MARRIOTT INTERNATIONAL INC /MD/
Form 11-K
June 25, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the

Securities Exchange Act of 1934

(Mark One):

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

For the plan year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from________ to

Commission file number 1-12188

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

MARRIOTT INTERNATIONAL, INC. EMPLOYEES

PROFIT SHARING, RETIREMENT AND SAVINGS PLAN AND TRUST

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

MARRIOTT INTERNATIONAL, INC.

1 Marriott Drive

Washington, D.C. 20058

REQUIRED INFORMATION

Financial Statements and Exhibits as follows:

1. Financial statements

Report of Independent Registered Public Accounting Firm Ernst & Young LLP

Independent Auditors Report KPMG LLP

Statements of Net Assets Available for Benefits as of December 31, 2003 and December 31, 2002

Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 2003 and December 31, 2002

Notes to Financial Statements

Certain schedules have been omitted because they are not applicable, not material or because the information is included in the financial statements or the notes thereto.

2. Supplemental Schedule

Schedule H, Line 4i Schedule of Assets (Held At End of Year)

3. Exhibits

23.1 Consent of Independent Registered Public Accounting Firm Ernst & Young, LLP

23.2 Consent of Independent Registered Public Accounting Firm KPMG, LLP

SIGNATURES

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

MARRIOTT INTERNATIONAL, INC. EMPLOYEES PROFIT SHARING, RETIREMENT AND SAVINGS PLAN AND TRUST

Dated: June 25, 2004

By: /s/ Carl Berquist

Carl Berquist

Plan Trustee

As filed with the Securities and Exchange Commission on June 25, 2004

Commission File No. 1-12188

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FINANCIAL STATEMENTS AND EXHIBITS

TO

FORM 11-K

ANNUAL REPORT

Under

The Securities Exchange Act of 1934

MARRIOTT INTERNATIONAL, INC.

EMPLOYEES PROFIT SHARING, RETIREMENT AND

SAVINGS PLAN AND TRUST

MARRIOTT INTERNATIONAL, INC.

1 Marriott Drive

Washington, D.C. 20058

INDEX TO FINANCIAL STATEMENTS AND EXHIBITS

MARRIOTT INTERNATIONAL, INC.

EMPLOYEES PROFIT SHARING, RETIREMENT AND SAVINGS PLAN AND TRUST

MARRIOTT INTERNATIONAL, INC. EMPLOYEES PROFIT

SHARING, RETIREMENT AND SAVINGS PLAN AND TRUST

Financial Statements and Supplemental Schedule

Years ended December 31, 2003 and 2002 with Report of Independent Registered

Public Accounting Firm and Independent Auditors Report

Report of Independent Registered Public Accounting

Firm Ernst & Young LLP

The Profit Sharing Committee

Marriott International, Inc. Employees

Profit Sharing, Retirement and Savings Plan and Trust

We have audited the accompanying statement of net assets available for benefits of Marriott International, Inc. Employees Profit Sharing, Retirement and Savings Plan and Trust as of December 31, 2003, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2003, and the changes in its net assets available for benefits for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

June 4, 2004

McLean, Virginia

Independent Auditor s Report KPMG LLP

The Profit Sharing Committee and Participants

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust:

We have audited the accompanying statement of net assets available for benefits of Marriott International, Inc. Employees Profit Sharing, Retirement and Savings Plan and Trust (the Plan) as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Marriott International, Inc. Employees Profit Sharing, Retirement and Savings Plan and Trust as of December 31, 2002, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

June 2, 2003

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Statements of Net Assets Available for Benefits

	December 31	
	2003	**2002**
Assets		
Investments, at fair value	**$ 1,486,070,012**	$ 1,118,232,788
Investments, at contract value	**442,425,819**	434,909,034
Total investments	**1,928,495,831**	1,553,141,822
Receivables:		
Due from Marriott International, Inc. for Company contribution	**58,267,748**	60,267,398
Receivables from sale of investments	**15,892,633**	1,518,952
Accrued interest and dividends	**3,490,998**	2,628,609
Other		102,545
Total receivables	**77,651,379**	64,517,504
Total assets	**2,006,147,210**	1,617,659,326
Liabilities		
Accounts payable on investments purchased	**30,919,127**	2,114,144
Custodian and advisor fees payable	**1,158,732**	754,276
Other	**203,475**	569,517
Total liabilities	**32,281,334**	3,437,937
Net assets available for benefits	**$ 1,973,865,876**	$ 1,614,221,389

See accompanying notes.

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Statements of Changes in Net Assets Available for Benefits

	Year ended December 31	
	2003	**2002**
Additions		
Investment income (loss):		
Dividends	**$ 32,779,465**	$ 33,415,705
Interest	**12,722,915**	13,515,831
Gain on forgiveness of ESOP note interest		4,844,764
Net realized and unrealized appreciation (depreciation) in fair value of investments	**297,671,294**	(191,207,821)
Less investment expense	**(2,894,495)**	(2,539,056)
Total net investment income (loss)	**340,279,179**	(141,970,577)
Participant contributions	**103,824,301**	107,216,142
Employer contributions	**60,672,798**	60,817,227
Transfer from other plans	**3,008,615**	2,288,292
Other		137,087
Total net additions	**507,784,893**	28,488,171
Deductions		
Benefits paid to participants	**145,388,920**	126,438,621
Administrative expenses	**2,751,486**	3,073,200
Interest expense on ESOP note		4,802,515
Transfer to other plans		50,354
Total deductions	**148,140,406**	134,364,690
Net increase (decrease)	**359,644,487**	(105,876,519)
Net assets available for benefits at beginning of year	**1,614,221,389**	1,720,097,908
Net assets available for benefits at end of year	**$ 1,973,865,876**	$ 1,614,221,389

See accompanying notes.

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements

December 31, 2003

1. Description of the Plan

The following description of the Marriott International, Inc. (the Company) Employees Profit Sharing, Retirement and Savings Plan and Trust (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

The Plan allows for a leveraged employee stock ownership plan feature (ESOP) to fund certain employer contributions to the Plan. During the second quarter of 2000, the ESOP, at the direction of an independent fiduciary, borrowed $1 billion from the Company to acquire 100,000 shares of special-purpose Marriott International, Inc. ESOP Convertible Preferred Stock (ESOP Convertible Preferred Stock). The ESOP Convertible Preferred Stock had a stated value and a liquidation preference of $10,000 per share, paid a quarterly dividend of 1% of the stated value, and was convertible into the Company s Class A Common Stock at any time based on the amount of contributions the Company had made to the ESOP and the market price of the Company s Class A Common Stock on the conversion date, subject to certain caps and a floor price. The shares of ESOP Convertible Preferred Stock were pledged as collateral for the repayment of the ESOP s note, and those shares were released from the pledge as principal on the note was repaid. Shares of ESOP Convertible Preferred Stock released from the pledge were either converted to the Company s Class A Common Stock or were redeemed for cash based on the value of the Class A Common Stock into which those shares could be converted for allocation to participants accounts. Principal and interest on the ESOP s note were forgiven periodically to release shares of ESOP Convertible Preferred Stock with a value sufficient to fund certain employer contributions to the Plan. The last of the shares of ESOP Convertible Preferred Stock were released to fund contributions as of July 18, 2002, at which time the remainder of the principal and interest due on the ESOP s note was forgiven. As of December 31, 2003 and 2002, there were no outstanding shares of ESOP Convertible Preferred Stock.

Effective December 16, 2002, the Forum Group, Inc. 401(k) Savings Plan, a qualified profit sharing plan sponsored by a subsidiary of the Company, was merged with and into the Plan (the Forum Merger), and assets under that plan were transferred to the Plan s trust. In connection with the Forum Merger, $2,288,292 of net assets were transferred to the Plan and used to purchase investment funds offered by the Plan. These transferred net assets are included in the Plan s Statement of Changes in Net Assets Available for Benefits for the period from the Forum Merger through December 31, 2002.

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

General

Effective December 17, 2003, the Ihilani Resort, Inc. Savings and Retirement Plan, a qualified profit sharing plan sponsored by a subsidiary of the Company, was merged with and into the Plan (the Ihilani Merger), and assets under that plan were transferred to the Plan s trust. In connection with the Ihilani Merger, $3,008,615 of net assets were transferred to the Plan and used to purchase investment funds offered by the Plan.

The Plan is a defined contribution plan covering eligible employees of the Company who are at least 21 years of age and have completed at least one year of service. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Contributions

Each pay period, participants may contribute up to 80% or a fixed dollar amount (minimum of $3 per week) of compensation. The Company s contribution to the Plan is based on a fixed match of 100% on the first 3% of annual compensation contributed, and 50% on the next 3% of annual compensation contributed. In general, Company contributions are allocated among active participants accounts after the close of the Plan year based on compensation contributed. Contributions are subject to certain limitations.

Additional Company contributions of a fixed dollar amount per workweek are made on behalf of certain associate groups at specified locations. These contributions are limited to non-highly compensated associates who are otherwise eligible to participate in the Plan.

Participant Accounts

Each participant s account is credited with the participant s contributions and allocations of (a) the Company s contributions, and (b) Plan earnings or losses, and charged with an allocation of administrative expenses. Forfeitures of terminated participants nonvested accounts are to be used to pay administrative expenses. Allocations are based on participant compensation contributed or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

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Marriott International, Inc. Employees   Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements (continued)

1. Description of the Plan (continued)

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Participants are immediately 100% vested in Company contributions attributable to the 2001 Plan year and thereafter and earnings thereon. Vesting in the Company contributions prior to 2001 and earnings thereon is based on years of service, with participants becoming fully vested, regardless of the years of service, upon divestiture of unit (place of work), death, termination of employment due to permanent disability, or attainment of age 55 for salaried participants or age 45 for most hourly participants.

Participant Loans

Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. Loan terms range from one to four years or up to 10 years for the purchase of a primary residence. The loans are collateralized by the vested balance in the participant   s account and bear interest at the prime rate published by the *Wall Street Journal* plus 100 basis points. Interest rates range from 5.0% to 10.50%. Principal and interest are paid ratably through weekly or biweekly after-tax payroll deductions. Participants are limited to one outstanding loan. As of December 31, 2003 and 2002, participant loans totaled $40,821,794 and $40,907,718, respectively, and are recorded in investments, at fair value on the Statement of Net Assets Available for Benefits.

Payment of Benefits

A participant with an account balance of $5,000 or less must take a lump sum distribution. A participant with an account balance greater than $5,000 can elect to receive either a lump sum amount or installment payments equal to the value of the participant   s vested interest in his or her account.

Forfeited Accounts

On termination of service, the unvested portion of a participant   s Company contribution account is forfeited after five consecutive one-year breaks in service or, if earlier, when the participant takes a distribution of his entire account balance. Forfeitures are used to pay Plan expenses. As of December 31, 2003 and 2002, forfeiture credit balances of $190,164 and $349,050, respectively, were available to pay plan expenses.

1. Description of the Plan (continued)

Administration

The Company serves as the named fiduciary of the Plan. Administration of the Plan is under the direction of (i) a five-member Profit Sharing Committee, all of whom are corporate officers of the Company, (ii) two trustees, both of whom are corporate officers of the Company, and (iii) a Plan administrator, who is an employee of the Company. The trustees and their investment advisors and investment managers appointed by the Profit Sharing Committee are responsible for investment of the Plan assets.

Administrative and Investment Expenses

To the extent not paid by the Company or from forfeitures, certain administrative and all investment expenses are paid by the Plan and are allocated to participants based on account balances.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting. Benefits are recorded when paid.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments Valuation and Income Recognition

The investments directed by participants as of December 31, 2003 and 2002 are stated at fair value except for the Plan s investments in guaranteed investment contracts (GICs) with fully benefit responsive features, which are valued at contract value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year. Listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. Shares of common/collective trusts are valued at estimated fair value as determined by the sponsor of the fund, which represents the net asset value of shares held by the Plan at year-end. Participant loans are valued at their unpaid balances, which approximates fair value.

The Company Stock Fund (Stock Fund) is tracked on a unitized basis. The Stock Fund consists of Marriott International, Inc. common stock, funds held in the Vanguard Money Market Fund sufficient to meet the Stock Fund s daily cash needs, as well as interest and dividends receivable. Unitizing the Stock Fund allows for daily trades. The value of a unit reflects the combined market value of Marriott International, Inc. common stock, valued at its quoted market price, and the cash investments and receivables held by the Stock Fund. At December 31, 2003, 22,042,332 units were outstanding with a value of $15.0683 per unit (22,225,582 units were outstanding with a value of $10.6910 per unit at December 31, 2002).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Investment Options

Upon enrollment in the Plan, a participant may direct employer and employee contributions in any of the available investment options. Participants may change their investment options on a daily basis.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the current-year presentation.

Marriott International, Inc. Employees   Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements (continued)

3. Investments

The following presents the fair value of individual investments that represent 5% or more of the Plan   s net assets:

	December 31	
	2003	**2002**
Marriott International, Inc. common stock	**$ 328,882,600**	$ 235,728,257

During 2003 and 2002, the Plan   s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value, as follows:

	2003	**2002**
Investments at fair value as determined by quoted market prices:		
Mutual funds	**$ 72,251,234**	$ (100,871,697)
Other common stock	**110,389,350**	(64,934,803)
Preferred stock		(367,278)
Corporate bonds, notes and other obligations	**3,130,138**	4,183,888
U.S. Government obligations	**(2,144,628)**	4,118,329
Marriott International, Inc. common stock	**95,249,504**	(61,578,381)
Marriott International, Inc. ESOP Convertible Preferred Stock		28,242,121
	278,875,598	(191,207,821)
Investments at estimated fair value:		
Common/collective trusts	**18,795,696**	
	$ 297,671,294	$ (191,207,821)

The ESOP Preferred Stock accrued a cumulative cash dividend equal to $100 per share outstanding at each quarter-end. For the year ended December 31, 2002, the Plan recorded dividend income of $970,157. As previously noted, as of December 31, 2002, there were no outstanding shares of ESOP Convertible Preferred Stock, and therefore no dividend income was recorded in 2003. In accordance with the stock purchase agreement, the dividends earned on the ESOP Preferred Stock were used to pay principal and interest accrued on the ESOP note.

Marriott International, Inc. Employees Profit Sharing, Retirement and

Savings Plan and Trust

Notes to Financial Statements (continued)

4. Nonparticipant-Directed Investments

For the year ended December 31, 2002, investments not directed by participants related to the Marriott International, Inc. ESOP Convertible Preferred Stock.

Information about the significant components of changes in net assets relating to investments not directed by participants was as follows for the year ended December 31, 2002.

	2002
Net appreciation	$ 28,242,121
Dividend income	970,157
ESOP note interest expense	(4,802,515)
Gain on forgiveness of ESOP note interest expense	4,844,764
Increase in net assets	29,254,527
Net assets:	
Beginning of year	(29,254,527)
End of year	$

5. Party-in-Interest

The Plan may, at the discretion of Plan participants, invest an unlimited amount of its assets in securities issued by the Company. The Plan held 7,118,671 and 7,171,532 shares of common stock of the Company as of December 31, 2003 and 2002, respectively. Dividends on Marriott International, Inc. common stock approximated $2,100,397 and $1,518,889 for the years ended December 31, 2003 and 2002, respectively. In addition, as described in Note 1, in June 2000, the Plan purchased ESOP Convertible Preferred Stock from Marriott International, Inc. in exchange for a note (as described in Note 7). As of December 31, 2003 and 2002, the Plan held zero shares of ESOP Convertible Preferred Stock. For the year ended December 31, 2002, dividends earned on the ESOP Convertible Preferred Stock were $970,157.

Certain investments are managed by T. Rowe Price Stable Asset Management and T. Rowe Price Associates, Inc., entities, which are related to the Plan s custodian (T. Rowe Price Trust Company) and the Plan record-keeper (T. Rowe Price Retirement Plan

Marriott International, Inc. Employees Profit Sharing, Retirement and

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Notes to Financial Statements (continued)

5. Party-in-Interest (continued)

Services, Inc.). During 2002, certain investments were purchased from Deutsche Bank (formerly Bankers Trust Company), the former custodian of the Plan s assets. Transactions involving these investments are considered to be party-in-interest transactions for which a statutory exemption exists. Fees paid by the Plan for the investment management services amounted to approximately $42,900 and $268,000 for Deutsche Bank and $1,118,000 and $927,000 for T. Rowe Price Stable Asset Management and T. Rowe Price Associates, Inc. for the years ended December 31, 2003 and 2002, respectively.

6. Guaranteed Investment Contracts

The Plan is invested in certain investment contracts with insurance companies. The investment managers of these investment contracts are T. Rowe Price and PRIMCO. The investment contracts are credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses. The Plan invests in both traditional GICs and synthetic GICs. The contracts are carried at contract value (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses), because they are fully benefit responsive. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The estimated fair value of the investment contracts at December 31, 2003 and 2002 was $460,409,116 and $455,133,307, respectively.

The fair values for the traditional GICs have been estimated based on a discounted cash flow analysis. The estimated fair value is calculated based on the net present value of expected future payments, which include interest and a lump sum contract amount, discounted at a rate determined by the quality of the GICs and the average remaining life. This calculation is necessary, as traditional GICs are not actively traded investments for which a daily fair value is readily available.

The issuers of the traditional GICs are generally insurance companies. Where there are no underlying assets collateralizing the investment, the Plan s ultimate realization of amounts invested in traditional GICs is dependent on the continued financial stability of the issuers of the GICs.

Marriott International, Inc. Employees   Profit Sharing, Retirement and

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Notes to Financial Statements (continued)

6. Guaranteed Investment Contracts (continued)

The Plan owns the assets underlying the synthetic GICs, which consist primarily of 103-12 investment entities, U.S. government securities, corporate debt obligations, mortgage-backed and other asset-backed securities. Fair values of the underlying securities are determined by closing prices on the last business day of the year for those securities traded on national exchanges, at the average bid quotations for those securities traded in over-the-counter markets or at fair value as determined by the investment manager for securities for which there is not an established market. Synthetic GICs utilize a benefit responsive   wrapper   contract issued by a financially responsible third party that provides market and cash flow risk protection to the Plan. The value of the wrapper contracts is the difference between the fair value of the underlying assets and the contract value attributable by the wrapper to these assets.

The average yield was approximately 4.72% and 5.81% for the years ended December 31, 2003 and 2002, r