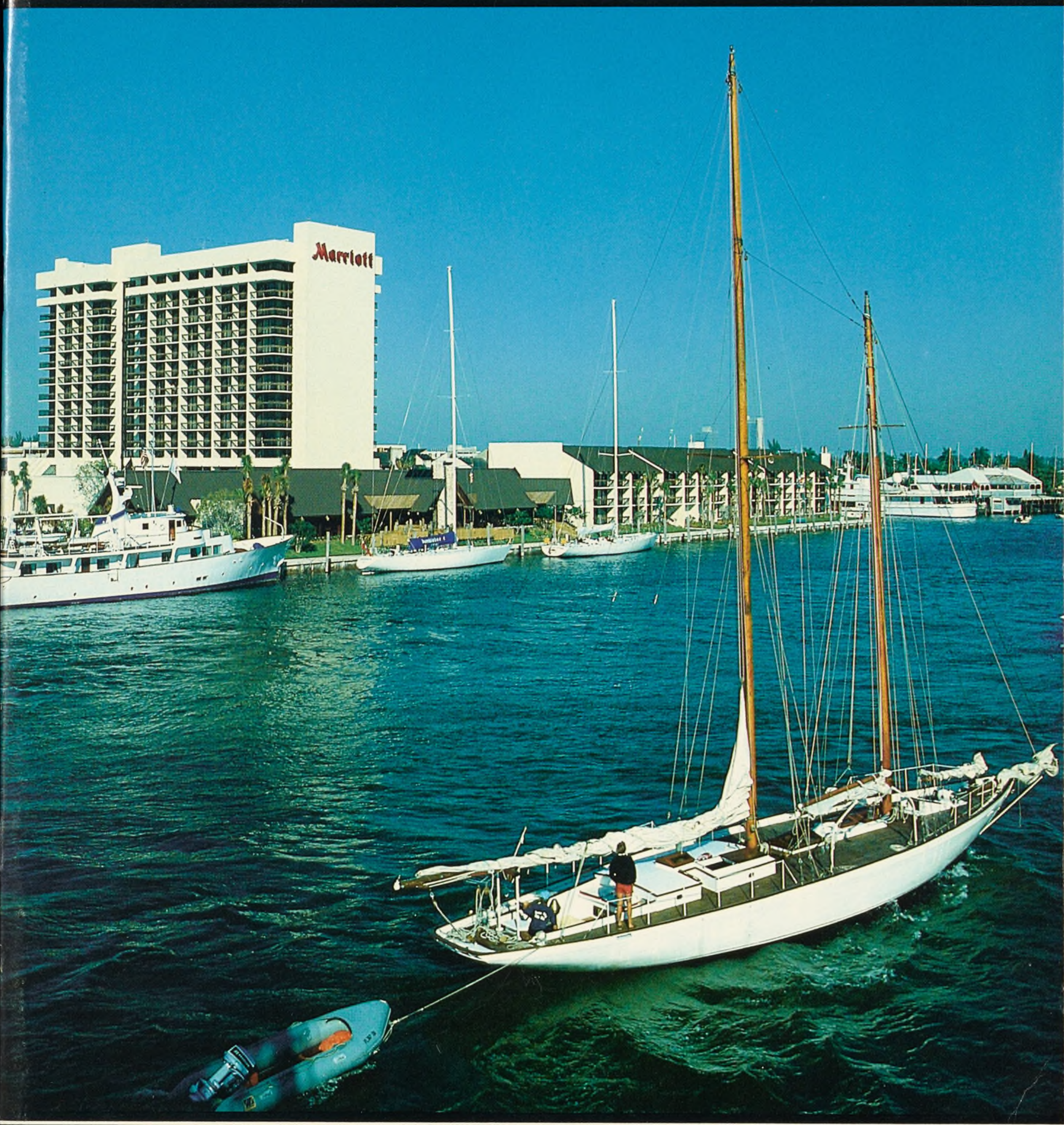
Marriott

Annual Report 1980



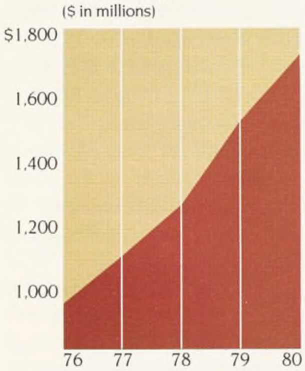
Contents

(Cover) The Fort Lauderdale Marriott Hotel and Marina is one of the most exciting 1980 additions to the Marriott system. Located on Florida's Intercoastal Waterway, the deluxe 572-room complex has marina berths for 55 yachts.

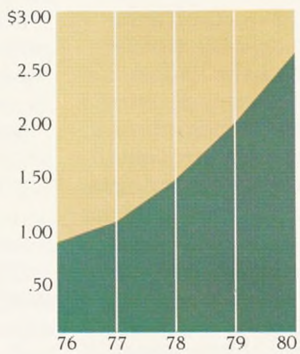
(Left) Food service is an important element in each of Marriott's major operating businesses. The View is a new specialty restaurant concept introduced at our Key Bridge hotel in 1980, combining nouvelle cuisine, elegant surroundings and a great view of the nation's capital.

Financial Highlights	1980	1979	Percent Change
Sales	**$1,718,725,000**	$1,509,957,000	+14%
Operating Profit	**193,034,000**	170,070,000	+14%
Net Income	**72,030,000**	71,000,000	+ 1%
Earnings Per Share	**2.60**	1.95	+33%
Funds from Operations	**150,292,000**	140,934,000	+ 7%
Shareholders' Equity Per Share	**12.43**	12.88	− 3%
Return on Equity	**23.8%**	17.0%	+40%

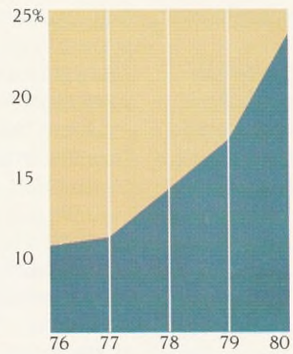
Total Sales
($ in millions)



Earnings Per Share



Return on Equity



About Marriott

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

Founded in 1927 by J. Willard Marriott, the company began as a small root beer stand in Washington, D.C. Today it has more than 67,000 employees, with operations in 38 states and 17 countries.

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

To Our Shareholders

Despite a difficult economy, Marriott increased operating profits by 14% in 1980. Earnings per share rose 33%, aided by the company's repurchase of nearly one quarter of its common stock. Return on shareholders' equity increased to 24%.

Marriott Corporation's record over the past five years has been exceptional. Earnings per share have grown at an average annual rate of 30%, and return on shareholders' equity has more than doubled.

Few companies can sustain such a combination of high profit growth and capital productivity. However, our goal throughout the 1980s will be to average 20% annual earnings growth, to increase dividends commensurate with this growth, and to maintain a return on equity in excess of 20%.

We believe there are four fundamental reasons why Marriott can achieve these ambitious objectives:

☐ Unique operating systems and capabilities which underlie all of our major businesses.

☐ Aggressive expansion of our domestic hotel system.

☐ Selective, yet significant, growth opportunities in non-hotel businesses.

☐ An unusual degree of financial flexibility to respond to changing market conditions or new investment opportunities.

Unique Operating Systems

Marriott's principal asset is its operating expertise across a broad range of food service, lodging and entertainment businesses. We will continue to refine these operating systems and invest heavily in developing the managers who run them.

The Marriott Hotel Group, as an example, is unique in a number of ways. It is the only hotel system with completely integrated capabilities in feasibility, development, design, construction, marketing and operations. We also are unique in having deliberately restricted our hotel franchising program to a relatively small number of top quality independent hotel operators. Another way we maintain consistently high quality throughout the hotel system is through regional management teams, each of which supervises eight to ten hotels.

Operating systems for our other businesses also emphasize control, consistency and quality. For example:

☐ We are the world's largest caterer of airline meals. We place extraordinary emphasis on productivity and consistency in kitchen-level operations. This approach also is characteristic of our other contract food service operations.

☐ Much of the acceptance of our Roy Rogers restaurant concept is based on efficient delivery of a uniquely fresh, high-quality product.

☐ Our theme parks in the Chicago and San Francisco areas generate among the highest in-park spending in the industry, primarily because of our long experience in food service operations.

We are committed to management development as an integral part of our operating philosophy. This policy is well illustrated by the preparations made to open and operate hotels in the 1980s. Because it takes three to five years to develop a typical hotel, we clearly saw the need in 1978 to step up our hiring, training and development programs to properly staff the 22 new hotels which will open in 1981. By mid-1980, we had completed the expansion and restructuring of our hotel organization for this growth. Because of our continuing emphasis on management development, we believe that personnel turnover in this group will remain well below industry average.

20-25% Annual Hotel Expansion

Our aggressive expansion program will more than double the number of domestic Marriott hotel rooms in the next five years.

With this expansion, we will continue to:

☐ Expand into markets where demand for quality hotel rooms exceeds supply.

☐ Locate hotels only where at least two of our three key market segments—individual business, groups of all types, and individual pleasure—appear in depth.

☐ Maintain our management systems which have helped produce some of the highest occupancy levels, room rates, and food and beverage profits in the industry.

☐ Refine the criteria for product and service standards, as we become even more sophisticated in our understanding of consumer needs.

☐ Invest heavily in the development of future managers.

For these reasons, we think our growing hotel system will sustain its record of stable earnings and consistently high returns.

Other Growth Businesses

Our strategy also calls for controlled expansion of non-hotel businesses in which we can build and sustain a major competitive advantage.

Marriott's goal in airline catering is to maintain its position as the lowest cost producer of premium services. This commitment, added to an excellent reputation in the contract food services industry, has helped position Marriott for profitable business development.

About 60% of our restaurant sales are in markets where the company holds the Number 1 or a solid Number 2 position. We intend to expand our position in those strong markets currently served by our Roy Rogers fast food restaurants and Big Boy coffee shops. In addition, we will expand Roy Rogers into promising new markets where an adequate marketing presence can be developed quickly. The capital necessary for these expansion programs can be provided largely from profits of existing operations.

Our Great America theme parks are well established entertainment centers. These parks should continue to provide an adequate cash return on our original investment. We will attempt to broaden the use of our considerable management expertise in this business without a substantial new infusion of Marriott capital.

Unusual Financial Flexibility

Marriott's ability to operate hotels profitably under management agreements is a strength not reflected in traditional accounting reports. More important, it provides the company extensive financial flexibility.

Our balance sheet does not reflect approximately $326 million in value developed from our existing hotel management agreements. Nor does it show that most of our existing hotels, currently valued at $634 million, could be sold and converted to long-term management agreements.

J. Willard Marriott

J. W. Marriott, Jr.

We also can adjust the proportion of new hotels we own (versus manage), based on continual reassessment of changing market conditions and investment opportunities beyond our hotel business.

The use of hotel sales to help finance the purchase of 13 million of our shares in the last two years shows this unusual flexibility.

Outlook

We cannot ignore the economic challenges of the coming year. Despite these short-term problems, we remain optimistic about the company's ability to capitalize on its strengths over the long term.

Our foundation for growth is more than a matter of competitive strategy and asset management. It is a special commitment to quality and value that is carried throughout our operations. The next few pages illustrate examples of this approach.

As always, it is our people who make the system work. We are particularly grateful for their performance and achievements in 1980.

J. Willard Marriott
Founder and
Chairman of the Board

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

March 9, 1981

Doing It Right

Since 1978, our Hotel Group has used the advertising slogan, "When Marriott Hotels does it, they do it right."® The message expresses the special dimensions of the way we serve our hotel customers and manage those operations.

"Doing it right" also reflects the management approach for many other aspects of Marriott Corporation, including our contract food service, restaurant, theme park and cruise ship operations.

Our commitment to quality and value in all services, products and systems has provided a solid foundation for the company's dynamic growth.

This commitment is carried throughout our businesses. And the concept goes far beyond what our customers may see.

It means high standards for performance and return on investment.

It includes comprehensive systems for productivity improvement, planning and management information.

It requires sensitivity to human considerations at every level of the company, and maintaining a responsible partnership with the communities where we operate.

Here is a glimpse of some of the ways Marriott "does it right".

(Center) Food School is an important part of the management development program for Marriott hotels, restaurants and contract food service operations. There employees learn the company's philosophy of food preparation, service standards and cost control.

(Right) Design and construction of Marriott hotels, restaurants and other facilities are managed by the company's Architecture and Construction Division. Here a member of the interior design staff selects fabrics for a hotel presentation.

(Right center) More than 2,000 Marriott employees go through the company's comprehensive management development courses each year.

(Top) First class food preparation is one of the reasons why 75 airlines around the world choose Marriott In-Flite for their catering needs.

(Above) Friendly service and consistent quality help make our hotels a favorite among business travelers. Marriott Hotels have won more 4-star ratings in the prestigious Mobil Travel Guide than any other hotel system.

(Right) Great selections in the variety of Marriott restaurants include the luscious desserts in Farrell's Ice Cream Parlour Restaurants.

(Top center) The elegant Marquis level suites at the Chicago Marriott offer a number of special amenities.

(Below) Marriott hotels and resorts are well known for the conscientious way they handle group meetings—an important market segment.

(Right) In January 1981, the U.S. Department of State selected the Crystal City Marriott to house the former hostages and their families during their stay in the Washington area. Mr. and Mrs. J. Willard Marriott and the hotel staff welcomed them as honored guests.

(Top) Sophisticated management information systems provide a wealth of timely data on every phase of Marriott operations.

(Above) Energy conservation measures in our airline catering operations include the conversion of most truck engines to propane, yielding significant cost savings.

(Left) Bugs Bunny is one of a host of Warner Brothers characters who delight youngsters at our Great America theme parks.

Marriott Hotels is one of the world's leading operators of hotels and resorts. At year-end, Marriott offered more than 30,000 rooms through 75 hotels, resorts and franchised inns located in 59 cities, primarily in the U.S. An aggressive expansion program will more than double the number of rooms by 1985.

Review of 1980

Performance of the Hotel Group was strong again in 1980. Operating profits rose 17% over 1979, while sales increased 21%.

The 1980 results reflected a 13% growth in the number of company-operated rooms, and higher room rates. While industry occupancy rates were hurt by the recession, demand for Marriott rooms remained strong and occupancy of comparable units averaged above 80% for the year. The recession did cause a slight decline in customer counts in hotel restaurants.

Approximately 70% of our company-operated rooms are owned by outside investors and managed by Marriott under long-term agreements. This proportion increased during 1980, resulting in a slight decline in the group's profit margin.

Marriott proved again in 1980, as it had in 1974, that its strong marketing capability can adjust to offset a dip in the nation's economy. And Marriott continues as one of the world's most successful major hotel companies in terms of overall profits, occupancy rates, and food and beverage profitability.

Expansion Program

We plan to expand the company's hotel rooms at the rate of 20 to 25% per year through the mid-1980s. This is an ambitious but achievable program. To accommodate this expansion, we have substantially strengthened our management development capabilities and quality control programs.

Since the average hotel project takes about four years to complete, much of the room growth for the next five years now is in some stage of development. We now have over 50,000 hotel rooms—representing nearly 100 properties—in our development "pipeline".

We gained 3,900 rooms in 1980 through the addition of ten hotels, resorts and franchised inns, and expansion at existing properties. Approximately 10,500 rooms, including 22 new hotels, are scheduled to open in 1981. A complete list of Marriott Hotels appears on page 16.

Strengths of the Marriott System

Over the years, Marriott has developed unique strengths and capabilities in the hotel business, which we continue to build upon as the Hotel Group is expanded. These strengths include:

☐ **Fully integrated, marketing oriented hotel development process.** We manage every aspect of development, construction and operation, locating only where two of our three key market segments appear in depth (individual business, groups of all types, or individual pleasure travelers). Locations are carefully balanced among downtown, suburban, airport and resort sites, with geographic dispersion over most major markets.

☐ **Distinctive management philosophy.** Marriott hotels have more comprehensive management involvement and control than is typical in the industry—particularly in key areas such as food and beverage, and marketing. We also have full-time regional executive teams for every eight to ten hotels, to help ensure consistently high service standards and substantially increased productivity.

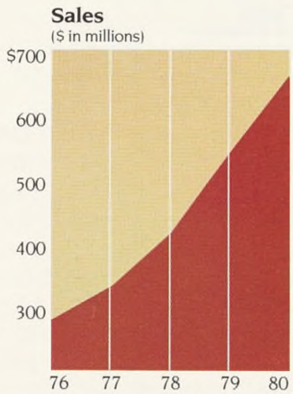
☐ **Strong commitment to organizational and management development.** The company worked for two years to complete the organizational groundwork and accelerated management development necessary to accommodate the Hotel Group's rapid expansion in the 1980s. The regional management organization necessary to handle the new hotels through 1981 was largely set by mid-1980. Estimated needs for property-level management over the next four years are updated constantly. Special cross-training and other development programs are underway, supplemented by selective recruiting, to ensure that an adequate pool of qualified management candidates is available.

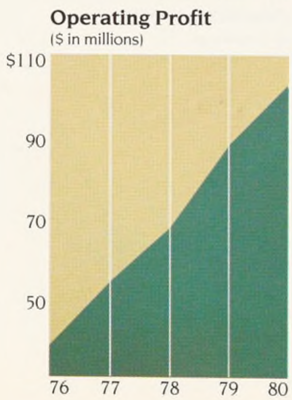
☐ **Continued improvements in products and services.** In addition to innovations in our new hotels, we continue to improve existing hotels with an expanded reservation system, updated room decor, new restaurant concepts, rapid check-in and check-out, and other refinements.

Outlook

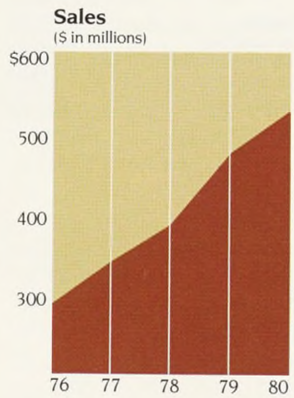
The prospects for Marriott's hotel operations are more promising than at any time since we entered the business 24 years ago. Aggressive expansion into growth markets, plus proven management and a continued industry shortage of high quality rooms, underscore our expectations. We will continue to further strengthen our leadership in this industry during the 1980s.

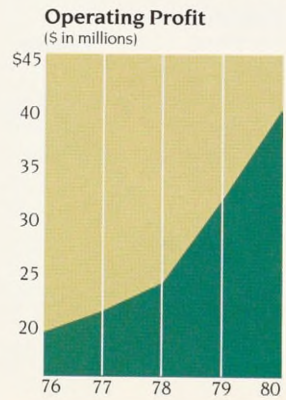
Atlanta Interstate North (above) and Portland (right) are two of ten Marriott hotels, resorts and franchised inns added in 1980. Others included Fort Lauderdale, Galveston, Grand Rapids, Harrisburg, Houston/Brookhollow, Pittsburgh/Monroeville, Vail (our first ski resort), and Marriott Riyadh in Saudi Arabia.





(Left) Passengers on Eastern Airlines' new Trans Con flights are served a first class Marriott meal. (Above) Our Food Service Management Division serves a variety of clients in business, health care and education.





The Contract Food Services Group operates more than 325 units, providing a wide range of food service capabilities to a variety of clients.

Marriott is the world's leading supplier of catering service to airlines, with 65 flight kitchens serving domestic and international air travelers. The Food Service Management Division manages restaurants, cafeterias, conference centers and other facilities for 211 clients, including business, health care and educational institutions. The group also manages 30 restaurants in airline terminals and on tollroads.

Review of 1980

Results for Contract Food Services improved significantly in 1980. Operating profits increased 27% over 1979 levels, while sales were up 10%.

This year's performance benefited from increased productivity and new business in domestic airline catering, new food service management accounts, and better results from terminal and highway restaurants. These factors more than offset the effects of lower domestic air traffic and increased competition in certain international airline catering markets.

Airline Catering

Results for the U.S. In-Flite Division increased despite the recession-induced decline in airline passenger traffic during the year's second half. These gains reflected higher productivity, improved cost control and new business from a number of carriers.

The division's productivity improvement efforts reduced costs in major In-Flite operations. Under this program, local personnel and staff experts conduct productivity reviews concentrated at those operations where meaningful cost savings can be realized in the shortest time. This effort, like similar ones in the group's other divisions, is aimed at making Marriott the lowest-cost producer of premium services.

New accounts were added at several existing flight kitchens, two idle kitchens were reactivated, and new kitchens were completed in Atlanta and Houston.

International airline catering results were lower in 1980 due to increased competition in South America and reduced tourism in Spain. Operating profits from Caribbean operations increased, but were restricted by reduced U.S. travel to that area. The division's 1981 results should improve with the extension of the productivity program to international units and the addition of selected new accounts.

Food Service Management

Operating profits in the Food Service Management Division increased again in 1980, aided by strong marketing efforts, particularly in health care, which secured new accounts in seven states. Among hospitals added were Frankford (Philadelphia), Jackson Memorial (Miami) and Lexington County (Columbia, S.C.).

New business food service clients included units of Texas Instruments, General Telephone, Dow Chemical, Sperry-Univac, IBM, SCM and International Paper.

Among new educational services accounts were Carnegie-Mellon University (Pittsburgh), Texas Christian University (Fort Worth), Bentley College (Waltham, Mass.), and the National Fire Academy (Emmitsburg, Md.).

Terminal Restaurants

Total sales and profits for airport terminal restaurants managed by Marriott were above 1979 levels, although substantial passenger reductions were experienced at several major airports where the company operates. New facilities were opened at Indianapolis and Miami.

Results from highway restaurants increased significantly over 1979's depressed levels.

Outlook

Contract Food Services' performance in 1980 demonstrated its ability to overcome problems resulting from a weak economy. The group's diversity, as well as ongoing productivity and cost control improvements, should continue to offset the effects of a short-term decline in domestic air traffic.

Over the long term, this business should continue to provide Marriott with a solid source of profit growth.

Marriott's Restaurant Group consists of more than 1,500 company-owned and franchised units offering a variety of popularly priced food in 46 states, Canada and Japan. Approximately one-third of all units are company-operated.

The two major divisions, Roy Rogers fast food restaurants and Big Boy coffee shops, account for 92% of the total units. Other divisions are Farrell's Ice Cream Parlours, and Hot Shoppes cafeterias and service restaurants.

Review of 1980

The Restaurant Group generally performed well, given the continued problems in the restaurant industry caused by the recession, increased competitive marketing activity and inflation.

Sales were up 12%, while operating profits increased 14% before losses on closed units. After losses on closed units, overall restaurant profits were only slightly ahead of 1979. A total of 26 units were sold or closed in 1980.

Results were helped by contributions from 66 new units, heavy promotional activity, and increased average checks. These more than offset a small decline in customer counts.

Management Team Strengthened

Planned expansion in our restaurant management continued in 1980. At the group level, finance, planning and marketing functions were strengthened, and the advanced management development program begun in 1979 continued to broaden skills. New senior operating and marketing officers were added to the Roy Rogers division, and both the franchising and site acquisition functions for that division were strengthened.

Roy Rogers

A major development in 1980 was the revitalization of Roy Rogers restaurants. The expanded management team increased productivity, and made positive changes in marketing emphasis. The Roy Rogers concept was refined to increase appeal to adults and to be more attractive to families. The menu was expanded by several new products, including bacon-cheeseburgers, salad bars and ice cream sundaes. Continued emphasis on high quality products, communicated through increased advertising and promotional efforts, maintained Roy Rogers' customer base in a modestly declining market.

Roy Rogers successfully entered the Connecticut market in 1980, opening 18 units. The rest of the 45 units opened in 1980 were in existing markets. Twenty-two of the 45 units were added through the acquisition and conversion of existing restaurants to the Roy Rogers concept. The company pulled out of the Tidewater area of Virginia, closing 10 restaurants.

Strategy for Roy Rogers continues to focus on building strength in current markets through expansion, and entering new markets only where an adequate presence can be established quickly. The achievements of 1980 support our ongoing belief that Roy Rogers can compete well with larger national chains in its primary markets.

Big Boy

Results for Big Boy Restaurants of America, largest division in the Restaurant Group, were improved over 1979 but were hampered by the sluggish economy in Southern California, where about two-thirds of the company-operated units are located.

Despite this situation, the division increased its operating profit over 1979 levels, through heavier promotional efforts and the impact of 15 net additional company units opened in 1980. Lower customer counts were offset somewhat by higher average checks, as well as careful cost and margin controls.

The long-established Big Boy concept is being refined carefully to take advantage of changes in consumer preferences. Expansion is being limited primarily to those geographical areas where we have strong market positions.

Other Restaurant Divisions

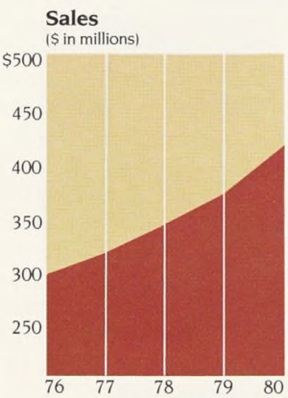
Farrell's achieved significant profit advances again in 1980 due to concept adjustments at selected locations and an effective productivity improvement program. Changes included the addition of a new luncheon menu in most units. One unit was sold during the year, leaving 76 company-operated and 30 franchised units throughout the U.S.

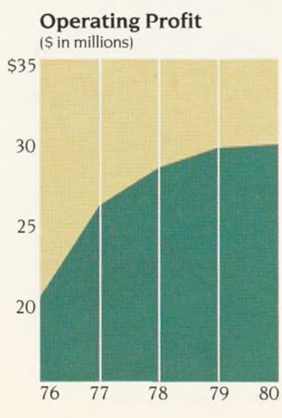
Sales for Hot Shoppes restaurants and cafeterias were ahead of 1979, but profits dipped slightly, reflecting increased operating costs. There are a total of 26 Hot Shoppes units.

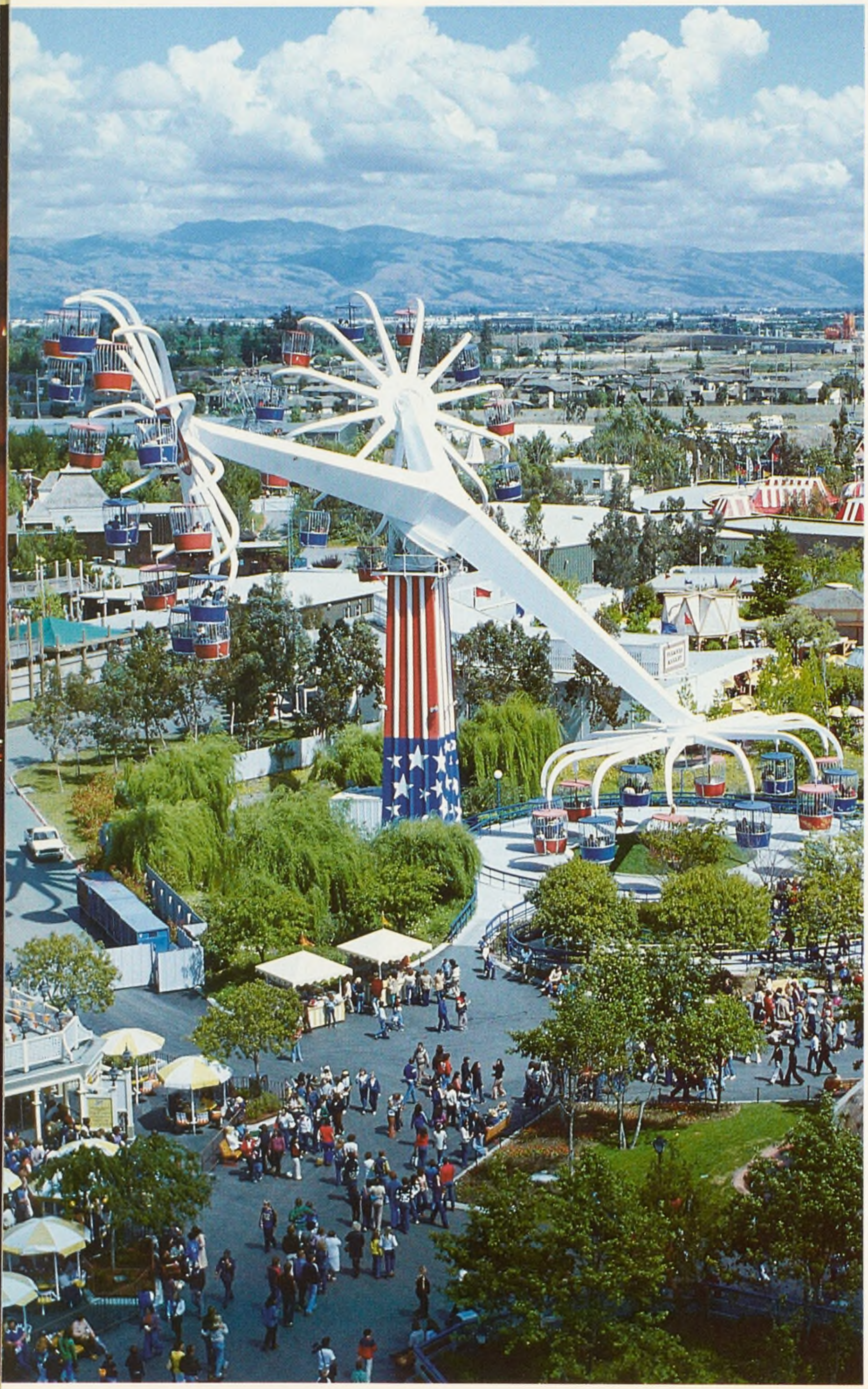
Outlook

The short-term outlook for the restaurant industry depends on the timing of the anticipated economic recovery in 1981. Adjustments made in our Restaurant Group to overcome the economic and competitive conditions in 1980 have improved its ability to maximize long-term returns.

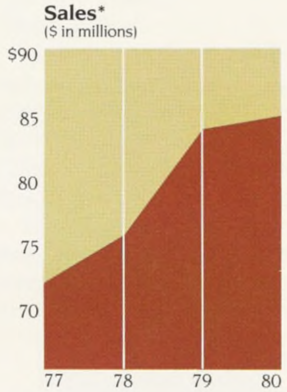
(Right) The newest concept in Roy Rogers restaurants is lighter, brighter, with more natural wood and plants . . . and our great fast food. (Above) Big Boy coffee shops offer a wide selection of appealing dishes.

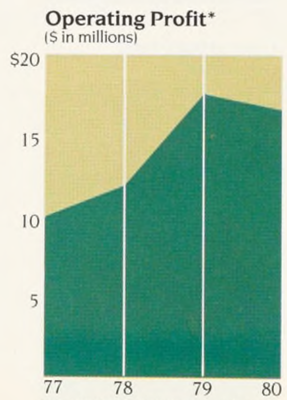






(Left) The two Marriott's Great America theme parks offer a wide variety of attractions for people of all ages. (Above) A Great America staffer applies the finishing touches to a budding young clown.





*Results for 1976 (initial year of operation) are not comparable.

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

Both parks combine a wide variety of thrill and family rides, live musical productions and stage shows, arcades and games, merchandise and food. The attractions are set in five authentically recreated areas of America's past, and have strong appeal for the entire family.

Review of 1980

Theme Park Group profits were down 5% from 1979's record performance because of reduced attendance levels common in the industry and a record number of rain days at the Gurnee park. Sales were up slightly over 1979.

Higher per capita spending, increased promotional efforts and stringent cost controls helped offset the nearly 7% decline in total attendance from 1979's record level.

Despite the year's unfavorable economic conditions, the Theme Park Group demonstrated the ability to sustain its contribution to Marriott's profits. The parks' choice locations, high quality facilities and strong entertainment value enhance customer attractiveness. It appears unlikely that either park will have direct local competition because of the substantially increased investment now required to build such facilities.

Crew members cheerfully make each Sun Line cruise a carefree getaway.

Future Activity

In 1981, management will continue to apply strong, creative marketing programs to build attendance levels, while emphasizing ongoing efficiencies designed to maximize the parks' profit contributions.

We do not foresee substantial additional investment in new theme parks. Rather, beyond the two Great America parks, we prefer to use our proven expertise in this business to manage parks under contract to others. Our first contract of this type, to manage the Rye Playland park in Westchester County, New York for a two-year period, became effective in January 1981.

Outlook

Marriott's Great America theme parks are expected to continue generating significant cash flow in the 1980s.

Cruise Ships

Our Sun Line fleet of luxury cruise ships posted increased results in 1980, the fourth straight year of improvement. Sales were up 12%, while operating profits rose 5%.

Improved energy conservation programs, higher fares, and increased marketing efforts helped ease the impact of substantially higher fuel costs and a slight decline in overall occupancy rates due to soft economic conditions.

The three vessels in the Sun Line fleet offer luxury sailing in both the Aegean/Mediterranean and Caribbean cruise markets. Sun Line is widely recognized as the leader in the Aegean market, where voyages are available from April through October.

In 1980, the company did well in the winter Caribbean market, began cruises to the Red Sea area, and continued its popular Orinoco River cruises in South America.

Outlook

Near-term prospects for this operation will be affected by the timing of an economic turnaround and anticipated fuel price increases. With a strong reputation for quality and service, Sun Line should maintain its competitive position in the industry and continue to contribute to Marriott's profitability.

Marriott Businesses

Marriott Hotels*

United States

Atlanta, GA
- Downtown
- Interstate North
- Perimeter Center

Austin, TX
Baltimore, MD
- Marriott's Hunt Valley Inn

Blacksburg, VA
Boston, MA
- Newton

Chicago, IL
- Marriott's Lincolnshire Resort
- North Michigan Avenue
- O'Hare

Cincinnati, OH
Cleveland, OH
- Airport
- East

Columbus, OH
- East

Dallas, TX
- Market Center
- North

Denver, CO
Detroit/Ann Arbor, MI
Fort Lauderdale, FL
Fort Wayne, IN
Galveston, TX
Grand Rapids, MI
Harrisburg, PA
Houston, TX
- Astrodome
- Brookhollow
- West Loop

Indianapolis, IN
Kansas City, MO
Key West, FL
- Marriott's Casa Marina Resort

Lake of the Ozarks, MO
- Marriott's Tan-Tar-A Resort

Los Angeles, CA
Louisville/Clarkville, IN
Marco Island, FL
- Marriott's Marco Beach Hotel and Villas

Marina del Rey, CA
Miami, FL
Milwaukee, WI
Minneapolis/Bloomington, MN
New Orleans, LA
Newport Beach, CA
New York, NY
- Marriott's Essex House

Orlando, FL
Philadelphia, PA
Pittsburgh, PA
- Greentree
- Monroeville

Portland, OR
Providence, RI
Rancho Mirage, CA
- Marriott's Rancho Las Palmas Resort

Rochester, NY
- Airport
- Thruway

Saddle Brook, NJ
St. Louis, MO
- Airport
- Downtown

San Antonio, TX
San Francisco Bay, CA
- at Berkeley Marina

Santa Barbara, CA
- Marriott's Santa Barbara Biltmore

Santa Clara, CA
Scottsdale, AZ
- Marriott's Camelback Inn

Somerset, NJ
Springfield, MA
Stamford, CT
Syracuse, NY
Tucson, AZ
Vail, CO
- Marriott's Mark Resort

Washington, DC Area
- Bethesda, MD
- Crystal City
- Dulles Int'l Airport
- Key Bridge
- Twin Bridges

*Includes hotels, resorts and franchised inns.

International

Acapulco, Mexico
- Paraiso Marriott

Amsterdam, The Netherlands
Barbados
- Marriott's Sam Lord's Castle

Dhahran, Saudi Arabia
Kuwait City, Kuwait
Riyadh, Saudi Arabia
- Marriott Hotel Khurais
- Marriott Riyadh

New in 1981

Anaheim, CA
Atlanta, GA
- Airport

Buffalo, NY
Columbus, OH
- North

Denver, CO
- City Center

Des Moines, IA
Hilton Head, SC
Houston, TX
- Greenspoint

Lexington, KY
Nashville, TN
Maui, HI
New York, NY
- La Guardia
- Westchester

Oak Brook, IL
Salt Lake City, UT
Seattle, WA
- Sea-Tac

South Bend, IN
Tampa, FL
Washington, DC Area
- Tyson's Corner, VA
- Washington Marriott

Worcester, MA
Amman, Jordan

Future Hotels

Albuquerque, NM '82
Boston, MA
- Long Wharf '82

Charleston, WV '82
Dayton, OH '82
Kauai, HI '82
Nassau County, NY '82
Omaha, NE '82
Raleigh, NC '82
Washington, DC Area
- Gaithersburg, MD '82
- J.W. Marriott at National Place '83

Athens, Greece '82
Cairo, Egypt '82
Panama City, Panama '82

Hotel Reservations

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Contract Food Services

Airline Catering

U.S. Flight Kitchens

Albuquerque, NM
Atlanta, GA (2)
Baltimore, MD
Boston, MA (2)
Chicago, IL (2)
Dallas/Fort Worth, TX (2)
Denver, CO
Fort Lauderdale, FL (2)
Honolulu, HI (2)
Houston, TX (2)
Kansas City, MO
Las Vegas, NA
Los Angeles, CA (2)
Miami, FL (4)
Minneapolis/St. Paul, MN
New Orleans, LA
New York, NY (3)
Newark, NJ
Oklahoma City, OK
Orlando, FL
Phoenix, AZ
Salt Lake City, UT
San Francisco, CA (2)
San Jose, CA
Seattle, WA
Tampa, FL
Washington, DC (2)
West Palm Beach, FL

International Flight Kitchens

Acapulco, Mexico
Antigua
Barbados
Barcelona, Spain
Buenos Aires, Argentina
Cairo, Egypt
Caracas, Venezuela
Gerona, Spain
Johannesburg, South Africa
Lima, Peru
Lisbon, Spain
London, England (2)
Madrid, Spain
Malaga, Spain
Mexico City, Mexico
Palma de Mallorca
Paris, France
Rio de Janeiro, Brazil
St. Croix
San Juan, Puerto Rico
Santiago, Chile

Management Contracts

Business (executive dining rooms, cafeterias, snack shops)	102
Health Care (hospitals, nursing homes, retirement homes)	88
Education (schools, colleges, universities)	21
Airline terminal restaurants and shops	16
Highway restaurants	14

Restaurants

516 Company-Operated Units

Bob's Big Boy Coffee Shops	195
Roy Rogers Restaurants Fast Food	201
Other Restaurant Operations	
Farrell's Ice Cream Parlour Restaurants	76
Hot Shoppes Cafeterias and Service Restaurants	26
Jr. Hot Shoppes	3
Big Boy Jrs.	15

1,057 Franchised Units

Big Boy	941
Roy Rogers	86
Farrell's	30

Theme Parks

Marriott's Great America

Gurnee, IL
(serves Chicago/Milwaukee area)
Santa Clara, CA
(serves San Francisco area)

Sun Line Cruises

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

Call Toll-Free:
800-223-5760

Despite recession, inflation and volatile financial markets in 1980, Marriott Corporation continued to meet its principal financial goals of improving capital productivity and maintaining 20% average annual earnings per share (EPS) growth.

☐ EPS grew 33% to $2.60, increasing the five-year average annual growth rate to 30%.

☐ Return on shareholders' equity (ROE) increased to 23.8%—well above the company's 20% goal.

Both EPS and ROE compare favorably with the Standard & Poor's 500 as shown below and at right.

Earnings Growth Continues

Sales and operating earnings increased 14%, fueled by unit expansion and inflation. Consolidated profit margins were maintained.

Hotel sales and operating profit rose 21% and 17%, respectively, driven by a 13% increase in rooms and the pricing flexibility to cover inflationary cost increases and maintain profit margins. The higher proportion of managed and leased hotels caused Hotel Group margins to fall slightly in 1980. Contract Food Services' sales increased 10%, reflecting modest unit expansion and inflation—while operating profit grew 27%. Improved margins resulted mainly from management's aggressive productivity improvement program.

Current economic conditions restrained growth of sales and profits in restaurants and theme parks, which are more dependent on consumer discretionary income. Restaurant sales increased 12% and operating profit (before losses on closed units) increased 14% as unit expansion and inflation more than offset a small customer count decline. Theme park operating profit decreased 5% due to a 7% attendance decline.

EPS increased from $1.95 to $2.60, reflecting strong operating performance and the impact of repurchasing 7.9 million shares in 1980 which added 23¢ to EPS. Net income increased only slightly over 1979, primarily because of the 68% increase in interest expense required to finance the $185 million stock repurchase.

Discretionary Cash Flow per share increased 39% to $4.50, as reflected in the Current Value Statement. Discretionary Cash Flow represents the company's economic profit. It reports Funds from Operations less actual capital expenditures required to maintain the competitive position of existing fixed assets (rather than ac-

Annual Earnings Per Share Increase
Marriott vs Standard & Poor's 500

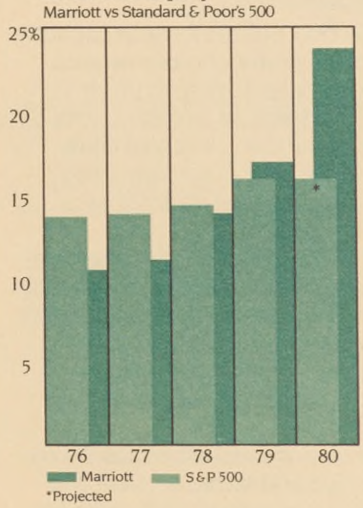
high capital productivity for several fundamental reasons.

☐ Marriott's real estate asset base produces profits that increase directly with inflation. The Current Value of Marriott's assets is $2.2 billion compared to $1.2 billion based on historical cost. Since over half of these assets are financed with debt, a larger proportion of inflation-driven profits accrues to the firm's equity owners.

☐ Profits from hotel management and lease agreements should continue to grow with inflation and additional hotels. Hotel management agreements—averaging 70 years in length—produced $45 million of operating profit in 1980 with minimal Marriott investment.

☐ Management plans to achieve a 25% ROE on future capital expenditures. Marriott's 1981 capital budget, which exceeds $300 million, will be financed by internal cash flow and sales of hotels with the company retaining management agreements.

Return on Equity
Marriott vs Standard & Poor's 500



Marriott Hotels Directory

The Marriott Hotels 1981 Directory contains complete information about each of our hotels. If you would like to receive this directory, please complete and mail this postage-paid card.

(Please print)

Name__________

Street__________

City__________

State, Zip__________

MC80AR

Marriott Hotels*

United States

Atlanta, GA
  Downtown
  Interstate North
  Perimeter Center
Austin, TX
Baltimore, MD
  Marriott's Hunt Valley Inn
Blacksburg, VA
Boston, MA
  Newton
Chicago, IL
  Marriott's Lincolnshire Resort
  North Michigan Avenue
  O'Hare
Cincinnati, OH
Cleveland, OH
  Airport
  East
Columbus, OH
  East
Dallas, TX
  Market Center
  North
Denver, CO
Detroit/Ann Arbor, MI
Fort Lauderdale, FL
Fort Wayne, IN
Galveston, TX
Grand Rapids, MI
Harrisburg, PA
Houston, TX
  Astrodome
  Brookhollow
  West Loop
Indianapolis, IN
Kansas City, MO
Key West, FL
  Marriott's Casa Marina Resort
Lake of the Ozarks, MO
  Marriott's Tan-Tar-A Resort
Los Angeles, CA
Louisville/Clarkville, IN
Marco Island, FL
  Marriott's Marco Beach Hotel and Villas
Marina del Rey, CA
Miami, FL
Milwaukee, WI
Minneapolis/Bloomington, MN
New Orleans, LA
Newport Beach, CA
New York, NY
  Marriott's Essex House
Orlando, FL
Philadelphia, PA
Pittsburgh, PA
  Greentree
  Monroeville
Portland, OR
Providence, RI

*Includes hotels, resorts and franchised inns.

Rancho Mirage, CA
  Marriott's Rancho Las Palmas Resort
Rochester, NY
  Airport
  Thruway
Saddle Brook, NJ
St. Louis, MO
  Airport
  Downtown
San Antonio, TX
San Francisco Bay, CA
  at Berkeley Marina
Santa Barbara, CA
  Marriott's Santa Barbara Biltmore
Santa Clara, CA
Scottsdale, AZ
  Marriott's Camelback Inn
Somerset, NJ
Springfield, MA
Stamford, CT
Syracuse, NY
Tucson, AZ
Vail, CO
  Marriott's Mark Resort
Washington, DC Area
  Bethesda, MD
  Crystal City
  Dulles Int'l Airport
  Key Bridge
  Twin Bridges

International

Acapulco, Mexico
  Paraiso Marriott
Amsterdam, The Netherlands
Barbados
  Marriott's Sam Lord's Castle
Dhahran, Saudi Arabia
Kuwait City, Kuwait
Riyadh, Saudi Arabia
  Marriott Hotel Khurais
  Marriott Riyadh

New in 198

Anaheim, C
Atlanta, GA
  Airport
Buffalo, NY
Columbus,
  North
Denver, CO
  City Cent
Des Moines
Hilton Head
Houston, T
  Greensp
Lexington,
Nashville, T
Maui, HI
New York, N
  La Guard
  Westche
Oak Brook,
Salt Lake C
Seattle, WA
  Sea-Tac
South Benc

Tampa, FL
Washington, DC Area
  Tyson's Corner, VA
  Washington Marriott
Worcester, MA
Amman, Jordan

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Dayton, OH '82
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Nassau County, NY '82
Omaha, NE '82
Raleigh, NC '82
Washington, DC Area
  Gaithersburg, MD '82
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Houston, TX (2)
Kansas City, MO
Las Vegas, NA
Los Angeles, CA (2)
Miami, FL (4)

Johannesburg, South Africa
Lima, Peru
Lisbon, Spain
London, England (2)
Madrid, Spain
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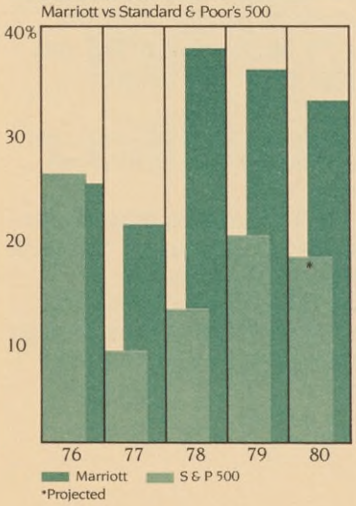
Annual Earnings Per Share Increase
Marriott vs Standard & Poor's 500



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Capital Productivity Improves

ROE increased to 23.8%, exceeding the 20% goal scheduled for 1983. This performance places Marriott in the top 20% of the S&P 500 firms. The dramatic increase from 9.5% in 1975 reflects the company's aggressive program to improve capital efficiency, and the stock repurchase program. Return on total capital has doubled to 18% since 1975.

Marriott plans to perform at about 25% ROE through the mid-1980s. Management can maintain high capital productivity for several fundamental reasons.

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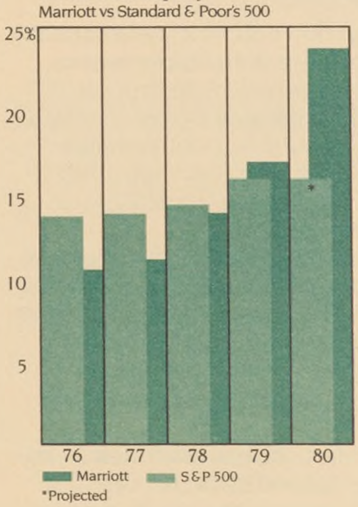
Marriott vs Standard & Poor's 500



Capitalization Is Optimized

Marriott's hotel business has become less capital intensive because about 70%—or $860 million—of the total hotel assets from which the company earns substantial operating profits are owned by others. This enables Marriott's hotel business to expand 25% annually without commensurate capital requirements, thereby releasing investment capacity to fund additional corporate growth.

The company chooses to own some hotels for the long term, as well as to facilitate development and to temporarily utilize investment capacity. We believe that most of Marriott's $634 million of hotels at Current Value could be readily sold under management contract if better investment opportunities become available. For example, the company partially financed the 1980 stock repurchase program with the $159 million sale of three existing hotels and three projects under development.

Marriott utilizes its debt capacity to optimize shareholder returns. Debt is less expensive than equity financing because its cost—interest—is tax deductible. Debt also allows the company to own more assets from which the net profits flow to shareholders.

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

☐ Marriott's real estate assets produce high and stable net cash flow which has increased for 30 consecutive years. Non-cash charges (like depreciation) comprise about 50% of cash flow, and are unrelated to operating performance.

☐ Most of Marriott's assets have long lives and are not subject to obsolescence through technological change. Therefore, capital expenditures are highly discretionary.

☐ Most assets should be readily saleable to investors at prices well above book value.

Marriott bases target debt levels on cash flow coverage of interest expense rather than on traditional debt-to-equity ratios. Senior debt and lease obligations are 55% of historical cost capitalization but only 25% of Current Value capitalization, which demonstrates that inflation makes the debt-to-equity ratio a poor debt capacity standard. Lenders require about four times coverage to provide debt financing to Marriott Corporation at prime rates, and less than two times coverage to finance individual hotel projects. The company's coverage increased to seven times in 1979, indicating excess debt capacity. It decreased to four times in 1980 with the increase in interest costs to initially finance the stock repurchase.

Fifty-six percent of Marriott's debt is long term at fixed rates. The remainder is medium term revolving credits tied to the prime rate. Fixed-rate debt has a 15-year average life with a 10% average rate providing significant economic advantages to shareholders during periods of rising interest rates. Management elected to retain a relatively high proportion of floating rate debt in 1980 while awaiting improved fixed-rate debt markets. In the interim, the revolving debt has a negotiated weighted rate ceiling of 16% through 1981. This protected Marriott from the sharp upward swings in the prime rate during 1980.

Marriott has no requirement for positive working capital since it principally sells services (rather than goods) for cash. Therefore, the company maintains relatively low receivable and cash balances—monetary assets that depreciate in value during inflation. Negative working capital is a source of interest-free financing.

Dividends Increase

In November 1980 the Board of Directors increased the cash dividend 20% to 24¢ annually. This is consistent with Marriott's plan to increase dividends with earnings growth.

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

Stock Price Increases

The range of Marriott stock prices by quarters is:

Quarters Ended in	1980 High	1980 Low	1979 High	1979 Low
March	24	16⅜	14¼	11⅝
June	21⅜	17¼	15½	12⅞
September	28	20¾	17	13
December	37	27⅛	18⅜	15⅜

We believe that Marriott's stock price increased during 1980 because:

☐ Over the past five years, the company has maintained high real earnings growth and has substantially improved ROE.

☐ Shares outstanding have been reduced from 37 million to 25 million since 1978.

☐ The investment community has a favorable market outlook for hotels, the firm's principal business.

Marriott's prime economic objective is to increase share value through superior profits on a growing asset base.

Current Value Rises

Shareholders' equity per share, expressed on a Current Value basis, increased 33% from $36 in 1979 to $48 in 1980, principally due to Current Value Increases combined with fewer outstanding shares. This compares favorably with the historical cost book value of $12 per share.

The company's Current Value balance sheet restates historical cost assets and liabilities to reflect 1980 year-end valuations. As shown, Current Value shareholders' equity increased from $1,169 million in 1979 to $1,201 million in 1980. Current Value Increases of $206 million during 1980 resulted primarily from strong discretionary cash flow and new hotel management agreements.

The fourfold increase in restated shareholders' equity from $312 million at historical cost to $1,201 million at Current Value results from a consistent policy of owning and managing real estate assets prudently financed with debt.

Outlook

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

Changes In Current Value Shareholders' Equity

	Millions	Per Share
Current Value—December 28, 1979	$1,169	$36.42
Discretionary Cash Flow	125	4.50
Changes in Current Value		
Property and Equipment	51	1.95
Hotel Management and Lease Agreements	93	3.53
Deferred Taxes and Other	(63)	(2.39)
Current Value Increases	206	7.59
Common Stock Repurchase and Other	(174)	3.92
Current Value—January 2, 1981	$1,201	$47.93

Condensed Consolidated Current Value Balance Sheet

as of January 2, 1981 (in thousands)

	Current Value	Historical Cost
Current Assets	$ 218,156	$ 218,156
Property and Equipment, Net	1,594,600	916,383
Hotel Management and Lease Agreements	326,261	—
Investments in Affiliates	53,716	37,587
Other Assets	23,263	42,138
	$2,215,996	$1,214,264
Current Liabilities	$ 236,574	$ 236,574
Senior Debt and Lease Obligations	486,869	536,607
Convertible Debt	24,550	24,550
Deferred Taxes	237,796	75,975
Other Liabilities	29,053	29,053
Shareholders' Equity	1,201,154	311,505
	$2,215,996	$1,214,264

Basis of Valuation:

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

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

Current Value shareholders' equity at December 28, 1979 includes the value of hotel management agreements not reflected in the 1979 annual report.

During 1979 and 1980, Marriott Corporation repurchased 13 million shares of its common stock for $259 million. Investors have placed various interpretations on this strategy.

Actually, this action represented the most reasonable alternative for using the substantial excess debt capacity which accumulated in the late 1970s.

Interest Coverage*

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

Excess Debt Capacity

In 1975, Marriott Corporation conducted a strategic self-appraisal which concluded that maintaining 20% earnings' growth and improving return on investment would be the principal financial objectives for the remainder of the decade. Management designed and implemented a three-pronged program to:

☐ Sell idle and low yielding assets.

☐ Increase return requirements on new capital investment.

☐ Reduce capital intensity of the hotel business by emphasizing management agreements.

By the end of 1979 the program had exceeded expectations: Return on investment had doubled, net income had grown at a 31% compounded rate and interest coverage had risen from 3.8 to 6.8 times.

Internal projections indicated that during the 1980s the company would realize its targeted 20% average annual earnings' growth rate within existing business lines, without acquisition or further diversification. Projections also indicated interest coverage would continue to rise and the company would build substantial excess debt capacity.

Maintaining excess debt capacity is inconsistent with the goal of maximizing shareholder wealth:

☐ Unused debt capacity is comparable to unused plant capacity, because the existing equity base can support additional productive assets. Fully utilizing this capacity maximizes shareholders' returns.

☐ Debt is less expensive than equity because it is tax deductible. High proportions of debt, therefore, reduce a company's weighted cost of capital and increase the real returns to shareholders.

☐ Debt-financed real estate provides distinct advantages in an inflationary environment.

Strategic Alternatives

Four possible alternatives existed for utilizing Marriott's excess debt capacity:

1. **Accelerate growth of existing businesses.** Since Marriott already was growing its businesses rapidly, further acceleration could outpace the company's ability to develop sufficient operating management.

2. **Diversify.** Senior management's attention was focused on an aggressive hotel expansion program. The risk of diluting these energies in a concurrent diversification effort seemed imprudent. Further, many other firms were attempting to solve their excess liquidity problems by acquisition—resulting in unattractive prices for quality opportunities.

3. **Increase dividends.** Marriott could pay out large dividends if investments yielding returns in excess of the company's cost of capital were unobtainable. However, dividends would be taxed at ordinary income tax rates.

4. **Repurchase shares.** If the company's shares were undervalued, share repurchase could yield high financial returns. Further, the company also could utilize its debt capacity without straining operating management or assuming the risks associated with diversification.

After a thorough study of the company's business prospects and projected cash flows, management concluded that the shares were undervalued.

Shares Undervalued

Common stock valuation—like analysis of any investment—is a function of an after-tax cash flow stream, its rate of growth, and an appropriate discount rate reflecting business risk, financial leverage and inflation.

When a discount rate reflecting Marriott's cost of capital is applied to the total relevant cash flows, fundamental investment analysis yields a substantially greater value for Marriott stock than the market recognized.

The market's failure to appreciate Marriott's value derives from three factors:

1. Historical cost accounting understates both the value of Marriott's real estate-based assets and its investment capacity.
2. The market overemphasizes short-term earnings per share without examining the nature and magnitude of the underlying cash flows.
3. The market underestimates Marriott's future growth.

Understated Asset Values

Historical cost accounting understates Marriott's asset values and debt capacity—resulting in a misperception of the company's cost of capital and the discount rate applicable to its cash flows.

The company's fixed assets are principally real estate with building and equipment depreciated according to industry accounting standards. For example, the average depreciated book value per room of Marriott's owned hotel rooms is $32,000. Yet, hotels, unlike industrial plants, are *appreciating* assets. As reflected in the Current Value statement, this results in an appraisal increment of $410 million for Marriott's owned hotel assets.

In 1980, Marriott operated 16,500 rooms under management agreements with an average life of 70 years and generating $45 million in operating profits that tend to rise with inflation. These agreements have no stated value on Marriott's historical cost balance sheet. However, they have an estimated Current Value of $326 million.

When the Current Value of Marriott's real estate assets and management agreements is reflected on its balance sheet, the magnitude of the company's debt capacity becomes more apparent.

Moreover, the failure to recognize the highly liquid nature of Marriott's hotels understates the company's potential investment capacity. The company has sold over $300 million of its hotels over the past six years, retaining favorable contracts to operate the properties. Hotel sales provided the principal funding source for the stock repurchases.

Discretionary Cash Flow

The historical focus of common stock investors upon reported net income and earnings per share rather than the cash flow earnings stream distorts common stock valuation. This is particularly true for a company like Marriott that has real estate-based assets compared with industrial, retail, or service companies. To value Marriott properly, the investor must understand the full magnitude of its economic profit as well as its anticipated future earnings stream.

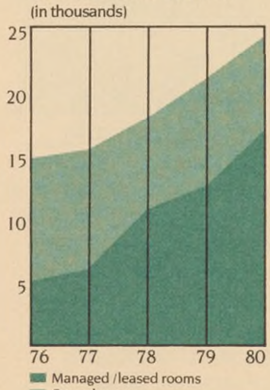
Marriott's Discretionary Cash Flow—or economic profit—was $125 million in 1980 compared to $72 million reported earnings, a proportionate difference that has been rather consistent over the past decade. This difference is largely a function of the real estate nature of the company's assets:

1. Marriott spends approximately half its annual depreciation charge to maintain "plant", while industrial companies are frequently required to spend significantly more than their depreciation. Depreciation expense tends to overstate the cost of operating Marriott's businesses and understates that of industrial companies. This is the major reason Marriott's reported net income understates economic profit.

2. Income tax expense as reported exceeds Marriott's annual cash tax payments, because Marriott defers a substantial amount of its taxes through accelerated depreciation. Therefore, current year after-tax cash flow is greater than reported net income.

Further, the profit and loss statement does not reflect the annual appreciation of Marriott's real estate. Yet interest expense to carry the assets is charged annually to reported earnings. The appreciation of Marriott's real estate is reflected in its large residual value, which is an important component of the anticipated earnings stream from Marriott's assets.

Hotel Rooms Growth*
(in thousands)



*Company-operated hotels only

Future Cash Growth

The magnitude and certainty of anticipated discretionary cash flow growth are important determinants of common stock value as they affect the size and risk of the future earnings stream. Marriott's businesses exhibit relatively certain prospects for growth over the intermediate future.

The hotel business provides the largest and most visible growth prospects. Since the average hotel project takes approximately four years to develop, most of the 20% to 25% annual room growth planned through the mid-1980s already is in some stage of development. The company currently has over 50,000 hotel rooms, comprising nearly 100 hotel properties, in its development pipeline. Nineteen new company-operated properties and additions to existing hotels will add 9,500 rooms during 1981, while 5,400 rooms are already under construction for 1982-83 opening. The present size and quality of the pipeline indicates the achievability of the company's hotel expansion objectives.

The Contract Food Service and Theme Park groups will generate substantial discretionary cash flow in the early 1980s. The operating assets for both these groups are largely developed. Contract Food Services has been a net cash generator over the last decade and its In-Flite Division, with 65 flight kitchens, will add individual kitchens only on a selective basis. Theme Parks will reverse its position from capital consumer in the 1970s (largely for initial construction) to a major capital generator (over $100 million through 1985). No additional company-owned theme parks are anticipated.

The Restaurant Group was a major cash consumer in the 1970s with the simultaneous expansion of Farrell's, Big Boys and Roy Rogers. With growth now limited largely to Roy Rogers, this group will move to a basically cash-balanced position in the 1980s.

Outlook

Marriott again should develop substantial excess debt capacity in the mid-1980s. It will then face the same four choices—accelerate growth in existing businesses, diversify, pay larger dividends or repurchase stock.

Consolidated Income

Marriott Corporation and Subsidiaries
Fiscal years ended January 2, 1981, December 28, 1979 and December 29, 1978

	1980	1979	1978
	(in thousands except per share amounts)		
Sales			
Hotel Group	**$ 656,116**	$ 541,820	$ 414,327
Contract Food Services	**529,768**	479,789	388,003
Restaurant Group	**414,086**	370,422	341,204
Theme Parks	**84,833**	83,953	75,522
Cruise Ships and Other	**33,922**	33,973	30,539
Total Sales	**1,718,725**	1,509,957	1,249,595
Operating Expenses	**1,525,691**	1,339,887	1,114,961
Operating Profit			
Hotel Group	**102,938**	87,774	67,116
Contract Food Services	**39,875**	31,335	23,678
Restaurant Group	**29,697**	29,425	28,243
Theme Parks	**16,630**	17,533	11,842
Cruise Ships and Other	**3,894**	4,003	3,755
Total Operating Profit	**193,034**	170,070	134,634
Interest Expense, net	**46,820**	27,840	23,688
Corporate Expenses	**26,126**	19,085	15,647
Income before Income Taxes	**120,088**	123,145	95,299
Provision for Income Taxes	**48,058**	52,145	40,999
Net Income	**$ 72,030**	$ 71,000	$ 54,300
Primary Earnings Per Share	**$ 2.61**	$ 1.96	$ 1.43
Fully Diluted Earnings Per Share	**$ 2.60**	$ 1.95	$ 1.43

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

Marriott Corporation and Subsidiaries
January 2, 1981 and December 28, 1979

	1980	1979
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 11,900**	$ 12,445
Marketable securities, at cost which approximates market	**15,536**	8,825
Accounts receivable	**124,454**	99,955
Inventories, at lower of average cost or market	**52,707**	46,629
Prepaid expenses	**13,559**	9,868
Total current assets	**218,156**	177,722
Property and Equipment, at cost		
Land	**95,834**	103,009
Buildings and improvements	**285,564**	323,059
Leasehold improvements	**304,737**	251,409
Furniture and equipment	**314,370**	284,733
Property under capital leases	**34,641**	29,724
Cruise ships	**12,321**	11,903
Construction in progress	**140,604**	62,501
	1,188,071	1,066,338
Depreciation and amortization	**(271,688)**	(241,160)
	916,383	825,178
Other Assets		
Investments in and advances to affiliates	**37,587**	27,160
Cost in excess of net assets of businesses acquired	**18,875**	19,106
Notes receivable	**6,961**	16,284
Other	**16,302**	14,915
	79,725	77,465
	$1,214,264	$1,080,365

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

	1980	1979
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term loans	**$ 3,253**	$ 4,054
Accounts payable	**97,682**	71,528
Accrued wages and benefits	**52,451**	45,273
Other accrued liabilities	**55,742**	34,636
Income taxes payable	**16,850**	22,511
Current portion of debt and capital lease obligations	**10,596**	10,497
Total current liabilities	**236,574**	188,499
Senior Debt		
Mortgage notes payable	**145,163**	163,520
Unsecured notes payable	**363,881**	178,075
	509,044	341,595
Capital Lease Obligations	**27,563**	23,684
Deferred Income and Other Liabilities	**29,053**	20,569
Deferred Income Taxes	**75,975**	65,597
Convertible Subordinated Debt	**24,550**	26,918
Shareholders' Equity		
Common stock	**29,424**	36,900
Capital surplus	**117,587**	224,533
Net deferred compensation payable in common stock	**8,507**	7,670
Retained earnings	**223,950**	217,779
Treasury stock, at cost	**(67,963)**	(73,379)
Total shareholders' equity	**311,505**	413,503
	$1,214,264	$1,080,365

Consolidated Changes in Financial Position

Marriott Corporation and Subsidiaries
Fiscal years ended January 2, 1981, December 28, 1979 and December 29, 1978

	1980	1979 (in thousands)	1978
Sources of Funds			
Net income	**$ 72,030**	$ 71,000	$ 54,300
Add expenses not requiring current outlay of working capital—			
Depreciation and amortization of property and equipment	**55,863**	50,623	47,144
Deferred income taxes	**11,510**	8,786	13,837
Other	**10,889**	10,525	6,307
From operations	**150,292**	140,934	121,588
New financing	**202,199**	70,972	20,550
Net funds after tax from hotel sales	**70,798**	—	20,463
Disposals of property and equipment	**8,102**	25,788	14,851
Stock issued	**14,654**	2,394	1,904
Total sources	**446,045**	240,088	179,356
Applications of Funds			
Additions to property and equipment	**233,945**	149,000	134,738
Acquisitions	**5,142**	9,516	4,338
Purchase of treasury stock	**184,756**	74,187	2,055
Maturities and prepayments of debt	**24,994**	17,002	25,179
Cash dividends	**5,252**	5,776	4,782
Other	**(403)**	2,722	4,477
Total applications	**453,686**	258,203	175,569
Increase (Decrease) in Working Capital	**$ (7,641)**	$ (18,115)	$ 3,787
Summary of Changes in Working Capital			
Increase (decrease) in working capital			
Cash and cash equivalents	**$ (545)**	$ (2,302)	$ (2,243)
Marketable securities	**6,711**	(29,685)	38,510
Accounts receivable	**24,499**	23,181	15,290
Inventories	**6,078**	5,521	(390)
Prepaid expenses	**3,691**	297	127
Short-term loans	**801**	(581)	503
Accounts payable, accrued liabilities and income taxes payable	**(48,777)**	(15,807)	(47,065)
Current portion of debt and capital lease obligations	**(99)**	1,261	(945)
	$ (7,641)	$ (18,115)	$ 3,787

The accompanying notes are an integral part of this statement.

Consolidated Shareholders' Equity

Marriott Corporation and Subsidiaries
Fiscal years ended January 2, 1981, December 28, 1979 and December 29, 1978

	Common Stock ($1.00 par value)	Capital Surplus	Net Deferred Stock Compensation	Retained Earnings	Treasury Stock
			(in thousands)		
Balance, December 30, 1977	$36,674	$222,785	$4,967	$103,037	$ (1,667)
Net income	—	—	—	54,300	—
Common stock issued for employee stock purchase and stock option plans	175	1,729	—	—	—
Purchase of treasury stock	—	—	—	—	(2,055)
Cash dividends ($ .13 per share)	—	—	—	(4,782)	—
Other	42	401	1,383	—	1,667
Balance, December 29, 1978	36,891	224,915	6,350	152,555	(2,055)
Net income	—	—	—	71,000	—
Common stock issued for employee stock purchase and stock option plans	—	(326)	—	—	2,616
Purchase of treasury stock	—	—	—	—	(74,187)
Cash dividends ($ .17 per share)	—	—	—	(5,776)	—
Other	9	(56)	1,320	—	247
Balance, December 28, 1979	36,900	224,533	7,670	217,779	(73,379)
Net income	—	—	—	72,030	—
Common stock issued for employee stock purchase and stock option plans	—	(2,407)	—	—	9,303
Purchase of treasury stock	—	—	—	—	(184,756)
Retirement of treasury stock	(7,475)	(109,431)	—	(60,607)	177,513
Cash dividends ($ .21 per share)	—	—	—	(5,252)	—
Other	(1)	4,892	837	—	3,356
Balance, January 2, 1981	$29,424	$117,587	$8,507	$223,950	$ (67,963)

The accompanying notes are an integral part of this statement.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Marriott Corporation 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.

Fiscal Year

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

Reclassifications

In 1980, the company began allocating the operating profits of its corporate food production and distribution operations (previously included in Cruise Ships and Other) to its operating businesses based on relative sales to each segment. Prior year segment information has been reclassified to reflect this change and other minor changes in organizational responsibility adopted in 1980.

Foreign Operations

The consolidated financial statements include net assets of foreign subsidiaries and affiliates of $72,729,000 at January 2, 1981 and $60,755,000 at December 28, 1979. Foreign net income was $11,389,000 in 1980, $12,994,000 in 1979 and $9,264,000 in 1978. Foreign exchange and translation gains or losses are immaterial.

Theme Parks

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

Property and Equipment

The cost of new units includes interest, rent charges and real estate taxes incurred during construction. Capitalized interest totaled $12,546,000 in 1980, $4,705,000 in 1979 and $4,766,000 in 1978. Replacements and improvements, including most costs of converting units, are capitalized.

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

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

Cost in Excess of Net Assets of Businesses Acquired

Of the cost in excess of net assets of businesses acquired, $12,936,000 relates to acquisitions prior to October 31, 1970 (at which time amortization became mandatory) and is not being amortized because in the opinion of management it has continuing value. The remaining $5,939,000 at January 2, 1981 is being amortized over periods of up to 40 years.

Pre-Opening Costs

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

Profit Sharing Plan

The company contributes to a profit sharing plan for the benefit of employees meeting certain eligibility requirements and electing participation in the plan. Company contributions are a specified percentage of the company's pre-tax income. Company contributions to the plan were $10,621,000 in 1980, $10,337,000 in 1979 and $7,792,000 in 1978.

Income Taxes

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

Provision for income taxes has not been made on unremitted earnings of foreign subsidiaries ($34,047,000 as of January 2, 1981) because management considers these earnings to be permanently invested.

Earnings Per Share

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

Fully diluted earnings per share further assumes the conversion of all convertible debt. Primary and fully diluted shares averaged 27,777,081 and 27,973,784, respectively, in 1980.

Investments in Affiliates

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

	1980	1979
	(in thousands)	
Hotel joint ventures	$25,720	$16,708
Sun Line Greece Special Shipping Company	8,501	7,270
Other joint ventures	3,366	3,182
	$37,587	$27,160

The company has interests in four joint ventures that own hotels operated by the company under long-term agreements. Rental payments by the company to the ventures are based on profits of the hotels. At January 2, 1981, combined assets and liabilities of these hotel joint ventures were $188,471,000 and $155,139,000, including mortgages of $134,438,000. The mortgages are secured solely by venture assets without recourse to the company. The company also has investments in seven other joint ventures presently constructing hotels that will be operated by the company.

At November 30, 1980, Sun Line Greece Special Shipping Company had total assets of $22,944,000 and liabilities of $10,613,000, including $4,064,000 of debt. Marriott has guaranteed 45% of this debt.

The excess of the company's investment over its equity in the underlying net assets of less than 50% owned affiliates is $2,364,000 and is being amortized over periods up to 40 years.

Income Taxes

Income tax expense consists of:

	1980	1979	1978
		(in thousands)	
Current—Federal	$35,414	$39,868	$24,709
—State	5,577	5,878	4,429
—Foreign	6,016	4,347	3,359
Deferred	11,510	8,786	13,837
Tax credits			
Investment tax credit	(7,200)	(5,300)	(4,850)
Salaried Employee Stock Ownership Plan	(1,065)	(833)	(485)
Jobs tax credit	(2,194)	(601)	—
Provision for income taxes	$48,058	$52,145	$40,999

The deferred provision is primarily attributable to the tax effect of excess tax over book depreciation which amounted to $7,100,000 in 1980, $9,529,000 in 1979 and $11,304,000 in 1978, and capitalized interest of $5,526,000 in 1980. Tax credits arising from the company's contributions to a salaried employee stock ownership plan offset a corresponding charge to corporate expenses.

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

	1980	1979	1978
United States statutory tax rate	46.0%	46.0%	48.0%
State income taxes, net of U.S. tax benefit	3.7	3.6	3.4
Foreign earnings and losses subject to aggregate tax rate less than U.S. rate	(1.8)	(3.3)	(2.6)
Other items, net	.8	1.5	(0.2)
Effective gross income tax rate	48.7	47.8	48.6
Tax credits	(8.7)	(5.5)	(5.6)
Effective income tax rate	40.0%	42.3%	43.0%

Debt

Maturities of debt at January 2, 1981 are:

	(in thousands)
1982	$ 17,686
1983	18,022
1984	33,804
1985	38,442
to 2010	425,640
	$533,594

The company has debt of $244,317,000 as of January 2, 1981 at interest rates which vary based on the prime lending rate or London Euro-dollar interbank rate. Interest rates on other debt range from 4.25% to 13.88%.

The company's loan agreements require the company to meet certain requirements including among other things, maintaining minimum net worth and asset-to-debt and debt-to-equity ratios. The loan agreements also have restrictions on cash dividends, other payments and the pledging of certain assets. At January 2, 1981 retained earnings of $88,309,000 are unrestricted and $287,955,000 of property and equipment, at net book value, is pledged or mortgaged.

Unsecured debt at year-end consists of:

	(in thousands)
Senior notes payable with interest at 10⅞% and maturing 1983 to 1997	$ 34,500
Notes payable with interest at 8% to 13⅞% and maturing 1982 to 2010	92,421
Revolving bank loans with average interest at 14.8% and maturing through 1990	236,960
	$363,881

The company has $302,000,000 of revolving loan commitments at January 2, 1981 ($210,000,000 of which have a weighted interest ceiling of 16.2% through 1981). A commitment fee of up to one-half of one percent is payable on the unused portion. The company also has unused bank credit lines aggregating $16,500,000. The company uses revolving loans, short-term loans and commercial paper for its interim financing. Such financing is classified as noncurrent to the extent the company has funds available under its revolving loan agreements maturing beyond one year. The above maturity table reflects the maturities of unsecured debt on the basis of the permanent loan repayment schedule, the maturity schedule of revolving bank loans and management's estimation of prepayments.

Under certain bank agreements the company maintains average compensating balances equal to a percentage (3%-10%) of the amounts available or borrowed. All compensating balance agreements are informal and do not legally restrict withdrawal of funds. The average compensating balance during 1980 was $10,467,000.

Leases

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

Fiscal Year	Capital Leases	Operating Leases
	(in thousands)	
1981	$ 3,445	$ 17,208
1982	3,430	17,575
1983	3,406	18,042
1984	3,401	17,318
1985	3,384	16,789
Thereafter	35,325	152,022
Total minimum lease payments	52,391	$238,954
Amount representing interest	(23,743)	
Present value of net minimum lease payments	28,648	
Current portion of capital lease obligations	(1,085)	
Long-term capital lease obligations	$27,563	

Rent expense consists of:

	1980	1979	1978
		(in thousands)	
Minimum rentals on operating leases	$17,982	$17,410	$17,479
Additional rentals based on sales			
—operating leases	10,956	10,928	10,868
—capital leases	1,140	836	557
	$30,078	$29,174	$28,904
Rentals on hotel operating leases based on profits	$68,155	$47,981	$22,032

Most leases contain one or more renewal options, generally for five- or ten-year periods.

During 1980, the company sold four hotels for $84,150,000. The company continues to operate the hotels under long-term lease agreements (75 years including renewal options) with rentals based on hotel profits. The company has committed to complete and sell, for proceeds of $97,070,000, three additional hotels currently under construction. These hotels will also be operated by the company under long-term lease agreements with rentals based on hotel profits. The proceeds will be used primarily to repay a 1980 loan from the purchaser of $77,500,000.

Capital Stock

Sixty million shares of common stock, with a par value of $1 per share, are authorized, of which 29,424,216 were issued at January 2, 1981 and 36,900,144 were issued at December 28, 1979, including treasury stock of 4,362,951 and 4,801,811, respectively. One million shares of preferred stock, without par value, are authorized. As of January 2, 1981 no preferred shares have been issued.

During February, 1980 the company purchased and retired 7,475,464 shares of its then outstanding common stock pursuant to a tender offer for $23.50 per share. The total cost of the shares purchased, including fees and expenses, was $177,513,000. The company purchased an additional 379,692 shares in 1980 market transactions.

Total common stock shares reserved at January 2, 1981 are:

Employee stock option plan	1,380,879
Conversions of convertible subordinated debt, at prices ranging from $29.26 to $38.44 per share	820,284
Deferred stock compensation program (513,354 shares fully vested)	961,374
Employee qualified stock purchase plan	885,372
Restricted stock plan for key employees	71,000
Exercise of warrant, at $22.10 per share (expires 1981)	13,576
Total shares reserved	4,132,485

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

	Shares Under Option	
	Number of Shares	Option Price Per Share
Balance, December 30, 1977	1,208,790	$ 9.31—17.32
Granted	185,600	11.00—16.31
Exercised	(42,208)	9.69—12.44
Canceled	(108,631)	9.69—17.32
Balance, December 29, 1978	1,243,551	9.31—16.31
Granted	270,900	12.75—16.69
Exercised	(80,263)	9.69—12.44
Canceled	(102,115)	9.69—16.69
Balance, December 28, 1979	1,332,073	9.31—16.69
Granted	355,050	18.44—34.50
Exercised	(456,169)	9.69—16.69
Canceled	(52,936)	9.69—28.69
Balance, January 2, 1981	1,178,018	9.31—34.50

At January 2, 1981 options for 482,459 shares were exercisable and 202,861 shares were available for granting of additional options. No accounting is made for options until they are exercised.

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

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

Business Segment Information

Results of operations by principal business segment are included in the Consolidated Statement of Income on page 23. Net assets employed, identifiable assets, capital expenditures and acquisitions, and depreciation and amortization by principal business segment are (in millions):

	Net Assets Employed*			Identifiable Assets			Capital Expenditures and Acquisitions			Depreciation and Amortization		
	1980	1979	1978	1980	1979	1978	1980	1979	1978	1980	1979	1978
Hotel Group	$414.0	$376.0	$307.8	$ 505.0	$ 436.5	$ 353.7	$132.2	$ 80.6	$ 62.9	$17.7	$15.8	$15.7
Contract Food Services	142.2	126.8	102.7	191.4	167.1	143.2	27.1	20.3	10.8	9.8	8.9	8.2
Restaurant Group	204.5	182.9	169.0	239.8	212.4	198.0	57.1	45.0	34.1	15.7	14.4	13.1
Theme Parks	164.2	158.0	161.4	170.4	162.9	167.5	16.3	6.3	9.2	10.1	9.2	8.6
Cruise Ships and Other	21.3	17.6	17.1	28.6	25.6	23.7	.7	1.2	.4	.6	.6	.6
Corporate	31.5	30.6	68.9	79.1	75.9	114.2	5.7	5.1	21.7	2.0	1.7	.9
Total	$977.7	$891.9	$826.9	$1,214.3	$1,080.4	$1,000.3	$239.1	$158.5	$139.1	$55.9	$50.6	$47.1

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

Quarterly Financial Results (Unaudited)

The following is a summary of selected quarterly financial data for the fiscal years ended January 2, 1981 and December 28, 1979 (in thousands except per share amounts):

1980	Sales	Income Before Income Taxes	Net Income	Fully Diluted Earnings Per Share
First	$ 350,441	$ 21,447	$12,655	$ .40
Second	389,196	28,796	17,202	.65
Third	436,480	42,515	25,263	.95
Fourth*	542,608	27,330	16,910	.64
Year	$1,718,725	$120,088	$72,030	$2.60**
1979				
First	$ 302,643	$ 21,294	$11,767	$ .31
Second	353,346	30,205	17,025	.45
Third	396,303	43,352	24,872	.70
Fourth*	457,665	28,294	17,336	.51
Year	$1,509,957	$123,145	$71,000	$1.95**

*Each of the first three quarters consists of 12 weeks while the fourth quarter includes 16 weeks in 1979 and 17 weeks in 1980.

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

Constant Dollar and Current Cost Information (Unaudited)

The following tables are required by Financial Accounting Standard No. 33. They adjust historical cost financial information for changes in the general purchasing power of the dollar as measured by the Consumer Price Index and for changes in the specific prices of assets utilized in the company's operations. The information below demonstrates that during 1980 the company's specific prices for inventory, property and equipment increased at a slower rate than general price levels. However, this information distorts Marriott's economic performance because historical cost depreciation is further increased for changes in general price levels and the company's specific prices; whereas Marriott's real estate-based assets require less annual capital reinvestment than is provided by historical cost depreciation. Accordingly, management believes that the Current Value information on page 19 is more meaningful in evaluating Marriott's performance and financial condition in an inflationary environment.

Statement of Consolidated Income Adjusted for Changing Prices

For the year ended January 2, 1981
(in thousands of average 1980 dollars)

Net income as reported	$ 72,030
Constant dollar adjustments	
Cost of sales	(5,793)
Depreciation and amortization of property and equipment	(24,877)
Constant dollar net income	41,360
Current cost adjustments	
Cost of sales	5,793
Depreciation and amortization of property and equipment	(14,432)
Current cost net income	$ 32,721
Constant dollar gain from decline in purchasing power of net amounts owed	$ 70,080
Increase in current cost of inventories and property and equipment held during the year	$ 74,961
Effect of increase in general price level	127,340
Decrease in current costs excluding increase in general price level	$ 52,379

At January 2, 1981, current cost of inventory was $52,707 and current cost of property and equipment (excluding construction in progress), net of accumulated depreciation was $1,050,849.

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

In accordance with Financial Accounting Standard No. 33, no adjustment has been made to the provision for income taxes. Accordingly, the effective income tax rate increases from 40.0% as reported in the financial statements to 59.5% in the 1980 current cost calculations.

Five Year Comparison of Selected Supplementary Financial Data

Adjusted for Effects of Changing Prices
(in thousands of average 1980 dollars except per share amounts)

	1980	1979	1978	1977	1976
Revenues					
Adjusted for constant dollars	$1,718,725	$1,714,155	$1,578,301	$1,482,585	$1,370,375
Net income					
Adjusted for constant dollars	41,360	53,470			
Adjusted for current costs	32,721	42,418			
Fully diluted earnings per share					
Adjusted for constant dollars	1.50	1.48			
Adjusted for current costs	1.19	1.18			
Shareholders' equity at year end					
Adjusted for constant dollars	689,776	785,608			
Adjusted for current costs	569,314	702,555			
Decrease in current costs excluding increases in general price level	52,379	85,643			
Constant dollar gain from decline in purchasing power of net amounts owed	70,080	62,562			
Cash dividends declared per common share					
Adjusted for constant dollars	.21	.19	.16	.04	—
Market price per common share at year end					
Adjusted for constant dollars	30.32	18.66	14.75	15.58	19.17
Average consumer price index	246.8	217.4	195.4	181.5	170.5

Management's Report

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

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

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

MARRIOTT CORPORATION

Washington, D.C.
January 30, 1981

Auditors' Report

To the Shareholders of Marriott Corporation

We have examined the consolidated balance sheet of Marriott Corporation (a Delaware corporation) and Subsidiaries as of January 2, 1981 and December 28, 1979, and the related statements of consolidated income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended January 2, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Marriott Corporation and Subsidiaries as of January 2, 1981 and December 28, 1979, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 2, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Washington, D.C.
January 30, 1981

Financial History

(dollars in thousands except per share amounts)

	Calendar Years			
	1980 (53 weeks)	1979	1978	1977
Summary of Operations (Note A)				
Sales	**1,718,725**	1,509,957	1,249,595	1,090,313
Earnings before interest and taxes	**166,908**	150,985	118,987	99,329
Per sales dollar	**9.7%**	10.0%	9.5%	9.1%
Interest cost, net	**46,820**	27,840	23,688	30,206
Income before income taxes	**120,088**	123,145	95,299	69,123
United States and foreign income taxes	**48,058**	52,145	40,999	30,073
Net income	**72,030**	71,000	54,300	39,050
Fully diluted earnings per share	**2.60**	1.95	1.43	1.04
Percent increase for the year	**33.3%**	36.4%	37.5%	20.9%
Funds provided from operations (Note B)	**150,292**	140,934	121,588	99,834
Capital expenditures	**233,945**	149,000	134,738	81,887
Capitalization and Returns				
Total assets	**1,214,264**	1,080,365	1,000,255	949,510
Total capital (Note C)	**977,690**	891,866	826,883	823,645
Shareholders' equity	**311,505**	413,503	418,656	365,796
Senior debt and capital lease obligations	**536,607**	365,279	309,899	369,514
Percent to total capital	**54.9%**	41.0%	37.5%	44.9%
Return on average shareholders' equity	**23.8%**	17.0%	13.9%	11.1%
Return on average total capital (before interest and taxes)	**18.0%**	17.7%	14.5%	12.4%
Per Share and Other Data				
Cash dividends	**.21**	.17	.13	.03
Shareholders' equity	**12.43**	12.88	11.40	10.02
Quoted market price at year-end	**31.75**	17.38	12.13	11.75
Shares outstanding	**25,061,265**	32,098,333	36,714,645	36,506,969
Company-operated hotel rooms	**23,704**	20,956	17,987	15,383
Employees	**67,300**	65,700	63,600	56,100

NOTES: (A) See Notes to Consolidated Financial Statements for summary of significant accounting policies and additional information. In 1978, the company changed its fiscal year-end from the last Friday in July to the Friday closest to December 31. Years prior to 1974 are presented on the former July fiscal year-end basis.

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

(C) Total capital represents total assets less current liabilities.

			Fiscal Years			5-year Compound	10-year Compound
1976	1975	1974	1973	1972	1971	Growth Rate	Growth Rate
		(53 weeks)					
946,715	775,866	691,174	538,193	422,928	351,929	**17.2**	**17.4**
79,658	63,160	61,933	49,393	41,081	36,047	**21.5**	**17.9**
8.4%	8.1%	9.0%	9.2%	9.7%	10.2%		
26,772	23,017	20,259	14,009	10,624	10,712		
52,886	40,143	41,674	35,384	30,457	25,335	**24.5**	**19.0**
20,938	15,995	17,576	14,505	12,812	11,626		
31,948	24,148	24,098	20,879	17,645	13,709	**24.4**	**19.6**
.86	.69	.70	.62	.53	.44	**30.4**	**20.4**
24.6%	(1.4%)	12.9%	17.0%	20.5%	18.9%		
92,180	77,605	68,310	51,696	43,736	34,640	**14.1**	**18.0**
113,354	154,598	154,062	105,705	71,263	77,396	**8.6**	**14.3**
886,865	830,975	726,146	563,504	458,536	379,362		
785,540	739,311	635,996	489,513	405,909	330,405		
326,473	263,730	234,860	199,175	173,807	129,923		
378,252	405,658	336,155	261,236	201,596	158,637		
48.2%	54.9%	52.9%	53.4%	49.7%	48.0%		
10.4%	9.5%	10.6%	11.2%	11.6%	12.4%		
10.3%	9.1%	10.9%	11.0%	11.2%	12.1%		
—	—	—	—	—	—		
8.95	7.68	6.95	5.96	5.25	4.13		
13.54	15.46	6.50	27.07	31.16	19.39	**15.5**	**11.1**
36,464,651	34,358,503	33,788,105	33,415,613	33,136,395	31,475,892		
14,765	12,987	11,435	8,772	8,403	6,713	**12.8**	**14.4**
52,900	47,600	44,400	38,700	34,100	27,300	**7.2**	**9.5**

Officers of the Corporation

Chairman of the Board
J. Willard Marriott

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

Executive Vice President
Frederic V. Malek

Senior Operating and Staff Executives

Francis W. Cash
Senior Vice President, Corporate Services

Sterling D. Colton
Senior Vice President, General Counsel

James E. Durbin
President, Marriott Hotels

Clifford J. Ehrlich
Senior Vice President, Personnel and Organizational Development

Robert E. Koehler
Senior Vice President and Corporate Secretary

Richard E. Marriott
Group Vice President—Corporate

J. Robert Schultz
Executive Vice President
Contract Food Services

Gary L. Wilson
Senior Vice President,
Finance and Development

Corporate Officers

Daniel J. Altobello
Vice President
Food Service Management

John W. Andersen
Executive Vice President
Theme Parks

William J. Bailey
Vice President, U.S. Operations
In-Flite/Terminals/Highways

Robert Barrie
Executive Vice President
Marriott Hotels

Jacob H. Best, Jr.
Regional Vice President
Marriott Hotels

Joseph McD. Burke
Vice President, Marketing
Restaurants and Theme Parks

Alfred A. Checchi
Vice President, Corporate Development and Treasurer

A. Thomas Curren
Vice President, Corporate Planning

J. Robert Droege
Vice President, Corporate Real Estate

Elmo L. Geoghegan
Executive Vice President
Big Boy Restaurants of America

John J. Graves
Executive Vice President
Architecture and Construction

Lowell E. Gutzler
Vice President and Controller
Contract Food Services

Foster M. Kunz
Vice President, Government Affairs

Alvin W. LeFaivre
Executive Vice President
Marriott Hotels

Alice S. Marriott
Vice President

Robert B. Morris
Vice President, Taxes

Thomas J. A. McClain
Vice President, Marketing
U.S. In-Flite Services

James H. Pflaging
Senior Vice President, Development
In-Flite Services

Robert T. Pras
Executive Vice President
Fairfield Farm Kitchens

Paul T. Reed
Executive Vice President
Marriott Hotels

M. O. Ryan
Regional Vice President
Marriott Hotels

William J. Shaw
Corporate Controller

William R. Tiefel
Executive Vice President
Marriott Hotels

William B. Virts
Vice President, Corporate Procurement

Stephen A. West
Vice President,
Associate General Counsel

Design: Invisions, Ltd. Printing: Stephenson, Inc.

Directors

(Left to right, seated) Don G. Mitchell, J. Willard Marriott, Alice S. Marriott. (Standing) Harry L. Vincent, Jr., Frederick Deane, Jr., C. Robert Yeager, J. W. Marriott, Jr., Richard E. Marriott.

J. Willard Marriott [1]
Chairman of the Board

Don G. Mitchell [1 2 3]
Vice Chairman of the Board and
Director, several other corporations

Frederick Deane, Jr.[3]
Chairman of the Board and
Chief Executive Officer
Bank of Virginia Company

Alice S. Marriott
Vice President

J. W. Marriott, Jr. [1]
President and Chief Executive Officer

Richard E. Marriott
Group Vice President—Corporate

Harry L. Vincent, Jr.[1 2 3]

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Corporate Information

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301/897-9000

Stock Exchange Listings
New York Stock Exchange
Midwest Stock Exchange
Pacific Stock Exchange
Philadelphia Stock Exchange

Registrar and Transfer Agent
The Riggs National Bank of Washington
1510 H Street, N.W.
Washington, D.C. 20013
202/624-2628

Auditors
Arthur Andersen & Co.
Washington, D.C.

Annual Meeting
The 1981 annual meeting of shareholders will be held at 10:00 a.m., Thursday, April 30, 1981, in the Grand Ballroom of the Twin Bridges Marriott Hotel, Arlington, Virginia. The hotel is located at U.S. 1 and Interstate 395, near Washington's National Airport and the Pentagon Metro Station. Doors will open at 9:30 a.m.

Number of Shareholders
35,000 at January 2, 1981

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Shareholder Services

This postage-paid card will help you request services from the Corporate Secretary regarding your Marriott stock. If you need such assistance, please check the service desired, complete the rest of the form, and mail.

___ I want to take advantage of the company's program to purchase Marriott common stock from holders of fewer than 26 shares, at no cost to me. Please send me transmittal forms to sell all my shares.

___ Please send me instructions to consolidate accounts. I am receiving too many copies of mailings.

___ Please correct my address.

___ Other services needed (please explain) ________________

____

(Please print)

Name ________________ Social security no. ____________

Old address ________________________

Correct address ________________________

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Vice Chairman
Booz, Allen & Hamilton, Inc.

C. Robert Yeager [2]
Retired Chairman of the Board
L. G. Balfour Company

[1] Executive Committee
[2] Audit Committee
[3] Compensation Policy Committee

Corporate Information

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