

MARRIOTT INTERNATIONAL INC /MD/

Form 10-K

February 21, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 29, 2006

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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
(IRS Employer

Identification No.)

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

20817
(Zip Code)

Registrant's Telephone Number, Including Area Code (301) 380-3000

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$0.01 par value	New York Stock Exchange
(387,952,048 shares outstanding as of January 26, 2007)	Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure by delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of shares of common stock held by non-affiliates at June 16, 2006, was \$11,448,156,658.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement prepared for the 2007 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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MARRIOTT INTERNATIONAL, INC.

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Throughout this report, we refer to Marriott International, Inc., together with its subsidiaries, as we, us, or the Company. Unless otherwise specified, each reference to 2006 means our fiscal year ended December 29, 2006, each reference to 2005 means our fiscal year ended December 30, 2005, each reference to 2004 means our fiscal year ended December 31, 2004, each reference to 2003 means our fiscal year ended January 2, 2004, and each reference to 2002 means our fiscal year ended January 3, 2003, and not, in each case, the corresponding calendar year.

PART I**Item 1. Business.**

We are a worldwide operator and franchisor of hotels and related lodging facilities. Our operations are grouped into the following six business segments:

Segment	Percentage of 2006 Total Revenues
North American Full-Service Lodging Segment	43%
North American Limited-Service Lodging Segment	17%
International Lodging Segment	12%
Luxury Lodging Segment	12%
Timeshare Segment	15%
Other unallocated corporate	<1%
Synthetic Fuel Segment	1%

We were organized as a corporation in Delaware in 1997 and became a public company in 1998 when we were spun off as a separate entity by the company formerly named Marriott International, Inc.

In our Lodging business, which includes our North American Full-Service, North American Limited-Service, International, Luxury and Timeshare segments, we develop, operate and franchise hotels and corporate housing properties under 13 separate brand names, and we develop, operate and market timeshare, fractional ownership and whole ownership properties under four separate brand names. We also provide services to home/condominium owner associations for projects associated with one of our brands.

Our synthetic fuel operation consists of our interest in four coal-based synthetic fuel production facilities whose operations qualify for tax credits based on Section 45K of the Internal Revenue Code (Section 45K of the IRC) (Section 29 for fiscal years prior to 2006).

Financial information by industry segment and geographic area as of and for the 2006, 2005, and 2004 fiscal years then ended appears in Footnote No. 20, Business Segments, of the Notes to our Consolidated Financial Statements included in this annual report.

Table of Contents**Lodging**

We operate or franchise 2,832 lodging properties worldwide, with 513,832 rooms as of year-end 2006. In addition, we provide 2,046 furnished corporate housing rental units. We believe that our portfolio of lodging brands is the broadest of any company in the world, and that we are the leader in the quality tier of the vacation timesharing business. Consistent with our focus on management and franchising, we own very few of our lodging properties. Our lodging brands include:

North American Full-Service Lodging Segment

Marriott® Hotels & Resorts
Marriott Conference Centers
JW Marriott® Hotels & Resorts
Renaissance® Hotels & Resorts
Renaissance ClubSport®

North American Limited-Service Lodging Segment

Courtyard by Marriott®
Fairfield Inn by Marriott®
SpringHill Suites by Marriott®
Residence Inn by Marriott®
TownePlace Suites by Marriott®
Marriott ExecuStay®

International Lodging Segment

Marriott® Hotels & Resorts
JW Marriott® Hotels & Resorts
Renaissance® Hotels & Resorts
Courtyard by Marriott®
Fairfield Inn by Marriott®
Residence Inn by Marriott®
Ramada International
Marriott Executive Apartments®

Luxury Segment

The Ritz-Carlton®
Bulgari Hotels & Resorts®

Timeshare Segment

Marriott Vacation ClubSM
The Ritz-Carlton Club®
Grand Residences by Marriott®
Horizons by Marriott Vacation Club®

The North American Full-Service segment and the North American Limited-Service segment include properties located in the continental United States and Canada. The Luxury segment includes worldwide properties. The International segment includes full-service and limited-service properties located outside the continental United States and Canada. Unless otherwise indicated, our references to Marriott Hotels & Resorts throughout this report include Marriott Conference Centers and JW Marriott Hotels & Resorts. Similarly, references to Renaissance Hotels & Resorts include our Renaissance ClubSport brand.

Company-Operated Lodging Properties

At year-end 2006, we operated 1,004 properties (259,732 rooms) under long-term management agreements with property owners, 31 properties (7,610 rooms) under long-term lease agreements with property owners (management and lease agreements together, the Operating Agreements) and 13 properties (3,156 rooms) as owned.

Terms of our management agreements vary, but typically we earn a management fee, which comprises a base fee, which is a percentage of the revenues of the hotel, and an incentive management fee, which is based on the profits of the hotel. Our management agreements also typically include reimbursement of costs (both direct and indirect) of operations. Such agreements are generally for initial periods of 20 to 30 years, with options to renew for up to 50 additional years. Our lease agreements also vary, but typically include fixed annual rentals plus additional rentals based on a percentage of annual revenues in excess of a fixed amount. Many of the Operating Agreements are subordinated to mortgages or other liens securing indebtedness of the owners. Additionally, most of the Operating Agreements permit the owners to terminate the agreement if financial returns fail to meet defined levels for a period of time and we have not cured such deficiencies.

For lodging facilities that we operate, we generally are responsible for hiring, training and supervising the managers and employees required to operate the facilities and for purchasing supplies, both for which we generally are reimbursed by the owners. We provide centralized reservation services and national advertising, marketing and promotional services, as well as various accounting and data processing services.

Our timeshare operations develop, sell and operate vacation timesharing resorts under four brands, and generate revenues from three primary sources: (1) selling fee simple and other forms of timeshare intervals and personal residences; (2) financing consumer purchases; and (3) operating the resorts.

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Franchised Lodging Properties

We have franchising programs that permit the use of certain of our brand names and our lodging systems by other hotel owners and operators. Under these programs, we generally receive an initial application fee and continuing royalty fees, which typically range from 4 percent to 6 percent of room revenues for all brands, plus 2 percent to 3 percent of food and beverage revenues for certain full-service hotels. In addition, franchisees contribute to our national marketing and advertising programs and pay fees for use of our centralized reservation systems. At year-end 2006, we had 1,784 franchised properties (243,334 rooms).

Timeshare

We develop, operate and market timeshare interval, fractional and whole ownership properties under four brand names. Many timesharing resorts are located adjacent to Marriott-operated hotels, and timeshare owners have access to certain hotel facilities during their vacation. Owners can trade their annual interval for intervals at other Marriott timesharing resorts or for intervals at certain timesharing resorts not otherwise sponsored by Marriott through a third-party exchange company. Owners can also trade their unused interval for points in the Marriott Rewards® frequent stay program, enabling them to stay at over 2,700 Marriott hotels worldwide.

Seasonality

In general, business at company-operated and franchised properties is relatively stable and includes only moderate seasonal fluctuations. Business at some resort properties may be seasonal depending on location.

Relationship with Major Customer

We operate a number of properties, under long-term management agreements, that are owned or leased by Host Hotels & Resorts, Inc. (Host). In addition, Host is a partner in several partnerships that own properties operated by us under long-term management agreements. See Footnote No. 23, Relationship with Major Customer, in the Notes to our Consolidated Financial Statements included in this annual report for more information.

Table of Contents**Summary of Properties by Brand**

At year-end 2006, we operated or franchised the following properties by brand (excluding 2,046 corporate housing rental units):

Brand	Company-Operated		Franchised	
	Properties	Rooms	Properties	Rooms
<u>U.S. Locations</u>				
Marriott Hotels & Resorts	145	73,621	167	51,050
Marriott Conference Centers	13	3,476		
JW Marriott Hotels & Resorts	11	6,735	4	1,215
Renaissance Hotels & Resorts	35	15,881	29	9,050
Renaissance ClubSport			1	175
The Ritz-Carlton	35	11,616		
Courtyard	271	42,264	379	48,962
Fairfield Inn	2	855	511	45,175
SpringHill Suites	23	3,581	129	14,103
Residence Inn	136	18,401	358	40,572
TownePlace Suites	34	3,661	89	8,707
Marriott Vacation Club ⁽¹⁾	36	8,673		
Grand Residences by Marriott ⁽¹⁾	2	264		
The Ritz-Carlton Club ⁽¹⁾	5	434		
Horizons by Marriott Vacation Club ⁽¹⁾	2	372		
<u>Non-U.S. Locations</u>				
Marriott Hotels & Resorts	129	34,617	29	9,095
JW Marriott Hotels & Resorts	20	7,534	1	61
Renaissance Hotels & Resorts	53	17,607	18	5,513
The Ritz-Carlton	25	7,790		
Bulgari Hotels & Resorts	2	117		
Marriott Executive Apartments	17	2,928	1	99
Courtyard	37	7,549	46	6,751
Fairfield Inn			5	559
SpringHill Suites			1	124
Residence Inn	1	190	16	2,123
Ramada International	2	332		
Marriott Vacation Club ⁽¹⁾	9	1,839		
The Ritz-Carlton Club ⁽¹⁾	2	112		
Grand Residences by Marriott ⁽¹⁾	1	49		
Total	1,048	270,498	1,784	243,334

The following table provides additional detail by brand as of year-end 2006, for our Timeshare properties:

	Properties	
	Total	in Active
	Properties ⁽¹⁾	Sales
<u>100% Company-Developed</u>		
Marriott Vacation Club	44	23
The Ritz-Carlton Club	3	2
Grand Residences by Marriott	3	3

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Horizons by Marriott Vacation Club	2	2
Joint Ventures		
Marriott Vacation Club	1	1
The Ritz-Carlton Club	4	4
Total	57	35

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- (1) Indicates a Timeshare resort. Includes resorts that are in active sales as well as those that are sold out. Products in active sales may not be ready for occupancy.

Table of ContentsSummary of Properties by Country

At year-end 2006, we operated or franchised properties in the following 68 countries and territories:

Country	Properties ⁽¹⁾	Rooms ⁽¹⁾
Americas		
Argentina	1	325
Aruba	4	1,641
Bahamas	1	7
Brazil	6	1,620
Canada	52	11,397
Cayman Islands	3	883
Chile	2	485
Costa Rica	3	569
Curacao	1	247
Dominican Republic	3	574
Ecuador	1	257
Guatemala	1	385
Honduras	1	157
Jamaica	1	427
Mexico	13	3,247
Panama	2	416
Peru	1	300
Puerto Rico	4	1,322
Saint Kitts and Nevis	2	624
Trinidad and Tobago	1	119
United States	2,417	408,843
U.S. Virgin Islands	4	861
Venezuela	1	269
Total Americas	2,525	434,975
Middle East and Africa		
Armenia	1	225
Bahrain	1	264
Egypt	8	3,350
Israel	2	964
Jordan	3	609
Kuwait	2	601
Lebanon	1	174
Qatar	2	586
Saudi Arabia	3	735
Tunisia	1	221
Turkey	4	1,210
United Arab Emirates	6	1,150
Total Middle East and Africa	34	10,089
Asia		
China	33	12,435
Guam	1	357
India	6	1,534
Indonesia	5	1,511
Japan	8	2,662
Malaysia	7	2,977

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Pakistan	2	509
Philippines	2	898
Singapore	2	1,002
South Korea	3	1,400
Thailand	8	2,013
Vietnam	2	874
Total Asia	79	28,172

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	Country	Properties ⁽¹⁾	Rooms ⁽¹⁾
Australia		8	2,354
Europe			
Austria		7	1,686
Belgium		4	721
Czech Republic		4	817
Denmark		1	395
France		10	2,512
Georgia		2	245
Germany		41	8,912
Greece		1	314
Hungary		2	470
Italy		8	1,706
Kazakhstan		2	322
Netherlands		3	921
Poland		2	744
Portugal		3	933
Romania		1	402
Russia		7	1,772
Spain		8	1,883
Switzerland		3	616
Total Europe		109	25,371
United Kingdom and Ireland			
Ireland		3	327
United Kingdom (England, Scotland and Wales)		74	12,544
Total United Kingdom and Ireland		77	12,871
Total-All Countries and Territories		2,832	513,832

⁽¹⁾ Includes Timeshare resorts that are in active sales as well as those that are sold out. Products in active sales may not be ready for occupancy.

Descriptions of our Brands**North American Full-Service Segment, North American Limited-Service Segment and International Segment Lodging Brands**

Marriott Hotels & Resorts is our global flagship brand, primarily serving business and leisure upper-upscale travelers and meeting groups. Marriott properties are located in downtown, urban and suburban areas, near airports and at resort locations. Marriott is engineered to support inspiring performance with product and service offerings that help travelers achieve and revive on the road.

Typically, properties contain from 300 to 700 well-appointed rooms, the Revive[®] bedding package, in-room high-speed Internet access, swimming pools, convention and banquet facilities, destination-driven restaurants and lounges, room service, concierge lounges, wir