puerto Rico and the Virgin Islands, and in 1968 in Honolulu. Although initial contributions to sales and profits are minor, we feel that our move at this time will extend the



leadership we have in United States markets into the rapidly growing travel market overseas.

Aggressive leadership is required to direct such widespread growth, and we are pleased that Mr. J. O. Jarrard has joined our company to head up the In-Flite Services group, replacing Gen. H. H. Shaller, who retired in February 1968. Mr. Jarrard is a seasoned airline executive having been vice president for sales and services of American Airlines, and prior to that serving with Eastern and TWA.

Food service remains our principal business with about 90% of sales and revenues resulting from food and beverage sales. The balance consists of hotel room and meeting space rentals and franchise income. Recently we learned through a survey reported by Institutions Magazine that Marriott Corporation and its franchisees prepare and serve more meals every day than any other operator, public or private, except the United States Army.

The market for food service away from home is the fastest growing retail market and Marriott Corporation is active in all phases, including the following:

- Specialty restaurants (operated by our Hotel Group)*
- Service restaurants (Hot Shoppes)*
- Coffee shops (Big Boy)*
- Fast food units (Jr. Hot Shoppes, Roy Rogers)*
- Cafeterias*
- Food service management (industry, hospitals, schools, etc.)*
- Automatic vending*
- Tollroad operations*
- Airport restaurants*
- In-flite services*

Our diversification in this active market is one of our greatest strengths and the reason why we have continued to grow in sales and profits at a rate exceeding 15 per cent a year.

Franchising is probably the fastest growing phase of the food service business because it combines the knowledge, experience and financial strength of a chain operator with the drive and profit motivation of the individual operator.

Although we just entered the field in May 1967 with our Big Boy acquisition, we have made rapid strides into franchising. We purchased the Robee's Roast Beef Sandwich and subsequently changed the name to Roy Rogers Western Roast Beef after signing up that famous cowboy personality. Personal appearances by Roy at the restaurant openings have met with great success. To date there are 40 Roy Rogers Roast Beef units open with nearly 100 expected by the end of this calendar year.

In both cases, however, it is our plan to retain for development through company-owned units the growing markets in Southern California and the Mid-Atlantic States. The direct operating experience will also give us background for better evaluation of franchisee performance.

Further details of this year's expansion results are reported in the following pages of this report. We should like to point out that your company's annual report for 1967 won the "Best of Industry" award in the judgment of Financial World for the third consecutive year.

Our final comment is to emphasize once again that good management is important in any corporate activity, but for a growth company it is absolutely essential. A large part of our time as Chairman and President is spent in developing talent for our growing management team, and in interviewing eager men and women who are attracted by the opportunities for advancement in a company such as ours.

There is no doubt that Marriott's success is due in large measure to the exceptional quality of our management group as well as to the loyalty of our more than 20,000 individual employees, all of whom have done so much to allow us to continue to offer a fine range of quality foods and services to our many customers.



*J. Willard Marriott
Chairman of the Board*



*J. W. Marriott, Jr.
President*



Report on Operations

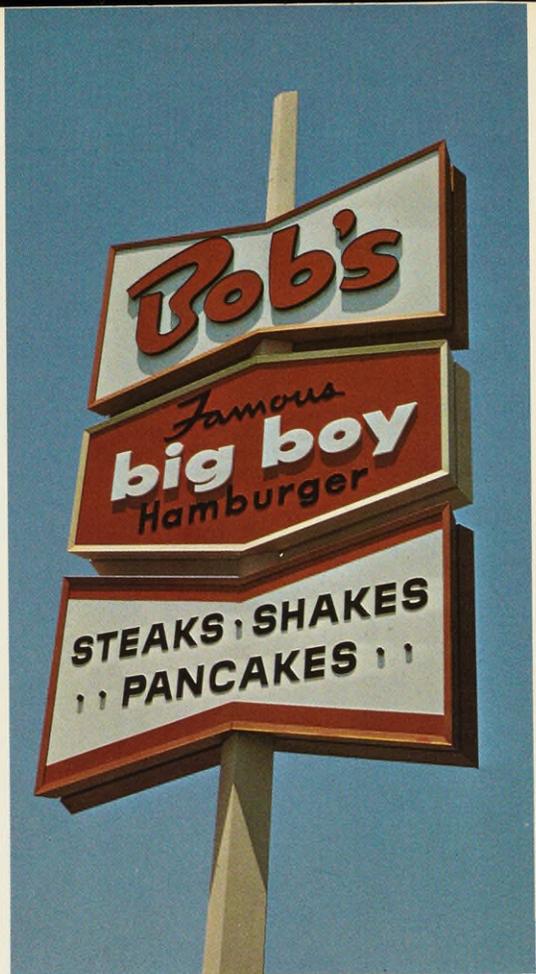
Four new cafeterias opened one tried some new concepts

The expanding Cafeteria Division opened four new cafeterias this past fiscal year. Three in the Washington area at Crystal Plaza, Rosslyn Plaza and Montgomery Mall. The fourth was opened in Parmatown Mall in suburban Cleveland.

Several innovations were tried at the Rosslyn Plaza cafeteria to improve service to customers and cope with labor shortages. First, the serving area was designed in the new 'scramble' concept with small serving counters and the resulting shorter lines of customers. One counter features 'Soup 'n Sandwich', another 'Desserts', etc. Another feature at Rosslyn is a new decorated tray to encourage customers to eat from their tray and thus simplify clean-up in the dining area. Both ideas are working well.

Other new concepts in cafeteria service are now under intensive study and the coming year should see at least one pilot operation featuring a new self-service technique.

Six new cafeterias are scheduled to open next fiscal year. Two in the Washington area, two in New England and two in Michigan.



Big Boy expansion takes hold in Fiscal 1968

It took a year from our May 1967 acquisition date before the first new company operated Big Boy was added to the initial chain of 22 units, but in just three months the Big Boy Restaurants Division opened two new units in the Los Angeles market area and a very successful unit in the new San Diego market.

The California Big Boys operated by the company continue to maintain the highest sales average of any of our food service operations and we look forward to opening an additional five units in fiscal 1969.

Roy Rogers Western Roast Beef will also be seen in the California market in 1969 with 11 new units scheduled for opening by the company next year.

Bob's Big Boy is a favorite landmark for hungry southern Californians.



Three Division effort in food service management shows steady growth

Fiscal 1968 was a year of moderate growth and staff expansion for the Business and Industry Food Service Division. More effort was directed at consulting services to many potential clients including the Washington Post Newspaper and five IBM locations. Expansion plans for fiscal 1969 include seven to ten new accounts. Opened this year was Children's Inn associated with Boston Children's Medical Center. Responsibility at Children's Inn encompasses cafeteria, motel and banquet facilities.

The Hospital Food Service Division showed steady gains during the year opening four new operations and expanding an existing one. New this year were Goodwin House, Northern Virginia Doctors Hospital, DePaul Hospital and Sampson County Memorial Hospital. At the Washington Hospital Center deluxe suites were opened featuring wines and the finest cuisine.

So far in fiscal 1969 the School and College Food Service Division assumed feeding at Gallaudet College in Washington, D. C., the only college for the deaf in the United States and at the National Cathedral School. At Catholic University the division is set to open a University Rathskeller for student enjoyment.

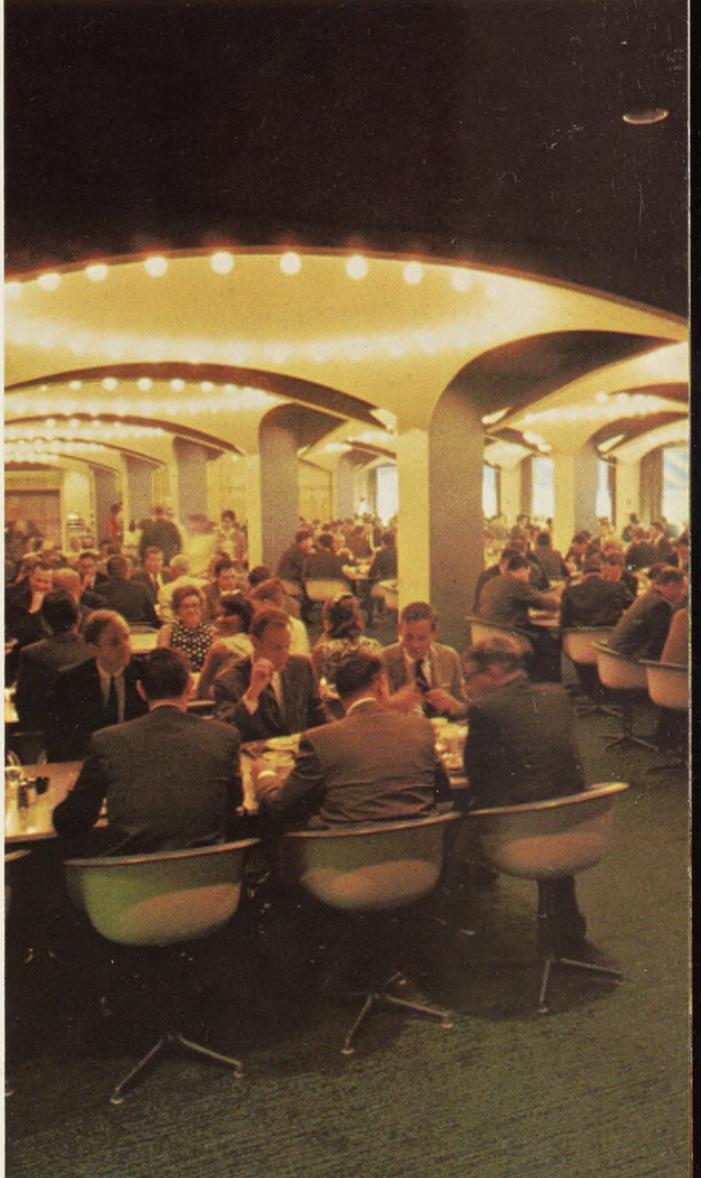
*Appetizing fare at Northern Virginia Doctor's Hospital.
A bank of vending machines at Gallaudet College.
King's College, North Carolina.
IBM employee cafeteria at Harrison, New York.*

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Chicago

**A successful new hotel,
existing hotels enlarged
and two new hotels ready to open**

The Chicago Marriott Motor Hotel opened its first 500 rooms this fiscal year and it was soon apparent that more rooms would be required. Plans for a 300-room expansion are now being finalized. The Chicago Marriott features 22,000 square feet of banquet and convention space to accommodate groups from 10 to 2,000 plus twelve conference suites within the hotel building.

An additional 43,000 square feet of conference space in a separate specially designed building on our Chicago Hotel grounds will be leased directly to the American Management Association. This represents a new concept for Marriott (as well as for AMA) that will add materially to our hotel business in Chicago after it opens in February 1969.

The renowned Camelback Inn of Scottsdale, Arizona, was acquired in September 1967. It provides a "place in the sun" for Marriott's resort-minded customers and has proved to be very popular. A 150-room expansion already is under construction for completion in fiscal 1969 plus additional renovations which will provide a new specialty restaurant, the "Chaparral," a cocktail lounge with dance floor and a new terraced, elaborately landscaped pool to feature outdoor buffets.

*Exterior of the new Chicago Marriott Motor Hotel.
Indoor-outdoor swimming pool at the Chicago Marriott.*

Fiscal 1969 will also benefit from the new 350-room Houston Marriott that is now being completed for a November 1968 opening.

Projects under construction for fiscal 1970 openings include a 269-room addition and new public garage for our popular Atlanta Marriott which is only three years old and a 174-room addition and new public garage for our Key Bridge (Washington, D. C.) Marriott.

Also for fiscal 1970, the long-awaited 434-room Boston Marriott in its beautiful Charles River setting will open in August 1969. Two other projects in process will probably be operating by the Fall of 1969—they are a 100-room "starter" hotel at Washington's Dulles International Airport and a 300-room leased hotel to be operated under the Marriott flag at Crystal Mall near the Pentagon.



Marriott Inns begun to meet a demand

With the growth of our large Marriott Motor Hotel complexes, we have recognized an unfulfilled demand for smaller motor inn facilities in medium-size cities that exceeds even our growing management and capital capabilities. This market, ideally suited to franchising, initiated the Marriott Inn franchise program. Response has exceeded expectations, and we are able to select the best from many qualified applicants who have had actual operating experience and whose financial stability is proven. A number of firm contracts have been signed and we expect new openings to reach one a month after the Spring of 1969.

Hotel Expansion	Fiscal	Original	Present
	Year		
Washington, D.C.			
Twin Bridges...	1957	360	454
Key Bridge....	1959	209	209
Dallas.....	1960	300	477
Philadelphia....	1961	300	430
Atlanta.....	1966	499	492
Saddle Brook....	1966	244	246
Camelback.....	1968	157	157
Chicago.....	1968	496	492
		2,565	2,957
Net Change 1968		653	654

Artist's rendering of a typical Marriott Inn.



*Very popular. The fabulous Sirloin & Saddle
at the Chicago Marriott.*



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1968 a major expansion year for airline feeding

As the nation's leading airline caterer, this was a year of major expansion for Marriott In-Flite Services. In addition to a new group vice president, Mr. J. O. Jarrard, the administrative staff was enlarged this past year to meet the needs of this division's domestic growth and acquisitions overseas.

In the Caribbean area, expansion included a new flight kitchen in St. Croix and complete refurbishing and expansion of the airport terminal restaurant at San Juan. Our busy facilities at the San Juan airport include a coffee shop, cafeteria, and the plush Salon La Vista restaurant and bar, a net increase of 331 seats.

In April the company acquired 75% control of the De Montis companies headquartered in Rome. This is the largest independent airline caterer in Southern Europe, with large flight kitchens in Rome, Madrid and Lisbon. Marriott-De Montis is a diversified group with 22 operations, including flight kitchens, terminal restaurants and gift shops, food service management and deluxe restaurants such as the famed Casina Valadier shown inside the front cover of this report. Current De Montis sales of nearly seven million will be reported in next year's financial statements. Marriott-De Montis gives the company a strong foothold in the European market and will serve as a sound base for future expansion in Europe and the Middle East.

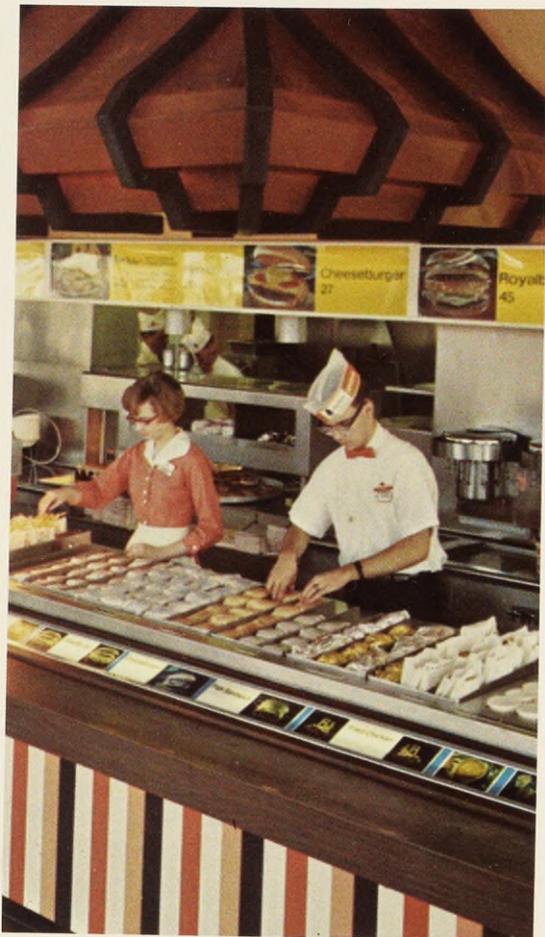
In the United States we expanded our services into San Francisco and Honolulu through acquisitions and into LaGuardia (New York) by installing a new flight kitchen.

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*TWA's fabulous Royal Ambassador first class service.
Marriott In-Flite provides 'total food service' to Northeast.*





Looking ahead to fiscal 1969, plans call for new or expanded facilities in Fort Lauderdale, Fla., Minneapolis, Honolulu, Los Angeles, San Francisco, Chicago, Miami, and in New York the largest flight kitchen in the world with over 125,000 square feet scheduled for October 1968 opening at Kennedy airport.

In early fiscal 1969 two major airline caterers were acquired. One in Mexico City and Acapulco, the other in Buenos Aires, Rio de Janeiro, Santiago and Lima. Thus, with the expanded management team in this division—the past fiscal year's accomplishments and the plans for the coming year—you can see that we mean to retain a position of leadership in this fast-growing segment of our industry.

The growing Fast Foods Division takes a look at automation and a famous cowboy

This fiscal year the Fast Foods Division opened five Jr. Hot Shoppes—all of them featured seating for over 100 and an automatic cash control system for immediate guest check and inventory control which made substantial profit improvements. One Jr. featured a unique cafeteria counter for customer self-service of the entire product line—a concept that may be applied to future units as well as some of the older ones.

The first company-operated Roy Rogers Roast Beef Sandwich restaurant was opened in 1968 in Fairfax, Virginia, with Roy Rogers and Dale Evans in attendance. This venture has been a continuing success and plans call for nine additional company operated units on the East Coast in fiscal 1969.

Other new areas of interest in Fast Foods call for the opening of several snack bars in enclosed shopping malls. Both of these programs, tied in with the continued expansion of the Jr. Hot Shoppes, will establish the Fast Foods Division as one of the fastest growing and most up-to-date in the industry.

*Fast food service, cafeteria style, at a Jr. Hot Shoppes.
Exterior of the new Jr. Hot Shoppes in Wheaton, Maryland.*



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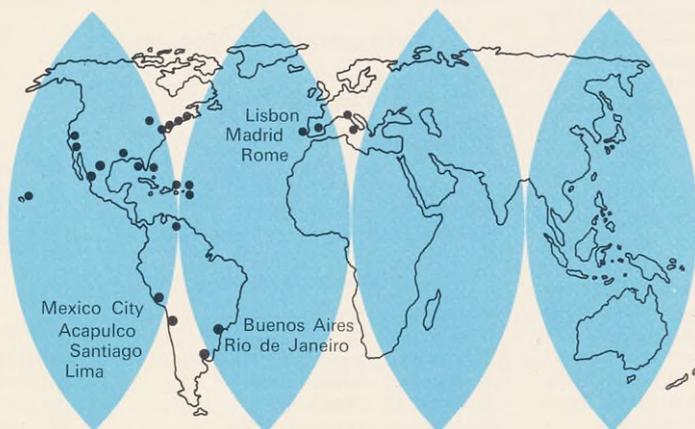
Thinly sliced roast beef, heaped high on a seeded roll is the specialty of the house at Roy Rogers.



Operating Units July 28, 1968

Location	Big Boy	Hot Shoppes	Cafeterias	Toll Rd. Facilities	Jr. Hot Shoppes	Roy Rogers Beef	Specialty & Motor Hotel Restaurants	Hotels	Airport & In-Flight Service	Food Service Mgmt.	Vending Routes	Total Units
Virginia	—	10	7	—	4	1	3	2	3	16	—	46
Maryland	—	12	9	—	9	—	1	—	1	5	—	37
Wash., D.C.	—	9	6	—	2	—	1	—	—	11	2	31
California	25	—	—	—	—	—	—	—	2	—	—	27
Pennsylvania	—	5	1	—	7	—	3	1	—	—	—	17
New York	—	—	—	6	—	—	—	—	5	3	—	14
Florida	—	1	—	7	—	—	—	—	5	—	—	13
Illinois	—	—	1	—	—	—	2	1	3	—	—	7
Texas	—	1	—	—	—	—	2	1	1	1	—	6
North Carolina	—	1	—	—	—	—	—	—	—	5	—	6
New Jersey	—	—	1	—	—	—	2	1	1	—	—	5
Ohio	—	—	4	—	—	—	1	—	—	—	—	5
Massachusetts	—	—	1	—	—	—	—	—	1	2	—	4
Georgia	—	—	—	—	—	—	2	1	—	—	—	3
Utah	—	1	1	—	—	—	—	—	—	—	—	2
Arizona	—	—	—	—	—	—	1	1	—	—	—	2
Iowa	—	—	—	—	—	—	—	—	—	1	—	1
Delaware	—	—	—	1	—	—	—	—	—	—	—	1
Hawaii	—	—	—	—	—	—	—	—	1	—	—	1
Overseas	—	—	—	—	—	—	—	—	28	—	—	28
Total	25	40	31	14	22	1	18	8	51	44	2	256
Net Change 1968	3	—	3	—	5	1	3	2	25	6	2	50

**Marriott In-Flite
major expansion**



10 Year Financial History

Marriott Corporation and Subsidiaries

Dollars in Thousands

	1968	1967	1966 <i>(53 weeks)</i>
OPERATIONS			
Sales	197,498	146,349	123,933
% Increase for the year	35.0%	18.1%	25.4%
Income before income taxes	13,362	10,820	9,121
Per sales dollar	6.8%	7.4%	7.4%
United States and foreign income taxes	(6,441)	(5,233)	(4,391)
Additional surtax	(329)	—	—
Investment tax credit	827	462	380
Net income	7,419	6,049	5,110
% Increase for the year	22.6%	18.4%	22.4%
Per sales dollar	3.8%	4.1%	4.1%
Return on beginning shareholders' investment	16.3%	19.6%	19.5%
Cash flow from operations	16,302	12,920	10,759
ASSETS EMPLOYED			
Net working capital	7,579	4,559	6,872
Fixed assets	68,792	44,671	26,319
Leasehold interest (Note B)	55,718	42,046	33,409
Other assets	12,159	6,810	1,066
SOURCE OF FUNDS			
Mortgages and notes	24,808	11,286	5,212
Lease-purchase obligations (Note B)	41,168	33,679	25,878
Construction financing	2,500	—	—
Deferred taxes and compensation	8,816	7,667	5,697
Convertible subordinated 5% notes	10,000	—	—
Minority interest in subsidiaries	181	—	—
Shareholders' investment	56,775	45,454	30,879
PER SHARE DATA (Note C)			
Net income66	.58	.49
Cash flow from operations	1.45	1.24	1.04
Dividends			
Cash	—	—	—
Stock—per cent	3%	4%	4%
cash equivalent64	.51	.66
Shareholders' investment	4.99	4.09	2.98
Quoted market price at year end	29.50	16.14	12.37
OTHER DATA (Note C)			
Weighted average shares outstanding	11,277,747	10,418,843	—
Shares outstanding	11,367,182	11,125,720	10,371,453
Number of shareholders	20,700	15,767	13,150
Number of employees	19,700	15,600	12,500
Number of operating units	256	206	150

NOTES:

A. Figures have been restated on a comparable basis except for the change in lease accounting as of July 25, 1965.

B. Leasehold interest and lease-purchase obligations capitalized as of July 25, 1965, include 5 properties which prior to 1961 were owned by the Company and included in fixed assets and mortgage indebtedness.

C. Per share data is based on the weighted average number of shares outstanding during the year (except for shareholders' investment which is based on the total shares outstanding), adjusted for annual stock dividends and for 2-for-1 splits in December 1960, April 1965 and March 1968.

	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u> <i>(53 weeks)</i>	<u>1959</u>	<u>10 YEAR Compound Growth</u>
	98,843	84,726	74,597	71,516	58,980	54,945	46,029	17.1%
	16.7%	13.6%	4.3%	21.5%	7.1%	19.4%	12.9%	
	7,394	5,555	4,158	3,929	3,125	3,205	3,755	16.4%
	7.5%	6.6%	5.6%	5.5%	5.3%	5.8%	8.2%	
	(3,388)	(2,510)	(1,754)	(1,657)	(1,400)	(1,640)	(1,816)	
	169	155	67	—	—	—	—	
	4,175	3,200	2,471	2,272	1,725	1,565	1,939	16.8%
	30.5%	29.5%	8.8%	31.7%	10.2%	(19.3%)	22.9%	
	4.2%	3.8%	3.3%	3.2%	2.9%	2.8%	4.2%	
	19.0%	17.0%	15.1%	16.1%	14.0%	14.5%	21.7%	
	7,510	6,658	5,725	5,314	4,191	3,417	3,436	19.1%
	9,576	10,247	9,209	7,062	6,025	2,771	3,970	
	23,192	21,788	17,513	16,376	15,853	18,421	14,373	
	18,178	—	—	—	—	—	—	
	864	520	563	1,136	676	990	772	
	5,992	6,895	5,814	6,404	7,283	9,022	7,733	
	15,249	—	—	—	—	—	—	
	4,388	3,516	2,649	1,879	1,190	829	612	
	—	—	—	—	—	—	—	
	26,181	22,001	18,822	16,352	14,080	12,330	10,816	20.3%
	.40	.31	.24	.22	.17	.15	.19	
	.72	.64	.55	.51	.40	.33	.33	
	—	—	—	—	—	—	.03	
	4%	4%	4%	4%	4%	4%	4%	
	.35	.19	.18	.19	.18	.11	.09	
	2.52	2.11	1.81	1.57	1.35	1.18	1.04	
	11.00	4.96	4.67	4.79	5.23	3.51	3.21	35.1%
	10,398,505	10,429,349	10,433,496	10,433,496	10,433,496	10,401,296	10,401,296	
	9,668	7,572	6,150	5,812	4,660	5,807	3,438	20.8%
	10,000	9,600	9,100	8,800	8,600	7,000	5,600	13.4%
	127	120	111	103	101	86	75	13.3%

Consolidated Balance Sheet

Marriott Corporation and Subsidiaries July 28, 1968 and July 30, 1967

Assets	1968	1967
CURRENT ASSETS:		
Cash (Note 9)	\$ 4,179,609	\$ 2,929,866
Tax exempt securities, at cost (approximates market) (Note 9) ..	11,589,080	8,611,395
Accounts receivable	13,003,744	7,156,498
Inventory of food and supplies, at lower of average cost or market	8,396,971	6,107,970
Prepaid expenses	512,924	599,503
Total current assets	<u>37,682,328</u>	<u>25,405,232</u>
FIXED ASSETS, at cost:		
Land and land improvements	14,574,123	9,850,995
Buildings and improvements	18,911,686	16,289,739
Leasehold improvements	15,878,775	11,594,910
Furniture and equipment	30,003,634	22,398,377
Automotive equipment	3,800,334	2,679,595
Construction in progress	10,377,312	1,992,457
	<u>93,545,864</u>	<u>64,806,073</u>
Depreciation and amortization (Note 7)	(24,753,769)	(20,135,326)
	<u>68,792,095</u>	<u>44,670,747</u>
LEASEHOLD INTEREST, at cost, in property, including improvements thereon, and equipment under lease- purchase obligations (Note 2)		
	59,020,996	46,074,750
Construction in progress	2,998,389	—
Amortization (Note 7)	(6,301,708)	(4,028,911)
	<u>55,717,677</u>	<u>42,045,839</u>
OTHER ASSETS:		
Cost in excess of net assets of businesses acquired (Note 1)	9,457,731	4,098,134
Investment in affiliated company (100% owned in 1968)	—	1,193,000
Miscellaneous	2,701,757	1,518,652
	<u>12,159,488</u>	<u>6,809,786</u>
	<u>\$174,351,588</u>	<u>\$118,931,604</u>

The accompanying notes to consolidated financial statements
are an integral part of this balance sheet.

Liabilities and Shareholders' Investment	1968	1967
CURRENT LIABILITIES:		
Accounts payable	\$ 8,327,367	\$ 5,236,180
Construction contract accruals	5,269,370	2,516,252
Salaries, wages and bonuses	5,380,492	3,734,583
Rents, utilities, interest, taxes, etc.	4,426,903	3,582,872
Income taxes (Note 3)	2,724,152	2,736,380
Current portion of debt: Mortgages and notes	1,534,702	815,063
Lease-purchase obligations	2,439,929	2,225,185
Total current liabilities	<u>30,102,915</u>	<u>20,846,515</u>
MORTGAGES AND NOTES, excluding current portion (Note 2)	<u>24,808,478</u>	<u>11,285,442</u>
OTHER LIABILITIES:		
Lease-purchase obligations, excluding current portion (Note 2)	41,168,617	33,678,365
Construction financing (Note 2)	2,500,000	—
Deferred income taxes (Notes 3, 6 and 7)	7,925,000	7,051,000
Deferred stock compensation (Note 4)	891,000	616,000
Minority interest in subsidiaries (Note 1)	180,861	—
	<u>52,665,478</u>	<u>41,345,365</u>
CONVERTIBLE SUBORDINATED 5% NOTES (Note 5)	<u>10,000,000</u>	<u>—</u>
SHAREHOLDERS' INVESTMENT (Notes 1, 4 and 5):		
Preferred stock—without par value: Authorized 1,000,000 shares; none issued	—	—
Common stock—\$1.00 par value: Authorized 15,000,000 shares; 11,367,182 and 5,400,835 shares issued and outstanding in 1968 and 1967, respectively (Note 8)	11,367,182	5,400,835
Capital surplus	36,136,606	30,941,772
Retained earnings	9,270,929	9,111,675
	<u>56,774,717</u>	<u>45,454,282</u>
	<u>\$174,351,588</u>	<u>\$118,931,604</u>

Consolidated Income and Shareholders' Investment

Marriott Corporation and Subsidiaries for the 52 weeks ended July 28, 1968 and July 30, 1967

Income	1968	1967	
SALES	<u>\$197,497,799</u>	<u>\$146,348,822</u>	
DEDUCTIONS:			
Cost of sales and operating expenses.....	146,281,384	108,633,487	
Administrative and general expenses.....	8,536,428	5,881,549	
Rent (Note 2).....	7,479,099	5,817,143	
Depreciation and amortization (Note 7).....	6,838,260	5,057,871	
Taxes—payroll and other.....	6,227,423	4,481,730	
Interest expense and income, net (Note 6).....	3,381,088	1,757,436	
Advertising and sales promotional expenses.....	3,038,843	1,902,922	
Pre-opening expenses of new operating units.....	1,092,916	976,126	
Profit sharing retirement contributions.....	1,260,705	1,021,021	
	<u>184,136,146</u>	<u>135,529,285</u>	
INCOME BEFORE INCOME TAXES	13,361,653	10,819,537	
UNITED STATES AND FOREIGN INCOME TAXES, including \$329,000 additional surtax in 1968 (Note 3).....	5,943,000	4,771,000	
NET INCOME	<u>\$ 7,418,653</u>	<u>\$ 6,048,537</u>	
Net Income Per Common Share (Note 8).....	<u>\$.66</u>	<u>\$.58</u>	
	1968		
Shareholders' Investment	Common Stock <i>(\$1.00 par value)</i>	Capital Surplus	Retained Earnings
BALANCE, beginning of period	\$ 5,400,835	\$30,941,772	\$9,111,675
ADD (DEDUCT):			
Net income.....	—	—	7,418,653
Quoted market in excess of par value of common stock issued for acquisition of businesses and land (Note 1).....	117,855	3,780,862	—
Two for one stock split.....	5,517,169	(5,517,169)	—
3% stock dividend at quoted market.....	331,031	6,928,368	(7,259,399)
Amount transferred from deferred stock compensation reserve in excess of par value of shares issued (Note 4).....	292	2,773	—
BALANCE, end of period	<u>\$11,367,182</u>	<u>\$36,136,606</u>	<u>\$9,270,929</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Statement of Source and Application of Funds

Marriott Corporation and Subsidiaries for the 52 weeks ended July 28, 1968 and July 30, 1967

SOURCE OF FUNDS	1968	1967
Cash flow from operations:		
Net income	\$ 7,418,653	\$ 6,048,537
Depreciation and amortization	6,838,260	5,057,871
Deferred taxes	1,770,000	1,645,906
Deferred stock compensation	275,000	168,000
Total cash flow from operations	<u>16,301,913</u>	<u>12,920,314</u>
New lease-purchase obligations (Note 2)	10,000,000	10,300,000
Additions to mortgages and notes	14,477,562	5,786,856
Convertible subordinated 5% notes (Note 5)	10,000,000	—
Construction financing (Note 2)	2,500,000	—
Disposals of fixed assets and leasehold interest	788,271	282,280
Loans on life insurance	—	289,822
Common stock, at quoted market, issued for:		
Acquisition of businesses and land (Note 1)	3,898,717	8,231,122
Payments to Profit Sharing Plan	—	295,650
	<u>57,966,463</u>	<u>38,106,044</u>
APPLICATION OF FUNDS		
Fixed assets	25,892,853	15,260,548
Leasehold interest (Note 2)	15,989,537	10,762,990
Acquisition of businesses	6,942,447	9,859,764
Deferred tax adjustment from prior year tax audit (Note 3)	896,000	—
Working capital deficit of acquired businesses	676,037	961,522
Miscellaneous assets purchased	776,810	251,310
Debt retirement: Mortgages and notes	1,262,335	823,091
Lease-purchase obligations (Note 2)	2,509,748	2,499,905
	<u>54,945,767</u>	<u>40,419,130</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 3,020,696</u>	<u>\$ (2,313,086)</u>
WORKING CAPITAL		
Beginning of period	\$ 4,558,717	\$ 6,871,803
End of period	7,579,413	4,558,717
Net change	<u>\$ 3,020,696</u>	<u>\$ (2,313,086)</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements *Marriott Corporation And Subsidiaries*

(1) ACQUISITIONS AND PRINCIPLES OF CONSOLIDATION:

All subsidiaries have been included in the consolidated financial statements. The accounts of foreign subsidiaries are included in the consolidated financial statements after conversion to U.S. dollars.

All of the 1968 acquisitions were accounted for as purchases. The cost in excess of net assets of acquired businesses has a continuing value and is not being amortized. In connection with the acquisition of Roy Rogers Western Foods, Inc., the Company may be required to issue additional shares of common stock in 1970. Such additional shares, if any, will be based on 1970 sales and, therefore, can not be determined at this time.

(2) LONG-TERM OBLIGATIONS:

Various loan agreements require the Company to (a) maintain working capital of \$4,000,000 (b) restrict long-term debt and (c) limit cash dividends not to exceed income after July 30, 1967 plus \$3,000,000.

Maturities of long-term obligations, excluding the convertible subordinated notes, are as follows:

	<i>Mortgages and Notes</i>	<i>Lease-Purchase Obligations</i>
Interest rates	4 1/2% to 8%	5% to 6%
Maturities 1970	\$ 1,298,798	\$ 2,484,522
1971	5,677,377	2,538,815
1972	3,944,452	2,676,257
to 1988	13,887,851	33,469,023
Total	<u>\$24,808,478</u>	<u>\$41,168,617</u>

Lease-purchase obligations are in substance installment purchases and are recorded as leasehold interests at the discounted amount of future rentals. These leases are made with corporations owned by the Marriott Foundation and provide for the recovery of principal and interest and a nominal profit. Additional lease-purchase commitments of \$25,725,000 for construction which will be completed during the next 12 months have been made against which the Company has obtained construction financing of \$2,500,000 at July 28, 1968.

In addition to the forgoing leases, the Company has other leases which are not installment purchases and which have an average remaining term of 16 years as of July 28, 1968. Minimum annual rentals amount to approximately \$3,100,000 as of July 28, 1968. Most of these leases have renewal privileges and require additional rentals under percentage clauses relating to sales.

(3) FEDERAL INCOME TAXES:

The Company and its subsidiaries file separate income tax returns. Federal income tax returns for years prior to 1961 have been examined and settled or accepted as filed. The Internal Revenue Agent's Report covering the years 1961 through 1963 has been received and the issues have been resolved subject to receiving the final adjusted report. The Federal income tax returns for the years 1964 through 1967 are currently being reviewed by the Internal Revenue Service. In the opinion of management, the adjustments for all years will not have, in the aggregate, a material adverse effect on the Company's consolidated financial position or consolidated earnings set forth in the accompanying financial statements.

The provision for income taxes has been reduced by the investment credit in the amount of \$827,000 and \$462,000 for fiscal periods 1968 and 1967, respectively. The provision includes deferred income taxes of

\$1,770,000 and \$1,645,906 for fiscal periods 1968 and 1967, respectively, relating to accelerated depreciation taken on fixed assets and on leasehold interests under lease-purchase obligations.

(4) DEFERRED STOCK COMPENSATION:

Deferred stock bonus awards and contracts have been made with 175 employees. The shares contingently vest pro rata until retirement, after which they are distributed in 10 annual installments. Adjusted for forfeitures, stock dividends and splits, a total of 251,047 shares have been awarded, of which 71,734 shares had vested on July 28, 1968.

(5) CONVERTIBLE SUBORDINATED 5% NOTES:

During 1968, the Company issued \$10,000,000 of 5% convertible subordinated notes due in 1988. These notes can be converted into common shares at any time at \$26.70 per share, subject to anti-dilution provisions. A total of 374,532 shares of unissued common stock has been reserved for issuance upon conversion of the notes. Annual principal payments of \$1,000,000 commence April 1, 1979.

The Company did not assign a value to the conversion privilege granted with these notes. A future opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants may propose a retroactive adjustment which, if required, would not have a significant effect on the accompanying financial statements since the notes were issued during the last quarter of the fiscal year.

(6) INTEREST ON CONSTRUCTION LOANS:

In accordance with the practice generally followed by real estate investment companies, interest on loans, specifically made to finance major construction projects is capitalized as part of the construction cost. Total interest capitalized was \$428,000 in 1968 and \$567,000 in 1967. Such interest is expensed for tax purposes and the tax benefits are deferred.

(7) DEPRECIATION AND AMORTIZATION OF BUILDINGS AND EQUIPMENT:

Depreciation and amortization are calculated on the straight-line method for financial statement purposes and, where permitted, on accelerated methods for tax purposes. Deferred taxes are recorded where appropriate.

(8) COMMON STOCK:

Shares issued and outstanding are exclusive of 44,069 shares in 1968 and 21,393 shares in 1967 held by a wholly owned subsidiary. The accounting treatment of these shares has been to offset them against capital stock and capital surplus as though they had been retired, since management warrants that these shares will be officially retired when deemed practical.

Earnings per share are based on the weighted average shares outstanding of 11,277,747 in 1968 and 10,418,843 in 1967.

(9) TAX EXEMPT SECURITIES:

The Company's policy is to invest surplus cash in tax exempt securities until required for other purposes. On July 29 and 30, 1968, the Company purchased \$4,829,000 additional tax exempt securities.

(10) EMPLOYEE STOCK PURCHASE PLAN:

The Board of Directors adopted an Employee Stock Purchase Plan, subject to shareholders' approval at the Annual Meeting to be held November 19, 1968. A total of 100,000 shares of common stock may be purchased under the Plan at fair market value.

Auditors' Report

*To the Shareholders and
Board of Directors of
Marriott Corporation:*

We have examined the consolidated balance sheet of MARRIOTT CORPORATION (a Delaware corporation) AND SUBSIDIARIES as of July 28, 1968, and the related statements of consolidated income and shareholders' investment and source and application of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding period.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and shareholders' investment and source and application of funds present fairly the financial position of Marriott Corporation and Subsidiaries as of July 28, 1968, and the results of their operations and the source and application of their funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

*Washington, D.C.,
September 12, 1968.*

ARTHUR ANDERSEN & CO.

Executive Offices

*Marriott Corporation
5161 River Road
Washington D.C. 20016*

Auditors

*Arthur Andersen & Co.
815 Connecticut Avenue NW
Washington D.C. 20006*

Transfer Agents

*Bankers Trust Company
485 Lexington Avenue
New York, N.Y. 10017*

*American Security & Trust Company
Fifteenth Street & Pennsylvania Avenue NW
Washington D.C. 20013*

Registrars

*Morgan Guaranty Trust Company
23 Wall Street
New York, N.Y. 10005*

*The Riggs National Bank
1503 Pennsylvania Avenue NW
Washington D.C. 20013*

Directors of the Company



J. Willard Marriott
Chairman of the Board, Marriott Corporation



J. W. Marriott, Jr.
President, Marriott Corporation



Alice S. Marriott
Vice President, Marriott Corporation



Woodrow D. Marriott
Senior Vice President, Marriott Corporation



Jorge Bird



Don G. Mitchell
Chairman of the Board, General Time Corp.



Louis W. Prentiss
Major General, U.S.A. (ret.)



Robert C. Wian
Vice President, Marriott Corporation

Corporate Officers

J. Willard Marriott
Chairman of the Board

J. W. Marriott, Jr.
President

Alice S. Marriott
Vice President

Woodrow D. Marriott
Senior Vice President

Fred Boulineau
Controller

Betty L. Cushwa
Corporate Secretary & Assistant Vice President

James E. Durbin
Vice President

J. Franklin Groff
Vice President

G. M. Hostage
Vice President

Jerald O. Jarrard
Vice President

Frank C. Kimball
Vice President & General Counsel

Robert E. Koehler
Vice President

Foster M. Kunz
Vice President

Harold W. Milner
Treasurer

Richard F. Schoff
Vice President

Divisional Executives

Charles E. Baker
Vice President-Director, Cafeteria Division

Robert P. Bryant
Vice President-Director, Service Restaurants

Angus L. Cotton
Vice President, Marriott Motor Hotels Food & Beverage

J. Robert Droege
Vice President, Real Estate

Elmo Geoghegan
Vice President, Bob's Big Boy Restaurants

Winthrop W. Grice
Vice President, Sales—Marriott Motor Hotels

Walter E. Hess
Director, School & College Food Service

Robert E. Kochli
Director, Automatic Food Service

Leonard W. Lefevre
Vice President-Director, Thruway & Turnpike Restaurants

Frank R. Lyons, Jr.
Director, Business & Industry Food Service

Winston W. Marsh
Director, Hospital Food Service

Fred J. Martin
Vice President, Marriott In-Flite Services

Gray McCullah
Director, Hotel Franchising

James H. Petersen
Director, Restaurant Franchising

James H. Pflaging
Vice President, Marriott In-Flite Services

Peter H. Plamondon
Vice President-Director, Fast Foods Division

Merrill L. Tribe
Vice President-Director, Procurement

Robert H. Treichel
Vice President, Marriott In-Flite Services

Jorgen Vilttoft
Senior Vice President, Marriott Motor Hotels

Calvin L. Wienges
Vice President, Marriott In-Flite Services

George Young
Vice President-Director, Manufacturing



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MARRIOTT MOTOR HOTELS
MARRIOTT IN-FLITE SERVICES
FAST FOODS DIVISION
HOSPITAL FOOD SERVICE
BUSINESS & INDUSTRY FOOD SERVICE
SCHOOL & COLLEGE FOOD SERVICE
AUTOMATIC FOOD SERVICE
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