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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

OR

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

For the Quarter Ended September 7, 2001

Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.

Delaware  
(State of Incorporation)

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

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

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

Yes  No

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

MARRIOTT INTERNATIONAL, INC.  
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Forward-Looking Statements

When used throughout this report, the words "believes," "anticipates," "expects," "intends," "estimates," "projects," and other similar expressions, which are predictions of or indicate future events and trends, identify forward-looking statements. Such statements are subject to a number of risks and uncertainties which could cause actual results to differ materially from those projected, including: competition within each of our business segments; business strategies and their intended results; the balance between supply of and demand for hotel rooms, timeshare units, senior living accommodations and corporate apartments; our ability to obtain new operating contracts and franchise agreements; our ability to develop and maintain positive relations with current

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and potential hotel and senior living community owners; the effect of international, national and regional economic conditions, including the duration and severity of the current economic downturn in the United States and the aftermath of the September 11, 2001 terrorist attacks on New York and Washington; the availability of capital to allow us and potential hotel owners to fund investments; the effect that internet hotel reservation channels may have on rates that we are able to charge for hotel rooms; and other risks described from time to time in our filings with the Securities and Exchange Commission, including those set forth on Exhibit 99 filed herewith. Given these uncertainties, we caution you not to place undue reliance on such statements. We also undertake no obligation to publicly update or revise any forward-looking statement to reflect current or future events or circumstances.

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Twelve weeks ended		Thirty
	September 7, 2001	September 8, 2000	September 2001
	----- (As revised)	----- (As revised)	----- (As revis
<b>SALES</b>			
Management and franchise fees .....	\$ 187	\$ 215	\$
Distribution services .....	385	356	1,
Other .....	521	478	1,
	-----	-----	-----
	1,093	1,049	3,
Other revenues from managed properties .....	1,280	1,266	4,
	-----	-----	-----
	2,373	2,315	7,
<b>OPERATING COSTS AND EXPENSES</b>			
Distribution services .....	384	351	1,
Other .....	531	482	1,
	-----	-----	-----
	915	833	2,
Other costs from managed properties .....	1,280	1,266	4,
	-----	-----	-----
	2,195	2,099	6,
<b>OPERATING PROFIT BEFORE CORPORATE EXPENSES AND INTEREST .....</b>			
Corporate expenses .....	178	216	
Interest expense .....	(13)	(29)	
Interest income .....	(26)	(22)	
	23	9	
	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES .....</b>	162	174	

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Provision for income taxes .....	61	64	
	-----	-----	-----
NET INCOME .....	\$ 101	\$ 110	\$
	=====	=====	=====
DIVIDENDS DECLARED PER SHARE .....	\$ .065	\$ .06	\$
	=====	=====	=====
EARNINGS PER SHARE			
Basic Earnings Per Share .....	\$ .41	\$ .46	\$ 1
	=====	=====	=====
Diluted Earnings Per Share .....	\$ .39	\$ .43	\$ 1
	=====	=====	=====

See notes to condensed consolidated financial statements.

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(\$ in millions)

	September 7, 2001	December 29, 2000
	-----	-----
ASSETS	(Unaudited)	
Current assets		
Cash and equivalents .....	\$ 874	\$ 334
Accounts and notes receivable .....	660	728
Inventory .....	101	97
Other .....	313	256
	-----	-----
	1,948	1,415
	-----	-----
Property and equipment .....	3,110	3,241
Intangibles .....	1,801	1,833
Investments in affiliates .....	828	747
Notes and other receivables .....	900	661
Other .....	433	340
	-----	-----
	\$ 9,020	\$ 8,237
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable .....	\$ 732	\$ 660
Other .....	1,113	1,257
	-----	-----
	1,845	1,917
	-----	-----
Long-term debt .....	1,912	2,016
Other long-term liabilities .....	1,222	1,037
Convertible debt .....	406	-
Shareholders' equity		
ESOP preferred stock .....	-	-
Class A common stock, 255.6 million shares issued ....	3	3
Additional paid-in capital .....	3,426	3,590
Retained earnings .....	1,062	851
Unearned ESOP shares .....	(372)	(679)
Treasury stock, at cost .....	(425)	(454)
Accumulated other comprehensive income .....	(59)	(44)
	-----	-----
	3,635	3,267
	-----	-----
	\$ 9,020	\$ 8,237
	=====	=====

See notes to condensed consolidated financial statements.

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

	Thirty
	September 7
	2001
	-----
OPERATING ACTIVITIES	
Net income .....	\$ 352
Adjustments to reconcile to cash provided by operations:	
Depreciation and amortization .....	147
Income taxes and other .....	151
Timeshare activity, net .....	(218)
Working capital changes .....	16
	-----
Cash provided by operations .....	448
	-----
INVESTING ACTIVITIES	
Dispositions .....	508
Capital expenditures .....	(360)
Note advances .....	(147)
Note collections and sales .....	42
Other .....	(169)
	-----
Cash used in investing activities .....	(126)
	-----
FINANCING ACTIVITIES	
Commercial paper activity, net .....	(423)
Issuance of convertible debt .....	405
Issuance of other long-term debt .....	316
Repayment of other long-term debt .....	(13)
Issuance of Class A common stock .....	69
Dividends paid .....	(45)
Purchase of treasury stock .....	(91)
	-----
Cash provided by (used in) financing activities .....	218
	-----
INCREASE (DECREASE) IN CASH AND EQUIVALENTS .....	540
CASH AND EQUIVALENTS, beginning of period .....	334
	-----
CASH AND EQUIVALENTS, end of period .....	\$ 874
	=====

See notes to condensed consolidated financial statements.

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

### 1. Basis of Presentation

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

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

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

In our opinion, the accompanying condensed consolidated financial statements reflect all normal and recurring adjustments necessary to present fairly our financial position as of September 7, 2001 and December 29, 2000, the results of operations for the twelve and thirty-six weeks ended September 7, 2001 and September 8, 2000 and cash flows for the thirty-six weeks ended September 7, 2001 and September 8, 2000. Interim results may not be indicative of fiscal year performance because of seasonal and short-term variations. We have eliminated all material intercompany transactions and balances between entities included in these financial statements.

#### Financial Statement Revision

We have revised the consolidated financial statements to change our method of accounting for the Marriott Rewards Program in accordance with Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements." The effect of adopting SAB No. 101 on January 1, 2000 was to increase both revenues and expenses by \$63 million for the year ended December 29, 2000, \$28 million for the twelve weeks ended September 7, 2001 and by \$65 million for the thirty-six weeks ended September 7, 2001. However, there was no change in financial position, cashflows, net income or basic and diluted earnings per share. In addition, we added disclosures related to revenue recognition and certain other items to the notes to the consolidated financial statements.

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

We recognize base fees as revenue when earned in accordance with the contract. In interim periods we recognize incentive fees that would be due as if the contract were to terminate at that date, exclusive of any termination fees payable or receivable by us. As of September 7, 2001 we have recognized \$165 million of incentive management fees, retention of which is dependent on achievement of hotel profitability for the balance of the year at levels specified in a number of our management contracts.

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

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

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

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

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

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We recognized sales in the twelve and thirty-six weeks ended September 7, 2001 and September 8, 2000 as shown in the following table. Lodging includes our Full Service, Select Service, Extended Stay, and Timeshare business segments.

Twelve weeks ended

-----  
September 7, 2001



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Sales	Senior Living Distribution			Total	Lodging
	Lodging	Services	Services		
(\$ in millions)	(As revised)			(As revised)	(As revised)
Management and franchise fees .....	\$ 179	\$ 8	\$ -	\$ 187	\$ 207
Other .....	447	74	385	906	414
	626	82	385	1,093	621
Other revenues from managed properties .....	1,197	83	-	1,280	1,185
	\$ 1,823	\$ 165	\$ 385	\$ 2,373	\$ 1,806
Operating costs and expenses					
Operating costs .....	\$ 452	\$ 79	\$ 384	\$ 915	\$ 405
Other costs from managed properties .....	1,197	83	-	1,280	1,185
	1,649	162	384	2,195	1,590
Operating profit before corporate expenses and interest .....	\$ 174	\$ 3	\$ 1	\$ 178	\$ 216

Thirty-six weeks ended

September 7, 2001

Sales	Senior Living Distribution			Total	Lodging
	Lodging	Services	Services		
(\$ in millions)	(As revised)			(As revised)	(As revised)
Management and franchise fees .....	\$ 594	\$ 24	\$ -	\$ 618	\$ 612
Other .....	1,294	225	1,143	2,662	1,179
	1,888	249	1,143	3,280	1,791
Other revenues from managed properties .....	3,759	245	-	4,004	3,614
	\$ 5,647	\$ 494	\$ 1,143	\$ 7,284	\$ 5,405
Operating costs and expenses					
Operating costs .....	\$ 1,260	\$ 240	\$ 1,137	\$ 2,637	\$ 1,128
Other costs from managed properties .....	3,759	245	-	4,004	3,614
	5,019	485	1,137	6,641	4,742
Operating profit before corporate expenses and					

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interest .....	\$ 628	\$ 9	\$ 6	\$ 643	\$ 663
	=====	=====	=====	=====	=====

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2. Earnings Per Share

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

	Twelve weeks ended		Th
	September 7, 2001	September 8, 2000	Sept 2
	-----	-----	-----
Computation of Basic Earnings Per Share			
Net income .....	\$ 101	\$ 110	\$
Weighted average shares outstanding .....	244.8	240.1	
	-----	-----	-----
Basic Earnings Per Share .....	\$ .41	\$ .46	\$
	=====	=====	=====
Computation of Diluted Earnings Per Share			
Net income .....	\$ 101	\$ 110	\$
After-tax interest expense on convertible debt .....	2	-	
	-----	-----	-----
Net income for diluted earnings per share .....	\$ 103	\$ 110	\$
	=====	=====	=====
Weighted average shares outstanding .....	244.8	240.1	
Effect of Dilutive Securities			
Employee stock purchase plan .....	-	-	
Employee stock option plan .....	8.3	8.6	
Deferred stock incentive plan .....	5.3	5.5	
Convertible debt .....	6.4	-	
	-----	-----	-----
Shares for diluted earnings per share .....	264.8	254.2	
	=====	=====	=====
Diluted Earnings Per Share .....	\$ .39	\$ .43	\$
	=====	=====	=====

We compute the effect of dilutive securities using the treasury stock method and average market prices during the period. We use the if-converted method for convertible debt.

3. Marriott Rewards

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We defer revenue received from managed, franchised, and Marriott-owned/leased hotels and program partners equal to the fair value of our future redemption obligation. We recognize the component of revenue from program partners that corresponds to program maintenance services over the expected life of the points awarded. Upon the redemption of points, we recognize as revenue the amounts previously deferred, and recognize the corresponding expense relating to the cost of the awards redeemed. The liability for the Marriott Rewards program was \$611 million at September 7, 2001 and \$554 million at December 29, 2000, of which \$390 million and \$310 million, respectively, are included in other long-term liabilities in the accompanying condensed consolidated balance sheet.

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#### 4. Dispositions

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

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

In the second quarter of 2001 we sold land, at book value, for \$31 million to a joint venture which plans to build two resort hotels in Orlando, Florida, for \$547 million. We will provide development services and have guaranteed completion of the project. The initial owners of the venture have the right to sell 20 percent of the venture's equity to us upon the opening of the hotels. At opening we also expect to hold approximately \$120 million in mezzanine loans that we have agreed to advance to the joint venture. We have provided the venture with additional credit facilities for certain amounts due under the first mortgage loan and to provide for limited minimum returns to the equity investors in the early years of the project, although we expect fundings under such support to be less than \$5 million.

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

#### 5. Comprehensive Income

-----  
Total comprehensive income was \$103 million and \$109 million, respectively, for the twelve weeks ended September 7, 2001 and September 8, 2000 and \$337 million and \$325 million, respectively, for the thirty-six weeks ended September 7, 2001 and September 8, 2000. The principal difference between net income and total comprehensive income relates to foreign currency

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translation adjustments.

### 6. New Accounting Standards

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

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

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### 7. Business Segments

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

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

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

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

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The following table outlines our sales and operating profit by business segment for the twelve and thirty-six weeks ended September 7, 2001 and September 8, 2000.

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	Twelve weeks ended		Thi
	September 7, 2001	September 8, 2000	Septembe 2001
(\$ in millions)	(As revised)	(As revised)	(As rev
<b>Sales</b>			
Full Service .....	\$ 1,170	\$ 1,222	\$
Select Service .....	209	215	
Extended Stay .....	158	173	
Timeshare .....	286	196	
	-----	-----	-----
Total Lodging .....	1,823	1,806	
Senior Living Services .....	165	153	
Distribution Services .....	385	356	
	-----	-----	-----
	\$ 2,373	\$ 2,315	\$
	=====	=====	=====
<b>Operating profit (loss) before corporate expenses and interest</b>			
Full Service .....	\$ 70	\$ 104	\$
Select Service .....	45	47	
Extended Stay .....	21	32	
Timeshare .....	38	33	
	-----	-----	-----
Total Lodging .....	174	216	
Senior Living Services .....	3	(5)	
Distribution Services .....	1	5	
	-----	-----	-----
	\$ 178	\$ 216	\$
	=====	=====	=====

Sales from Distribution Services exclude sales (made at market terms and conditions) to our other business segments of \$37 million and \$40 million for the twelve weeks ended September 7, 2001 and September 8, 2000, respectively, and \$117 million and \$123 million for the thirty-six weeks ended September 7, 2001 and September 8, 2000, respectively.

8. Contingencies

-----

We issue guarantees to lenders and other third parties in connection with financing transactions and other obligations. These guarantees were limited, in the aggregate, to \$556 million at September 7, 2001, including guarantees involving major customers. We are currently unable to estimate the impact that the recent terrorist attacks on New York and Washington could have on the extent to which we may fund under these guarantees. In addition, we have made physical completion guarantees relating to three hotel properties with minimal expected funding. As of September 7, 2001, we had extended approximately \$940 million of loan commitments to owners of lodging properties and senior living communities under which we expected to fund approximately \$230 million by December 28, 2001, and \$528 million in total. Letters of credit outstanding on our behalf at September 7, 2001,

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totaled \$69 million, the majority of which related to our self-insurance programs. At

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September 7, 2001, we had repurchase obligations of \$54 million related to notes receivable from timeshare interval purchasers, which have been sold with limited recourse.

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

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

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

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

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

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

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

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filed its Chapter 11 Bankruptcy Petition in the Southern District of Florida.

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### 9. Convertible Debt

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

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

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

### 10. Subsequent Events

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

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

### Results of Operations

#### RESULTS OF OPERATIONS

The following discussion presents an analysis of results of our operations for the twelve and thirty-six weeks ended September 7, 2001 and September 8, 2000. Revenue per available room (REVPAR) is calculated by dividing room sales for

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comparable properties by room nights available to guests for the period. We consider REVPAR to be a meaningful indicator of our performance because it measures the period over period growth in room revenues for comparable properties. REVPAR may not be comparable to similarly titled measures such as revenues. Comparable REVPAR, room rate and occupancy statistics used throughout this report are based upon U.S. properties operated by us, except that data for Fairfield Inn also include comparable franchised units.

Twelve Weeks Ended September 7, 2001 Compared to Twelve Weeks Ended September 8,

2000

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We reported net income of \$101 million for the 2001 third quarter on sales of \$2,373 million. This represents an eight percent decrease in net income and a three percent increase in sales compared to the third quarter of 2000. Diluted earnings per share of \$.39 decreased by nine percent compared to the 2000 third quarter. Revenues, excluding other revenues from managed properties, of \$1.1 billion for the quarter increased four percent over last year.

Marriott Lodging reported a 19 percent decrease in operating profit while sales increased slightly to \$1,823 million. Lodging revenues, excluding other revenues from managed properties, of \$626 million increased slightly compared to the same quarter a year ago. Lodging revenues were impacted by the transfer of several hotels from owned to managed status and lower incentive fees resulting from lower REVPAR, offset by unit additions.

We added a total of 118 lodging properties (14,862 units) during the third quarter of 2001, and deflagged four properties (938 units), increasing our total properties to 2,342 (425,911 units). Properties by brand (excluding 7,171 rental units relating to ExecuStay) are as indicated in the following table.

	Properties as of September 7, 2001		
	Company-operated		
	Properties	Rooms	Pro
Marriott Hotels, Resorts and Suites .....	246	109,316	
Ritz-Carlton .....	43	14,073	
Renaissance Hotels, Resorts and Suites .....	82	31,159	
Ramada International .....	5	1,068	
Residence Inn .....	132	17,524	
Courtyard .....	284	44,290	
Fairfield Inn .....	52	7,526	
TownePlace Suites .....	33	3,542	
SpringHill Suites .....	16	2,426	
Marriott Vacation Club International .....	53	6,255	
Marriott Executive Apartments and other .....	10	1,783	
	-----	-----	-----
Total .....	956	238,962	
	=====	=====	=====



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Across our Lodging brands, REVPAR for comparable company-operated U.S. properties declined by an average of 10.0 percent in the third quarter 2001. Occupancy declined 5.6 percentage points to 74.9 percent and average room rates declined 3.4 percent.

Occupancy, average daily rate and REVPAR for each of our principal established brands are shown in the following table.

	Twelve weeks ended September 7, 2001	Chan 2
Marriott Hotels, Resorts and Suites		
Occupancy .....	74.8%	-5
Average daily rate .....	\$ 133.05	-5
REVPAR .....	\$ 99.49	-11
Ritz-Carlton		
Occupancy .....	70.0%	-8
Average daily rate .....	\$ 220.24	+1
REVPAR .....	\$ 154.23	-9
Renaissance Hotels, Resorts and Suites		
Occupancy .....	68.2%	-7
Average daily rate .....	\$ 125.01	-4
REVPAR .....	\$ 85.21	-13
Residence Inn		
Occupancy .....	81.7%	-4
Average daily rate .....	\$ 105.77	-1
REVPAR .....	\$ 86.41	-7
Courtyard		
Occupancy .....	75.5%	-6
Average daily rate .....	\$ 97.81	+0
REVPAR .....	\$ 73.85	-7
Fairfield Inn		
Occupancy .....	72.9%	-3
Average daily rate .....	\$ 65.07	+1
REVPAR .....	\$ 47.47	-3

Across our full-service lodging brands (Marriott Hotels, Resorts and Suites, Ritz-Carlton and Renaissance Hotels, Resorts and Suites), REVPAR for comparable company-operated U.S. properties declined by an average of 11.6 percent in the 2001 third quarter. Average room rates decreased 4.7 percent and occupancy declined 5.7 percentage points.

Our domestic select-service and extended-stay brands (Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites and SpringHill Suites) added a net of 35 hotel properties, primarily franchises, during the third quarter of 2001. REVPAR for comparable properties declined by an average of 6.9 percent. Occupancy decreased 5.3 percentage points and average room rates declined slightly.

Our timeshare brands posted a 15 percent increase in operating profit in the third quarter of 2001 on a 57 percent increase in contract sales. Results reflect strong demand at timeshares in California and Florida, and the second quarter 2001 acquisition of the Grand Residence Club

property in Lake Tahoe, California. Note sale gains of \$13 million in the quarter, compared to \$7 million in the year ago quarter, also contributed to stronger comparisons. The results were negatively impacted by higher sales and marketing costs.

The overall lodging profit margin, before other revenues and other costs from managed properties, declined seven percentage points versus the year earlier quarter. Margins were impacted by lower REVPAR, the transfer of several hotels from owned to managed status, higher sales and marketing costs in the timeshare brands and lower margins in the ExecuStay business.

Marriott Senior Living Services (SLS) posted eight percent sales growth in the 2001 third quarter, reflecting a slight increase in occupancy for comparable communities to 85.8 percent. SLS posted operating profits of \$3 million compared to a \$5 million loss a year ago. The favorable comparison is due to costs incurred in 2000 related to development, start-up and debt associated with one facility developed by an unaffiliated third party, as well as cost control measures adopted in 2001.

Marriott Distribution Services reported an eight percent increase in sales in the 2001 third quarter and \$1 million of operating profits, a decrease of \$4 million from the prior year. The unfavorable variance is due to the decline in business from a significant customer. Although a substantial amount of this business has been replaced, there were operating inefficiencies associated with the new accounts.

Corporate activity. Interest expense increased 18 percent to \$26 million reflecting an increase in borrowings, partially offset by lower interest rates. Interest income increased by \$14 million to \$23 million in the 2001 third quarter due to income associated with higher loan balances, including loans made to the Courtyard joint venture in the fourth quarter of 2000. Corporate expenses declined 55 percent in the third quarter to \$13 million, primarily due to a \$4 million gain on the sale of tax investments, the impact of cost containment initiatives and a \$2 million decline in our net deferred compensation expense. The effective tax rate increased slightly to 37.5 percent in the third quarter as a result of modifications related to our deferred compensation plan, partially offset by the impact of increased income in countries with lower effective tax rates.

Thirty-Six Weeks Ended September 7, 2001 Compared to Thirty-Six Weeks Ended  
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September 8, 2000  
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We reported net income of \$352 million for the first three quarters of 2001 on sales of \$7,284 million. This represents a seven percent increase in net income and a six percent increase in sales over the same period in 2000. Diluted earnings per share of \$1.36 for the first three quarters of the year increased 5 percent compared to 2000. Overall profit growth in 2001 was favorably impacted by a \$15 million pretax charge, recorded in 2000, related to the write-off of a contract investment by our distribution services business. Revenues, excluding other revenues from managed properties, of \$3.3 billion for the first three quarters of 2001 increased seven percent over last year.

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Marriott Lodging reported a five percent decrease in operating profit to \$628 million, on four percent higher sales. Lodging revenues, excluding other revenues from managed properties, of \$1.9 billion increased five percent over last year.

We added a total of 251 lodging properties (37,080 units) during the first three quarters of 2001, and deflagged 8 properties (1,638 units).

Across our Lodging brands, REVPAR for comparable company-operated U.S. properties declined by an average of 4.1 percent in the first three quarters of 2001. Occupancy declined 4.3 percentage points to 74.6 percent, while average room rates rose 1.5 percent.

	Thirty-six weeks ended September 7, 2001	Change vs. 2000
	-----	-----
Marriott Hotels, Resorts and Suites		
Occupancy.....	74.6%	-4.5% pts.
Average daily rate.....	\$ 146.55	+0.5%
REVPAR.....	\$ 109.34	-5.3%
Ritz-Carlton		
Occupancy.....	72.1%	-7.6% pts.
Average daily rate.....	\$ 260.60	+7.2%
REVPAR.....	\$ 187.89	-3.0%
Renaissance Hotels, Resorts and Suites		
Occupancy.....	70.4%	-4.7% pts.
Average daily rate.....	\$ 140.12	+0.2%
REVPAR.....	\$ 98.67	-6.0%
Residence Inn		
Occupancy.....	80.4%	-3.7% pts.
Average daily rate.....	\$ 108.47	+1.8%
REVPAR.....	\$ 87.24	-2.7%
Courtyard		
Occupancy.....	75.2%	-4.1% pts.
Average daily rate.....	\$ 101.29	+3.8%
REVPAR.....	\$ 76.15	-1.6%
Fairfield Inn		
Occupancy.....	68.3%	-3.2% pts.
Average daily rate.....	\$ 63.94	+3.2%
REVPAR.....	\$ 43.65	-1.5%

Across our full-service lodging brands (Marriott Hotels, Resorts and Suites, Ritz-Carlton and Renaissance Hotels, Resorts and Suites), REVPAR for comparable company-operated U.S. properties declined by an average of 5.1 percent during the first three quarters of 2001. Occupancy fell 4.7 percentage points, while average room rates increased one percent.

Our domestic select-service and extended-stay brands (Residence Inn, Courtyard, Fairfield Inn, TownePlace Suites, SpringHill Suites) added a net of 160 hotel

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properties, primarily franchises, since the third quarter of 2000. During the first three quarters of 2001,

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REVPAR for these brands decreased 1.9 percent, reflecting a 3.9 percentage point decline in occupancy and a 3.1 percent increase in the average room rate.

Our timeshare brands posted a 17 percent increase in profit during the first three quarters of 2001 on a 32 percent increase in contract sales. Results reflect continued demand in California and Florida, and the second quarter 2001 acquisition of the Grand Residence Club property in Lake Tahoe, California. The profit from the development activity was negatively impacted by increased marketing and sales costs.

The overall lodging profit margin, before other revenues and other costs from managed properties, declined 3.7 percentage points in the first three quarters of 2001 versus the same period in the prior year. The decline in margin reflects lower incentive fees related to the Courtyard joint venture and the impact of lower RevPar, the transfer of several hotels from owned to managed status, higher sales and marketing costs in the timeshare brands and lower margins in the ExecuStay business. The lower incentive fees resulting from the Courtyard joint venture are offset by higher interest income associated with the loans made to the joint venture.

Marriott Senior Living Services posted a nine percent increase in sales in the first three quarters of 2001, reflecting a 2.5 percentage point increase in occupancy for comparable communities to 85.5 percent. The business posted operating profits of \$9 million, compared to a loss of \$6 million a year ago. The favorable comparison was positively impacted by costs incurred in 2000 related to start-up inefficiencies for new properties, debt associated with one facility developed by an unaffiliated third party, higher pre-opening expenses and write-offs associated with development cancellations. At September 7, 2001, we operated 152 facilities (25,742 units).

Marriott Distribution Services posted a nine percent increase in sales in the first three quarters of 2001, reflecting the commencement of new contracts in 2001 and increased sales from contracts established in 2000, partially offset by the decline in business from one significant customer. Operating profit of \$6 million compared favorably to a loss of \$1 million in the first three quarters of 2000, due to the prior year write-off of the \$15 million investment in a contract with Boston Market, Inc., offset by operating inefficiencies resulting from the commencement of new contracts.

Corporate activity. Interest expense increased \$3 million to \$75 million, reflecting an increase in borrowings, partially offset by lower interest rates. Interest income increased substantially to \$59 million in the first three quarters of 2001, due to income associated with higher loan balances, including the loans made to the Courtyard joint venture in the fourth quarter of 2000. Corporate expenses decreased \$8 million, reflecting the \$11 million gain from the sale of four affordable housing tax credit investments and the reversal of a long-standing \$10 million insurance reserve related to a lawsuit at one of our hotels, lower expenses as a result of our cost containment initiatives, offset by the \$13 million write-off of two investments in technology partnerships, lower deferred compensation expense, and lower foreign exchange gains. The reversal of the insurance reserve was as a result of us being approached in the first quarter by the plaintiffs' counsel, who indicated that a settlement could be reached in an amount that would be covered by insurance. We determined that it was no longer probable that the loss contingency would result in a material outlay by us and accordingly, we reversed the reserve during the first quarter.

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The effective tax rate decreased to 36.5 percent as a result of modifications related to our deferred compensation plan and the impact of increased income in countries with lower effective tax rates.

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

### OUTLOOK FOR FOURTH QUARTER OF FISCAL 2001 AND FISCAL 2002

This outlook is based on preliminary indications only and actual results for the fourth quarter and fiscal 2001 may differ. See "Forward-Looking Statements" at the beginning of this report.

For the remainder of 2001, we expect our business environment to remain unusually challenging. For internal planning purposes, the Company is assuming that REVPAR for its fourth quarter will decline 25 to 35 percent from last year's fourth quarter. Although we cannot predict our fourth quarter earnings with confidence, based on these assumptions, fourth quarter earnings could be \$0.20 to \$0.30 per share.

Similarly, while the level of uncertainty is substantially higher for 2002 than would normally be expected at this time, we are basing our internal estimates on three to five percent lower REVPAR than 2001, or roughly 15 percent lower REVPAR than 2000 levels. Based on these assumptions, after taking into account \$0.12 per share of incremental earnings from the new accounting rules relating to goodwill, our 2002 earnings per share could be roughly flat with 2001 levels, with quarterly earnings and REVPAR comparisons improving over the course of 2002.

We expect investment spending for the full year 2001 to be roughly the same as earlier forecasts, totaling \$1.3 to \$1.4 billion. We expect investment spending levels in 2002 to decline at least one-third compared to 2001.

As a result of current industry conditions, we anticipate that fundings under our guarantees and other charges related to our loan portfolio and employee severance could occur in the fourth quarter. We are not yet able to estimate the extent of any such fundings or charges.

See "Liquidity and Capital Resources" for a further discussion of our financial position and our liquidity.

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### LIQUIDITY AND CAPITAL RESOURCES

We have credit facilities, which support our commercial paper program and letters of credit. At September 7, 2001, our cash balances combined with our available borrowing capacity under the credit facilities was over \$2 billion. We consider these resources, together with cash expected to be generated by operations, adequate to meet our short-term and long-term liquidity requirements, to finance our long-term growth plans, and to meet debt service and other cash requirements. We monitor the status of the capital markets, and

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regularly evaluate the effect that changes in capital market conditions may have on our ability to execute our announced growth plans.

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

Cash and equivalents totaled \$874 million at September 7, 2001, an increase of \$540 million from year-end 2000. Cash balances increased due to temporary levels of excess cash on hand following the issuance of convertible debt in the 2001 second quarter. Cash provided by operations decreased 27 percent compared to the same period in 2000 as a result of timeshare activity and changes in working capital associated with timing differences. Net income is stated after recording depreciation expense of \$93 million and \$84 million for the thirty-six weeks ended September 7, 2001 and September 8, 2000, respectively, and after amortization expense of \$54 million and \$50 million, respectively, for the same time periods. Earnings before interest expense, income taxes, depreciation and amortization (EBITDA) for the thirty-six weeks ended September 7, 2001 of \$777 million increased by \$48 million, or seven percent, compared to the same period in 2000. EBITDA is an indicator of operating performance which can be used to measure the Company's ability to service debt, fund capital expenditures and expand its business. However, EBITDA is not an alternative to net income, operating profit, cash from operations, or any other operating or liquidity measure prescribed by accounting principles generally accepted in the United States.

Net cash used in investing activities totaled \$126 million for the thirty-six weeks ended September 7, 2001, and consisted of capital expenditures for lodging properties, note advances and the net impact of tax related investment transactions, offset by proceeds from the disposition of real estate.

We purchased 3.9 million shares of our Class A common stock in the thirty-six weeks ended September 7, 2001, at a cost of \$161 million. As of September 7, 2001, we had been authorized by our Board of Directors to repurchase an additional 15.7 million shares.

In April 1999, January 2000 and January 2001, we filed "universal shelf" registration statements with the Securities and Exchange Commission in the amounts of \$500 million, \$300 million and

\$300 million, respectively. As of September 7, 2001, we had offered and sold to the public under these registration statements, \$300 million of debt securities at 7 7/8%, due 2009 and \$300 million at 8 1/8%, due 2005, leaving a balance of

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\$500 million available for future offerings.

In January 2001, we issued, through a private placement, \$300 million of seven percent senior unsecured notes, due 2008, and received net proceeds of \$297 million. We agreed to make and complete a registered exchange offer for these notes and, if required, to implement a resale shelf registration statement. A registration statement for the exchange offer has been filed with the Securities and Exchange Commission but it is not yet effective. Under the terms of the note issue, we will pay additional interest to the holders of these notes if we fail to complete the registered exchange offer on a timely basis. We expect the registered exchange offer to be completed in the fourth quarter of 2001 and while we will make some additional interest payments, we do not expect those payments to be significant.

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

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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## PART II -- OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 2. Changes in Securities

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None.

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Item 3. Defaults Upon Senior Securities  
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None.

Item 4. Submission of Matters to a Vote of Security Holders  
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None.

Item 5. Other Information  
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None.

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Item 6. Exhibits and Reports on Form 8-K  
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(a) Exhibits

Exhibit No. -----	Description -----
4	Indenture, dated as of May 8, 2001, relating to the Liquid Yield Option Notes due 2021, with Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-3, Registration Number 333-66406).
10	\$1,500,000,000 Credit Agreement dated July 31, 2001 with Citibank, N.A., as Administrative Agent, and certain banks (incorporated by reference to Exhibit 10 to our Form 10-Q for the fiscal quarter ended September 7, 2001).
12	Statement of Computation of Ratio of Earnings to Fixed Charges (incorporated by reference to Exhibit 12 to our Form 10-Q for the fiscal quarter ended September 7, 2001).
99	Forward-Looking Statements.

(b) Reports on Form 8-K

None.

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SIGNATURES

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



MARRIOTT INTERNATIONAL, INC.

10th day of December, 2001

/s/ Arne M. Sorenson  
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Arne M. Sorenson  
Executive Vice President and  
Chief Financial Officer

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