

MARRIOTT INTERNATIONAL INC /MD/

Form 10-Q

April 26, 2006

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 24, 2006

OR

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

Commission File No. 1-13881

MARRIOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

52-2055918
(I.R.S. Employer Identification No.)

10400 Fernwood Road, Bethesda, Maryland
(Address of Principal Executive Offices)

20817
(Zip Code)

(301) 380-3000

(Registrant's Telephone Number, Including Area Code)

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

<u>Class</u>	<u>Shares outstanding</u>
Class A Common Stock, \$0.01 par value	<u>at April 14, 2006</u> 206,953,157

Table of Contents

MARRIOTT INTERNATIONAL, INC.

INDEX

	Page No.
Part I.	
	<u>Financial Information (Unaudited):</u>
Item 1.	
	<u>Financial Statements</u>
	<u>Condensed Consolidated Statements of Income Twelve Weeks Ended March 24, 2006 and March 25, 2005</u>
	2
	<u>Condensed Consolidated Balance Sheet as of March 24, 2006 and December 30, 2005</u>
	3
	<u>Condensed Consolidated Statement of Cash Flows Twelve Weeks Ended March 24, 2006 and March 25, 2005</u>
	4
	<u>Notes to Condensed Consolidated Financial Statements</u>
	5
Item 2.	
	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	19
	<u>Forward-Looking Statements</u>
	19
Item 3.	
	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	36
Item 4.	
	<u>Controls and Procedures</u>
	36
Part II.	
	<u>Other Information:</u>
Item 1.	
	<u>Legal Proceedings</u>
	38
Item 1A.	
	<u>Risk Factors</u>
	38
Item 2.	
	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	42
Item 3.	
	<u>Defaults Upon Senior Securities</u>
	42
Item 4.	
	<u>Submission of Matters to a Vote of Security Holders</u>
	43
Item 5.	
	<u>Other Information</u>
	43
Item 6.	
	<u>Exhibits</u>
	44
	<u>Signatures</u>
	45

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****MARRIOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(\$ in millions, except per share amounts)

(Unaudited)

	Twelve Weeks Ended	
	March 24, 2006	March 25, 2005
REVENUES		
Base management fees	\$ 127	\$ 111
Franchise fees	82	70
Incentive management fees	59	50
Owned, leased, corporate housing and other revenue	254	167
Timeshare interval, fractional and whole ownership sales and services	306	346
Cost reimbursements	1,820	1,682
Synthetic fuel	57	108
	2,705	2,534
OPERATING COSTS AND EXPENSES		
Owned, leased and corporate housing direct	208	145
Timeshare direct	240	272
Reimbursed costs	1,820	1,682
General, administrative and other	150	124
Synthetic fuel	84	153
	2,502	2,376
OPERATING INCOME	203	158
Gains and other income (expense)	34	(5)
Interest expense	(27)	(24)
Interest income	11	27
Reversal of provision for loan losses (provision for loan losses)	2	(11)
Equity in losses	(3)	(5)
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	220	140
Provision for income taxes	(56)	(5)
INCOME BEFORE MINORITY INTEREST AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	164	135
Minority interest	6	10
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	170	145
Cumulative effect of change in accounting principle, net of tax	(105)	
NET INCOME	\$ 65	\$ 145

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q

EARNINGS PER SHARE Basic

Earnings before cumulative effect of change in accounting principle	\$ 0.82	\$ 0.64
Loss from cumulative effect of change in accounting principle	(0.51)	
Earnings per share	\$ 0.31	\$ 0.64

EARNINGS PER SHARE Diluted

Earnings before cumulative effect of change in accounting principle	\$ 0.77	\$ 0.61
Loss from cumulative effect of change in accounting principle	(0.48)	
Earnings per share	\$ 0.29	\$ 0.61

DIVIDENDS DECLARED PER SHARE	\$ 0.105	\$ 0.085
------------------------------	----------	----------

See Notes to Condensed Consolidated Financial Statements

Table of Contents**MARRIOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEET**

(\$ in millions)

	March 24, 2006 (Unaudited)	December 30, 2005
ASSETS		
Current assets		
Cash and equivalents	\$ 172	\$ 203
Accounts and notes receivable	1,055	1,001
Inventory	1,138	1,164
Current deferred taxes, net	292	220
Assets held for sale	622	555
Other	182	247
	3,461	3,390
Property and equipment	1,114	1,134
Intangible assets		
Goodwill	924	924
Contract acquisition costs	531	466
	1,455	1,390
Cost method investments	183	233
Equity method investments	380	349
Notes receivable		
Loans to equity method investees	35	36
Loans to timeshare owners	363	311
Other notes receivable	277	282
	675	629
Other long-term receivables	168	175
Deferred taxes, net	551	545
Other	693	685
	\$ 8,680	\$ 8,530
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 12	\$ 56
Accounts payable	672	520
Accrued payroll and benefits	425	559
Liability for guest loyalty program	321	317
Liabilities of assets held for sale	114	30
Timeshare segment deferred revenue	209	141
Other payables and accruals	479	510
	2,232	2,133

Edgar Filing: MARRIOTT INTERNATIONAL INC /MD/ - Form 10-Q

Long-term debt	1,865	1,681
Liability for guest loyalty program	784	768
Self-insurance reserves	195	180
Other long-term liabilities	560	516
Shareholders' equity		
Class A Common Stock	3	3
Additional paid-in-capital	3,369	3,564
Retained earnings	2,441	2,500
Treasury stock, at cost	(2,767)	(2,667)
Deferred compensation		(137)
Accumulated other comprehensive loss	(2)	(11)
	3,044	3,252
	\$ 8,680	\$ 8,530

See Notes to Condensed Consolidated Financial Statements

Table of Contents**MARRIOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(\$ in millions)

(Unaudited)

	Twelve Weeks Ended	
	March 24, 2006	March 25, 2005
OPERATING ACTIVITIES		
Net income	\$ 65	\$ 145
Adjustments to reconcile to cash provided by (used in) operating activities:		
Depreciation and amortization	40	37
Minority interest in results of synthetic fuel operation	(5)	(10)
Income taxes	(31)	(23)
Timeshare activity, net	(79)	(96)
Liability for guest loyalty program	16	35
Cumulative effect of change in accounting principle	105	
Other	6	11
Working capital changes	(98)	(160)
Net cash provided by (used in) operating activities	19	(61)
INVESTING ACTIVITIES		
Capital expenditures	(102)	(35)
Dispositions	160	15
Loan advances	(23)	(16)
Loan collections and sales	21	9
Equity and cost method investments	(71)	(1)
Other	(48)	(9)
Net cash used in investing activities	(63)	(37)
FINANCING ACTIVITIES		
Commercial paper, net	205	
Issuance of long-term debt	2	4
Repayment of long-term debt	(7)	(5)
Issuance of Class A Common Stock	73	51
Dividends paid	(21)	(19)
Purchase of treasury stock	(236)	(320)
Earn-outs paid, net	(3)	(6)
Net cash provided by (used in) financing activities	13	(295)
DECREASE IN CASH AND EQUIVALENTS	(31)	(393)
CASH AND EQUIVALENTS, beginning of period	203	770
CASH AND EQUIVALENTS, end of period	\$ 172	\$ 377

See Notes to Condensed Consolidated Financial Statements

Table of Contents

MARRIOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The 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 c